

FREDERICK WARNE & CO LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016



FREDERICK WARNE & CO LIMITED

**FOR THE YEAR ENDED 31 DECEMBER 2016
STRATEGIC REPORT**

The directors present their Strategic Report for the year ended 31 December 2016.

Principal activities

The company is a subsidiary of Penguin Random House Limited, a company registered in England and Wales. The company is UK domiciled and registered in England and Wales. The principal activity of the company continues to be book publishing and the exploitation of intellectual property through the granting of licences for the manufacture and sale of books and merchandise.

The company continues to sell the television, video and promotional rights of its television series based upon the original characters of Beatrix Potter.

Review of the business

The results and financial position of the company are set out in the attached financial statements. Turnover for Frederick Warne & Co Limited increased on the prior year as the company celebrated the 150th Anniversary of Beatrix Potter's birth, and the publication of 'Kitty in Boots'. The company made a profit in the year of £2,454,000 (2015: profit of £1,747,000).

Key Performance Indicators ("KPIs")

The company monitors progress and performance during the year and historical trend data which is set out in the following KPI's:

- Turnover for the year was £6,932,000 (2015: £5,819,000); and
- Gross margin percentage for the year was 24.9% (2015: 17.2%).

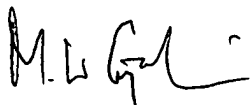
Principal Risks and Uncertainties

The company is subject to risk management procedures and an annual risk assessment implemented by the ultimate parent company, Bertelsmann SE & Co KGaA. The company has procedures in place to make the directors aware of the various risks to the company's business. The risks are monitored and reported to management. The changing book market and particularly the transition to digital is creating both challenges and opportunities for the company, notably regarding the latter in terms of new markets and sales channels. The company is facing increased pressure on margins. Other risks arise from the entry of non-traditional publishers into the market, the decline in retail space in high street bookshops and economic uncertainty.

General

The company is presenting the financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

On behalf of the board



M GARDINER

Director

29 September 2017

FREDERICK WARNE & CO LIMITED

**FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT**

The directors present their annual report and audited financial statements of Frederick Warne & Co Limited ("the company") for the year ended 31 December 2016.

Future developments

Looking ahead, the market remains challenging and the economic backdrop remains similarly tough. The company will continue to produce high quality book publishing and the exploitation of intellectual property through the granting of licences for the manufacture and sale of books and merchandise. The directors do not anticipate any significant changes in the activities of the company.

Results and dividends

Dividends of £1,700,000 (2015: nil) were paid during 2016 and reported a profit for the financial year of £2,454,000 (2015: profit of £1,747,000).

Financial instruments

It is the company's policy to implement financial risk management objectives and policies for each major type of transaction. The directors consider the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk.

Directors and officers

The directors and officers who held office during the year and up to the date of signing the financial statements are given below:

Directors:

Thomas Weldon
Francesca Dow
Mark Gardiner

Secretary:

Helena Peacock (Secretary, termination 30 June 2016)
Sinead Martin (Secretary, appointment 30 June 2016)

Employees

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives' regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining its prosperity.

The company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the company's progress. The company operates a pension scheme for which all employees are eligible.

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or material status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

FREDERICK WARNE & CO LIMITED

**FOR THE YEAR ENDED 31 DECEMBER 2016
DIRECTORS' REPORT (continued)**

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they 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.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to present and explain the company's transactions and 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 2006. 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.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

On behalf of the Board



M GARDINER
Director
29 September 2017

FREDERICK WARNE & CO LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2016

Independent auditors' report to the members of Frederick Warne & Co Limited

Report on the financial statements

Our opinion

In our opinion, Frederick Warne & Co Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
 - have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

FREDERICK WARNE & CO LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2016

Independent auditors' report to the members of Frederick Warne & Co Limited (continued)**Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit**Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

What an audit of financial statements involves

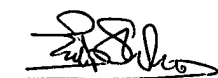
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Philip Stokes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2017

FREDERICK WARNE & CO LIMITED**INCOME STATEMENT**

For the year ended:
31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	4	6,932	5,819
Cost of sales		(5,204)	(4,818)
Gross profit		1,728	1,002
Distribution costs		(181)	(196)
Administrative expenses		(3,490)	(2,055)
Other Operating Income		5,116	3,443
Operating profit	5	3,173	2,193
Interest receivable and similar income		5	-
Profit before taxation		3,178	2,193
Tax on profit	7	(724)	(446)
Profit for the financial year		2,454	1,747

The notes on pages 11 to 18 form part of these financial statements.

FREDERICK WARNE & CO LIMITED**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended:

31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	2,454	1,747
Other Comprehensive Income for the year, net of tax	-	-
Total Comprehensive Income for the year	2,454	1,747

The notes on pages 11 to 18 form part of these financial statements.

FREDERICK WARNE & CO LIMITED**BALANCE SHEET**
As at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	9	67	71
		67	71
Current assets			
Stocks	10	394	1,332
Debtors	11	5,647	2,681
Cash at bank and in hand		429	-
		6,470	4,013
Creditors - amounts falling due within one year	12	(3,154)	(1,454)
Net current assets		3,316	2,559
Total assets less current liabilities		3,383	2,630
Net assets		3,383	2,630
Capital and reserves			
Called up share capital	13	840	840
Retained Earnings		2,543	1,790
Total shareholders' funds		3,383	2,630

The financial statements on pages 7 to 18 were approved by the board of directors on 29 September 2017 and were signed on its behalf by :



M GARDINER
Director
Frederick Warne & Co Limited
Registered no: 00155455

FREDERICK WARNE & CO LIMITED**STATEMENT OF CHANGES IN EQUITY**

For the year ended:

31 December 2016

	Called Up Share capital £'000	Retained Earnings £'000	Total Shareholders Funds £'000
At 1 January 2015	840	43	883
Changes in equity			
Dividends	-	-	-
Profit for the financial year	-	1,747	1,747
At 31 December 2015	840	1,790	2,630
Changes in equity			
Dividends	-	(1,700)	(1,700)
Profit for the financial year	-	2,454	2,454
At 31 December 2016	840	2,543	3,383

The notes on pages 11 to 18 form part of these financial statements.

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended:
31 December 2016

1 GENERAL INFORMATION

Frederick Warne & Co Limited is a book publisher and exploits the intellectual property through the granting of licence for the manufacture and sale of books and merchandise. The Company sells its books globally with the majority of the sales in the UK. The Company is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is 80 Strand, London, WC2R 0RL.

2 STATEMENT OF COMPLIANCE

The individual financial statements of Frederick Warne & Co Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation of financial statements

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Management has not involved a higher degree of judgement of complexity, or agrees whole assumptions and estimates are significant to the financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial Instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, change in accounting estimates and errors' (requirement for the disclosure of information when entity has not applied a new IFRS that has been issued but is not yet effective)
- The following paragraphs of IAS 1 'Presentation of financial statements':
 - 10(d) (statement of cash flows)
 - 38A (requirement for minimum of two primary statements, including cash flow statements)
 - 38B-D (additional comparative information)
 - 111 (cash flow statement information)
 - 134-136 (capital management disclosures)
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The company is a wholly owned subsidiary of its ultimate parent Bertelsmann SE & Co KGaA. It is included in the consolidated financial statements of Bertelsmann SE & Co KGaA which are publicly available. Therefore the company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about the group.

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended:

31 December 2016**3****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Going concern**

The financial statements are prepared on a going concern basis which the directors believe to be appropriate in light of the company's current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements

New standards, amendments and IFRIC interpretations

No new accounting standards or amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2016 have had a material impact on the company.

Foreign Currency translation*Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is also the presentation currency of the company.

Transactions and balances

Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax and other sales taxes, rebates, trade marketing costs and discounts. Turnover from the sale of books is recognised when risk and rewards of ownership have been transferred. A provision for anticipated returns is made based primarily on historical return rates. If these estimates do not reflect actual returns in future periods then turnover could be understated or overstated for a particular period. Merchandise income and TV/film income is recognised on an invoice basis if the brand is managed in house, if the brand is managed by an external agent the income is recognised monthly based upon reports from external agents.

Income from sub rights

Fees charged for the use of rights granted by the agreement and related services are recognised as revenue as the rights are used and the right to receive payment is established.

Taxation

The tax expense for the year comprises current tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

No temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements that give rise to deferred tax.

Stocks

Stocks comprise finished goods and work in progress in respect of books, and are stated at the lower of cost and net realisable value. Cost is determined using FIFO method. Cost includes the costs of paper, printing and binding incurred on a title by title basis. Plant costs, which do not vary with the number of copies printed (for example typesetting, origination and illustration), are charged to the income statement in full on publication. Provision is made for obsolete and slow moving stocks. Net realisable value is estimated selling price in the ordinary course of business less applicable variable selling expenses.

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended:

31 December 2016**3****SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Tangible assets**

Tangible assets are stated at historical cost less accumulated depreciation. Historical cost includes the original purchase price and costs directly attributed to bringing the assets to its working conditions for intended use.

Depreciation is calculated to write off the cost of the tangible assets over their estimated useful lives on a straight line basis. The principle annual rates used for this purpose are as follows:

Freehold buildings	Over periods of 40 or 50 years
Leasehold property	Over period of lease
Plant and equipment	Over periods of between 3 and 20 years

Trade debtors and amounts owed by group undertakings

Trade debtors and amounts owed by group undertakings are stated at amortised cost after provision for bad and doubtful debts and anticipated future sales returns. Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. Balances owed by group undertakings are unsecured, interest free and repayable on demand.

Trade creditors and amounts owed to group undertakings

Trade creditors and amounts owed to group undertakings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4**TURNOVER**

	2016	2015
	£'000	£'000
Analysis of turnover by geography		
UK and The Republic of Ireland	7,731	5,733
Rest of the World	4,317	3,529
Total	12,048	9,262

5**OPERATING PROFIT**

Auditors' remuneration for the statutory audit of the company was borne by The Random House Group Limited and recharged to Frederick Warne & Co Limited as part of a management recharge. This amounted to £7,297 (2015: £7,000). No other services were provided by the company's auditors.

No staff were employed by the Company (2015: none).

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended:

31 December 2016

6**Employees and Directors**

	2016	2015
	£'000	£'000
Aggregate emoluments	153	-
Amounts receivable under long term incentives	3	-
Company pension contributions to money purchase schemes	10	-

Administration expenses include the above remuneration to directors of the Company in respect of their services to the Company.

	2016	2015
	£'000	£'000
Highest paid director for services to this Company		
Emoluments	130	-
Amount receivable under long term incentives	-	-
Defined benefit pension scheme – accrued pension at end of year	9	-

Although the directors of the Company have service contracts with Penguin Books Limited and the Random House Group, the proportion of their time and efforts relating to Frederick Warne & Co Limited and therefore their emoluments have been included in these financial statements.

Two directors were paid by Penguin Books Limited and the other director is paid by the Random House Group:

Director	Paid by
T Weldon	Penguin Books Limited
F Dow	Penguin Books Limited
M Gardiner	The Random House Group Limited

Recharge of directors emoluments to the respective companies started in 2016.

Employee information

All employees are employed by Penguin Books Limited ("PBL") and therefore all staff costs are borne by them. PBL then recoups this through the management recharge.

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended:

31 December 2016

7**TAX ON PROFIT**

	2016	2015
	£'000	£'000
Current tax :		
UK corporation tax charge/(credit) on profit/(loss) for the year	647	444
Double tax relief	(60)	-
Adjustments in respect of prior years	(65)	(74)
	522	370
Overseas taxation	202	76
Total current tax	724	446
Deferred tax :		
Origination and reversal of timing differences	-	-
Adjustments in respect of prior years	-	-
Total deferred tax	-	-
Tax charge on profit	724	446
UK standard effective rate of corporation tax (%)	20	20.25
The tax assessed for the year differs from (2015: differs from) the standard effective rate of corporation tax in the UK as explained below :	2016	2015
	£'000	£'000
Profit before taxation	3,178	2,193
Profit before taxation multiplied by UK standard effective Rate	636	444
Effects of :		
Expenses not deductible for tax purposes	11	-
Adjustments in respect of prior years	(65)	(74)
Overseas withholding tax unrelieved	142	76
Total tax charge for the year	724	446

The standard rate of corporation tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2015. Accordingly the company's profits are taxed at an effective rate of 20% (2015: 20.25%). During 2016 changes to the UK main corporation tax rate were enacted. The tax rate has fallen to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020.

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended:

31 December 2016

8**DIVIDENDS**

	2016	2015	2016	2015
	Pence share	per Pence share	per £'000	£'000
Equity – Ordinary				
Dividends paid in the year	204.33	-	1,700	-

9**TANGIBLE ASSETS**

	Owned Artwork	Total
	£'000	£'000
Cost or valuation :		
At 1 January 2016	71	71
Additions	-	-
At 31 December 2016	71	71
Accumulated depreciation :		
At 1 January 2016	-	-
Charge for the year	4	4
At 31 December 2016	4	4
Net book value :		
At 31 December 2015	71	71
At 31 December 2016	67	67

The owned artwork relates to the Peter Rabbit series.

10**STOCKS**

	2016	2015
	£'000	£'000
Prepublication costs	243	1,304
Finished goods	151	28
	394	1,332

As of 31 December 2016, stocks were reviewed for impairment. The amount of the provision was £91,000 (2015: £146,000) as at 31 December 2016, and mainly relates to slow moving stock.

FREDERICK WARNE & CO LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended:

31 December 2016

11**DEBTORS**

	2016	2015
	£'000	£'000
Amounts falling due within one year :		
Trade Debtors	594	-
Amounts owed by group undertakings	4,301	1,192
Other debtors	751	1,489
Prepayments and accrued income	1	-
	5,647	2,681

The company continues to trade with the support of its parent company Penguin Random House Limited and the amounts owed to group undertakings relate mainly to Penguin Random House Limited. Penguin Books Limited is responsible for the administration of the company's accounts receivable and payable. Amounts owed by group undertakings are unsecured, interest free and repayable on demand. Included within this is £4.0m (2015: £0.1m) in respect of cash pooling agreements with the company's parent entity, Penguin Random House Limited. These amounts incur interest on a monthly basis; the average interest rate for the year was 3.03% (2015: 2.03%)

12**CREDITORS: amounts falling due within one year**

	2016	2015
	£'000	£'000
Amounts falling due within one year :		
Amounts owed to group undertakings	(2,183)	(1,048)
Corporation Tax	(587)	(370)
Other creditors	(149)	(3)
Accruals and deferred income	(235)	(33)
	(3,154)	(1,454)

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

13**CALLED UP SHARE CAPITAL**

	2016	2015
	£'000	£'000
Total share capital	840	840

	2016	2015	2016	2015
	No '000s	No '000s	£'000	£'000
Deferred share £1 each				
Allotted and fully paid	832	832	832	832
	2016	2015	2016	2015
	No '000s	No '000s	£'000	£'000
Ordinary share £0.01 each				
Allotted and fully paid	832	832	8	8

FREDERICK WARNE & CO LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2016

14

ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Penguin Books Limited.

Penguin Books Limited is a wholly owned subsidiary of Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann UK Limited (53%) and Pearson PRH Holdings Limited (47%). The company's ultimate parent company is Bertelsmann SE & Co KGaA, which is incorporated in Germany. Copies of Bertelsmann SE & Co KGaA's consolidated financial statements (the smallest and largest financial statements in which the Company is consolidated) can be obtained from:

Bertelsmann SE & Co KGaA
Corporate Communications
Carl Bertelsmann Strasse 270
33311 Gütersloh
Germany

As the company is ultimately a wholly owned subsidiary of Bertelsmann SE & Co KGaA the company is exempt from the requirement, under International Accounting Standard 24 'Related party disclosures', to disclose transactions with entities that are wholly owned by this company. The company has taken advantage of this exemption.

Penguin Random House Limited
80 Strand, London, United Kingdom. WC2R 0RL

PricewaterhouseCoopers LLP

1 Embankment Place,
London
WC2N 6RH

For the attention of Philip Stokes

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Penguin Random House Limited (the "company") for the year ended 31 December 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with 'FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102'), and have been prepared in accordance with the Companies Act 2006.

We confirm that the following representations are made on the basis of enquiries of management and staff of the company with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the following representations to you.

We confirm, for all directors at the time the directors' report is approved, to the best of our knowledge and belief, and having made the appropriate enquiries, the following representations:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 4 January 2017, for the preparation of the financial statements in accordance with FRS 102 and the Companies Act 2006; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by us in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which FRS 102 requires adjustment or disclosure have been adjusted or disclosed.

The selection and application of accounting policies are appropriate.

The following have been recognised, measured, presented or disclosed in accordance with the Companies Act 2006 and FRS 102.

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

Assessment of indication of impairment regarding investments

We confirm that we have conducted an appropriate assessment of whether or not there was any indication that investments were impaired, in accordance with section 27 of FRS 102.

We confirm that the carrying value of the asset has been reduced to its recoverable amount where its value was impaired.

Regarding estimates used in impairment assessment of investments:

- We used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of FRS 102.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the company, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under FRS 102.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

Summary of uncorrected misstatements

- With respect of our investment in Companhia de Letras we confirm that the cash flows in the impairment model represent our best estimates but we have been unable to obtain future forecast / business plans from the company. Our best estimate of cashflows is based on the improved performance in the 2016 accounts and our knowledge of the business and its current trading environment. On this basis we believe it is appropriate to reverse the prior year impairment provision. We note that the impairment model suggests an impairment of £3.9 million is required but this has not been recognised and has been included on the summary of unadjusted differences.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements, grouped by category, is attached to this letter.

Information Provided

- Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that you (the company's auditors) are aware of that information.
- We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the company from whom you determined it necessary to obtain audit evidence.
- So far as each director is aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

- We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the company and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the company's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related party transactions

We confirm that the ultimate controlling party of the company is Bertelsmann SE & Co. KGaA.

We confirm that the attached appendix to this letter is a complete list of the company's related parties. All transfers of resources, services or obligations between the company and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 33 of FRS 102 or other requirements, for example, the Companies Act 2006.

Related undertakings

The financial statements disclose all information regarding the company's related undertakings as required by the Companies Act 2006.

Employee Benefits

We confirm that we have made you aware of all employee benefit schemes in which employees of the company participate.

Transactions with directors/officers

No transactions involving directors, officers and others requiring disclosure in the financial statements under the Companies Act 2006 have been entered into.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the company have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

- The company has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with FRS 102, and in particular Section 21.

Assets and liabilities

- We have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.
- In our opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The company has satisfactory title to all assets and there are no liens or encumbrances on the company's assets, except for those that are disclosed in the financial statements.

Financial Instruments

- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.
- Where we have designated hedging relationships of either firm commitments or highly probable forecast transactions, we confirm that our plans and intentions are such that these relationships qualify as genuine hedge arrangements.
- Where we have assigned fair values to financial instruments, we confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Penguin Random House Limited
80 Strand, London, United Kingdom. WC2R 0RL

Taxation

We have complied with the taxation requirements of all countries within which we operate and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. We are not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and we have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In managing the tax affairs of the company, we have taken into account any special provisions such as transfer pricing, debt cap, tax avoidance disclosure and controlled foreign companies legislation as applied in different tax jurisdictions.

Disclosures

- Where appropriate, the identity of, and balances and transactions with, related parties have been properly recorded and adequately disclosed in the financial statements.
- We have recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

Penguin Random House Limited
80 Strand, London, United Kingdom, WC2R 0RL

As minuted by the board of directors at its meeting on 29 September 2017.


.....
(Chairman)

.....
(Secretary)

For and on behalf of Penguin Random House Limited

Date29/09/2017

Penguin Random House Limited
80 Strand, London, United Kingdom. WC2R 0RL

Summary of unadjusted differences

<i>Incorrect reversal of impairment Companhia de Letras</i>	Dt. Amounts written off investments £3,891,000	Cr. Investments £3,891,000
---	---	-------------------------------

Related parties



List of
shareholding exclus



List of
shareholding only R