

OPEN UNIVERSITY WORLDWIDE LIMITED

Company Registration number 1260275

FINANCIAL STATEMENTS

For the Year ended 31 July 2007

OPEN UNIVERSITY WORLDWIDE LIMITED

FINANCIAL STATEMENTS for the year ended 31 July 2007

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OPEN UNIVERSITY WORLDWIDE LIMITED

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 July 2007.

Principal Activities

The main business activity of the Company is to provide a commercial framework for achieving the Company's mission, which has been defined as:

To meet the supported open learning needs of students and educational or training organisations worldwide by helping The Open University to become the leading quality provider of learning opportunities, distance teaching methodologies, materials and intellectual property.

Review of the Business

The profit before tax of the Company was £555,000 (year ended 31 July 2006: £1,283,000) on sales of £5,739,000 (year ended 31 July 2006: £7,595,000). The decrease in profit was due largely to increases in charges from The Open University in support of the business, and a fall in income from licensing activity.

The contract to provide print services to The Open University was terminated with effect from 31 July 2006, which has reduced turnover by £1,300,000 per annum but the effect on profits was minimal.

The Company is financed by long term loans from its parent, The Open University, totalling £3,287,000 (31 July 2006: £3,109,000). The Company lends back to The Open University any funds not required to finance its operations.

Results and Dividends

The Company for many years has, under Deed of Covenant, paid over its profits computed for tax purposes to The Open University. The Deed of Covenant dated 28 July 1998 enables the Company to retain profit to be used to help with finance for development needs. Under the Deed of Covenant the Company pays the University 85% of its profit computed for taxation purposes, subject to a maximum retention of £50,000, and in July 2007 the gross amount payable was £513,000. There was an adjustment of £7,000 relating to the prior year's covenant arising from a change in the computation of taxable profit. No dividends have been paid or are proposed. The Company paid £200,000 interest on loans from The Open University (year ended 31 July 2006: £99,000).

Research and Development

The Company's business relies on the sale of materials and services emanating from The Open University and so the Company does not undertake its own research and development, other than the assessment of potential international markets for those materials and services.

Principal Risks and Uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks affecting the Company relate to the availability of materials and services from The Open University for delivery in UK and international markets. Demand for these materials and services will be affected by competition in local markets and political and regulatory issues in these markets.

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DIRECTORS' REPORT (continued)

Future Outlook

General planning objectives for the Company are both to seek further opportunities to develop the sales of the wide range of services and materials used by The Open University for its teaching purposes and to act as the trading vehicle for other commercial initiatives promoting the interests of The Open University.

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 July 2007 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In relation to the Company's financial statements, published on The Open University's website, the Open University's management is responsible to Council for the maintenance and integrity of The Open University website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors

The Directors of the Company who served during the year and up to the date of this report are as follows:

Professor D M Vincent – Chair
Ms S Bjarnason – resigned 6 June 2007
Professor D Brannan – resigned 30 September 2006
Professor J Fleck
Mr A Gribbon
Mr M S Hedges
Professor L J C Jones – resigned 30 July 2007
Dr N R Kemp
Professor A W Tait - appointed 1 August 2007
Mr A F Woodburn

Annual General Meeting

In accordance with section 252(1) of the Companies Act 1985, the Company has passed a resolution electing to dispense with the obligation to lay accounts and reports before the Company in a general meeting. In accordance with section 366A(1) of the Companies Act 1985, the Company has passed a resolution electing to dispense with the obligation to hold annual general meetings.

OPEN UNIVERSITY WORLDWIDE LIMITED

DIRECTORS' REPORT (continued)

Statement of Disclosure to Auditors

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware.

The Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with section 386(1) of the Companies Act 1985, the Company has passed a resolution electing to dispense with the obligation to appoint auditors annually.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as Auditors.

By Order of the Board on 3 October 2007.

J D Boyle
Secretary

The Michael Young Building
Walton Hall
Milton Keynes
MK7 6AA

OPEN UNIVERSITY WORLDWIDE LIMITED

Independent Auditors' Report to the Members of Open University Worldwide Limited

We have audited the financial statements of Open University Worldwide Limited for the year ended 31 July 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- a. the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 July 2007 and of its profit and cash flows for the year then ended;
- b. the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- c. the information given in the Directors' Report is consistent with the financial statements.

OPEN UNIVERSITY WORLDWIDE LIMITED

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(1) **Basis of preparation**

These financial statements have been prepared on the going concern basis under the historical cost convention, in accordance with the Companies Act 1985 and in accordance with applicable Accounting Standards. As the Company is a wholly owned subsidiary of its parent undertaking, the accounts comprise only the Company and none of its associates. The principal accounting policies are set out below.

(2) **Turnover**

Turnover represents the value of goods sold, royalty income and licence fees received, and credit card commission received, excluding VAT.

(3) **Recognition of income**

Income for specific purposes, such purposes being designated under a specific agreement or contract, and which can only be applied for those specific purposes is credited to the income and expenditure account over the life of the agreement or contract when the conditions attaching to its receipt have been met, such as incurring the appropriate expenditure, including expenditure on indirect costs.

(4) **Recognition of expenditure**

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms.

Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Loan interest is charged to the income and expenditure account on a daily basis.

(5) **Stocks**

Stocks are valued at the lower of cost and net realisable value.

(6) **Film Masters, Rights and Permissions**

Expenditure on film masters, rights and permissions is written off as incurred.

(7) **Foreign Currencies**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of the profit and loss for the financial year.

OPEN UNIVERSITY WORLDWIDE LIMITED

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

(8) **Deferred Taxation**

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation, or a right to pay less taxation, in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

(9) **Pensions**

The Company participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each participating employer's share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement Benefits accounts for USS as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account for the accounting period represents the contributions payable to the scheme in respect of the accounting period.

(10) **Leasing Costs**

Rental costs under operating leases are charged to expenditure in equal annual amounts over the period of the lease.

(11) **Cash Flow Statement**

The Company is a wholly owned subsidiary of The Open University whose results and cash flows are included in the consolidated financial statements of The Open University, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

OPEN UNIVERSITY WORLDWIDE LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 July 2007

Notes	Year Ended 31 July 2007		Year Ended 31 July 2006	
	£000	£000	£000	£000
1	Turnover	5,739		7,595
	Cost of Sales	(2,162)		(3,182)
	Gross Profit	3,577		4,413
	Selling and Distribution Costs	(155)		(161)
	Administrative Expenses	(2,855)		(2,937)
		(3,010)		(3,098)
3	Operating Profit on Ordinary Activities before Interest and Taxation	567		1,315
4	Interest Receivable	188		67
4	Interest Payable	(200)		(99)
		(12)		(32)
	Profit on Ordinary Activities before Taxation	555		1,283
6	Tax on profit on ordinary activities	(27)		(62)
7	Payable under Deed of Covenant to The Open University	(506)		(1,266)
		(533)		(1,328)
13	Retained Profit/(Loss) for the Financial Year	22		(45)

There were no recognised gains or losses other than the results for the periods disclosed above which were all in respect of continuing operations.

There are no material differences between the profit on ordinary activities and result for the year stated above and their historic cost equivalents.

The accounting policies on pages 6 and 7 and notes on pages 10 to 13 form part of these financial statements.

OPEN UNIVERSITY WORLDWIDE LIMITED

BALANCE SHEET as at 31 July 2007

Notes		As at 31 July 2007 £000	As at 31 July 2006 £000
	CURRENT ASSETS		
8	Stock	1	4
9	Debtors	3,907	3,524
	Cash at Bank and in hand	2,639	2,974
		<u>6,547</u>	<u>6,502</u>
10	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<u>(2,896)</u>	<u>(3,051)</u>
	NET CURRENT ASSETS	<u>3,651</u>	<u>3,451</u>
	TOTAL ASSETS LESS CURRENT LIABILITIES	3,651	3,451
11	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	(3,287)	(3,109)
	NET ASSETS	<u>364</u>	<u>342</u>
	CAPITAL AND RESERVES		
12	Called Up Share Capital	260	260
13	Profit and loss account	104	82
13	EQUITY SHAREHOLDER'S FUNDS	<u>364</u>	<u>342</u>

Approved by the Board of Directors on 3 October 2007 and signed on their behalf by:

D.M.Vincent
Director

M.S.Hedges
Director

The accounting policies on pages 6 and 7 and notes on pages 10 to 13 form part of these financial statements.

OPEN UNIVERSITY WORLDWIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
(1) ANALYSIS OF TURNOVER		
Analysis of turnover by major geographical area:		
European Union	2,487	3,733
North America	117	136
Far East	1,069	1,178
Rest of Europe	536	363
Middle East	1,006	1,148
Africa	449	364
Other	75	673
	<u>5,739</u>	<u>7,595</u>
(2) STAFF COSTS		
Wages and salaries	1,484	1,370
Social security costs	121	109
Other pension costs	200	186
Redundancy costs	9	2
Total staff costs	<u>1,814</u>	<u>1,667</u>
Average number of employees	48	46
	£000	£000
Directors' emoluments:		
Aggregate emoluments	90	87
Contributions to defined benefit pension scheme	<u>13</u>	<u>12</u>
(3) OPERATING PROFIT		
Operating profit is stated after charging:		
Auditors' remuneration		
Audit	13	15
Other audit services- tax compliance	13	2
Provision for bad debts	--	4
Operating lease rentals - plant and machinery	<u>12</u>	<u>12</u>

OPEN UNIVERSITY WORLDWIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
(4) INTEREST		
Interest receivable:		
Bank interest	96	67
Interest receivable from to The Open University	92	--
	<u>188</u>	<u>67</u>
Interest payable:		
Interest payable to The Open University	200	99

(5) OPERATING LEASE COMMITMENTS

At 31 July 2007 the Company had annual commitments under non-cancellable operating leases as follows:

	Plant and Machinery	
Within one year	12	12

(6) TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation is based on profit for the year and is as follows:

Foreign taxes suffered	27	62
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(7) PAYMENT UNDER DEED OF COVENANT

Under the terms of the Deed of Covenant dated 28 July 1998 the Company undertook to pay over to The Open University 85% of its profits as computed for corporation tax purposes, subject to a maximum retention of £50,000. Under the Deed of Covenant any amounts paid in excess of the Company's liability are returned by The Open University.

OPEN UNIVERSITY WORLDWIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

	As at 31 July 2007 £000	As at 31 July 2006 £000
(8) STOCK		
Finished goods and goods for resale	1	4
	<u>1</u>	<u>4</u>
(9) DEBTORS		
Trade debtors	1,601	1,400
Other debtors	59	282
Prepayments and accrued income	550	262
Amounts due from parent	1,592	1,500
Amounts due from group undertakings	105	80
	<u>3,907</u>	<u>3,524</u>
(10) CREDITORS		
Trade creditors	147	126
Accruals and deferred income	1,195	776
Amounts due to parent	1,412	2,148
Amounts due to group undertakings	142	1
	<u>2,896</u>	<u>3,051</u>
(11) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		
Loans maturing:		
In more than five years	220	220
Between two and five years	3,067	2,889
	<u>3,287</u>	<u>3,109</u>

The loan balance relates to unsecured loans from The Open University to finance working capital requirements.

An element of the loan balance amounting to £220,000 bears interest at the rate of 10%. Currently there is no defined repayment plan in place in respect of this loan.

The remainder of the loan balance accumulates interest at 1% above base rate. It is repayable on receipt of written demand or by 31 July 2016.

(12) CALLED UP SHARE CAPITAL

The authorised share capital of the Company is 410,000 ordinary shares of £1 each. At 31 July 2007 there were 260,000 (31 July 2006: 260,000) ordinary shares of £1 fully paid, which were entirely owned by The Open University.

OPEN UNIVERSITY WORLDWIDE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(13) RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	Share Capital £000	Profit and Loss Account £000	Shareholder's Funds £000
At start of year	260	82	342
Profit for the year	--	22	22
At 31 July 2007	<u>260</u>	<u>104</u>	<u>364</u>

(14) PENSION COSTS

The Company provides the same pension arrangements for its staff as for staff of The Open University, and participated in the same defined benefit scheme. The Company's contributions to this scheme in the year totalled £200,000 (year ended 31 July 2006: £186,000)

The Universities Superannuation Scheme (USS) provides benefits for academic and related staff in many UK universities. The scheme is administered by trustees with assets independent of the University. The contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The Company is unable to identify its share of the underlying assets and liabilities and the Company accounts for its contributions to the scheme as if they were to a defined contribution scheme.

Details of significant assumptions used and other relevant data relating to the pension scheme are disclosed in The Open University's financial statements.

(15) RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in Financial Reporting Standard 8 - Related Party Transactions - and has not disclosed transactions and balances with The Open University Group.

(16) PARENT UNDERTAKING

The immediate and ultimate parent undertaking is The Open University, which is incorporated by Royal Charter in Great Britain. This is the parent of the smallest and largest group for which consolidated financial statements are prepared. Copies of The Open University's financial statements can be obtained from The Open University, PO Box 77, Walton Hall, Milton Keynes, MK7 6BT.