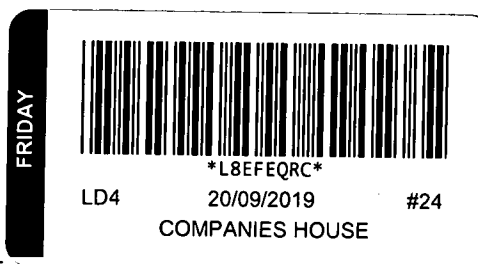


**FREDERICK WARNE & CO LIMITED**

**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2018**



# **FREDERICK WARNE & CO LIMITED**

## **STRATEGIC REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their Strategic Report of Frederick Warne & Co Limited ("the company") for the year ended 31 December 2018.

### **Principal activities**

The company is a subsidiary of Penguin Books 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. The company also exploits its 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. The company made an operating profit in the year of £6,691,000 (2017: £4,301,000).

### **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 £9,018,000 (2017: £7,472,000); and
- Gross margin percentage for the year was 48.1% (2017: 46.7%).

### **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

7 August 2019

# **FREDERICK WARNE & CO LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2018**

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2018.

#### **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**

No dividends were proposed during 2018 (2017: £2m proposed and fully paid) and the company reported the profit for the financial year of £5,436,000 (2017: £3,463,000).

#### **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 as not significant.

#### **Directors**

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

Thomas Weldon  
Francesca Dow  
Mark Gardiner

Sinead Martin (Company Secretary)

#### **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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and applicable law.)

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 the 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, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the 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.

## **FREDERICK WARNE & CO LIMITED**

### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2018**

#### **Statement of directors' responsibilities (continued)**

The directors are responsible for keeping adequate accounting records that are sufficient to show 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 (as defined by section 418(3) of the Companies Act 2006) 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

7 August 2019

# **FREDERICK WARNE & CO LIMITED**

## **INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018**

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

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, Frederick Warne & Co Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2018; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

# FREDERICK WARNE & CO LIMITED

## INDEPENDENT AUDITORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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### Responsibilities for the financial statements and the audit

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities set out on page 2 and 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

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.

## **FREDERICK WARNE & CO LIMITED**

### **INDEPENDENT AUDITORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2018**

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

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## **Other required reporting**

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### **Companies Act 2006 exception reporting**

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Philip Stokes (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
7 August 2019

# **FREDERICK WARNE & CO LIMITED**

## **INCOME STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

|   | Note | 2018<br>£'000 | 2017<br>£'000 |
|---|------|---------------|---------------|
| Turnover                                      | 4    | 9,018         | 7,472         |
| Cost of sales                                 |      | (4,683)       | (3,986)       |
| Gross profit                                  |      | <u>4,335</u>  | <u>3,486</u>  |
| Distribution costs                            |      | (357)         | (189)         |
| Administrative expenses                       |      | (2,329)       | (2,407)       |
| Other operating income                        |      | 5,042         | 3,411         |
| Operating profit                              | 5    | <u>6,691</u>  | <u>4,301</u>  |
| Interest receivable and similar income        | 7    | 26            | 9             |
| Profit on ordinary activities before taxation |      | <u>6,717</u>  | <u>4,310</u>  |
| Tax on profit on ordinary activities          | 8    | (1,281)       | (847)         |
| Profit for the financial year                 |      | <u>5,436</u>  | <u>3,463</u>  |

The notes on pages 11 to 19 form part of these financial statements.



## **FREDERICK WARNE & CO LIMITED**

### **STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018**

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Profit for the financial year                       | 5,436         | 3,463         |
| Other comprehensive income for the year, net of tax | -             | -             |
| <b>Total comprehensive income for the year</b>      | <b>5,436</b>  | <b>3,463</b>  |

The notes on pages 11 to 19 form part of these financial statements.

# FREDERICK WARNE & CO LIMITED

Company No. 00155455


## BALANCE SHEET AS AT 31 DECEMBER 2018

|   | Note | 2018<br>£'000 | Restated<br>2017<br>£'000 |
|---|------|---------------|---------------------------|
| <b>Fixed assets</b>                                   |      |               |                           |
| Tangible assets                                       | 10   | 59            | 63                        |
|   |      | <u>59</u>     | <u>63</u>                 |
| <b>Current assets</b>                                 |      |               |                           |
| Stocks  | 11   | 680           | 616                       |
| Debtors   | 12   | 13,366        | 8,225 *                   |
| Cash at bank and in hand                              |      | 417           | 4                         |
|   |      | <u>14,463</u> | <u>8,845</u>              |
| <b>Creditors: amounts falling due within one year</b> | 13   | (4,173)       | (4,023)                   |
| <b>Net current assets</b>                             |      | <u>10,290</u> | <u>4,822</u>              |
| <b>Total assets less current liabilities</b>          |      | <u>10,349</u> | <u>4,885</u>              |
| Provisions for other liabilities                      | 14   | (67)          | (39) *                    |
| <b>Net assets</b>                                     |      | <u>10,282</u> | <u>4,846</u>              |
| <b>Capital and Reserves</b>                           |      |               |                           |
| Called up share capital                               | 15   | 840           | 840                       |
| Retained Earnings                                     |      | 9,442         | 4,006                     |
| <b>Total equity</b>                                   |      | <u>10,282</u> | <u>4,846</u>              |

\* See note 17 for the impact of the restatements to prior year balances.

The notes on pages 11 to 19 form part of these financial statements.

The financial statements on pages 7 to 19 were approved by the board of directors on August 2019 and were signed on its behalf by:



M GARDINER  
Director

# **FREDERICK WARNE & CO LIMITED**

## **STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018**

|                                       | Called up<br>share capital<br>£'000 | Profit and<br>loss account<br>£'000 | Total equity<br>£'000 |
|---------------------------------------|-------------------------------------|-------------------------------------|-----------------------|
| <b>Balance as at 1 January 2017</b>   | 840                                 | 2,543                               | 3,383                 |
| <b>Changes in equity</b>              |                                     |                                     |                       |
| Dividends                             | -                                   | (2,000)                             | (2,000)               |
| Profit for the financial year         | -                                   | 3,463                               | 3,463                 |
| <b>Balance as at 31 December 2017</b> | 840                                 | 4,006                               | 4,846                 |
| <b>Changes in equity</b>              |                                     |                                     |                       |
| Profit for the financial year         | -                                   | 5,436                               | 5,436                 |
| <b>Balance as at 31 December 2018</b> | 840                                 | 9,442                               | 10,282                |

# **FREDERICK WARNE & CO LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

### **1 GENERAL INFORMATION**

Frederick Warne & Co Limited ("the company") is a book publisher and exploits the intellectual property through the granting of licences for the manufacture and sale of books and merchandise. The company sells its books globally. The company is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA.

### **2 STATEMENT OF COMPLIANCE**

The individual financial statements of the company 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 principal 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 in accordance with the UK Companies Act 2006.

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 or 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)
- 101p8(k) & The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

# **FREDERICK WARNE & CO LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018**

### **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**

IFRS 9 and IFRS 15 are new accounting standards that are effective for the year ended 31 December 2018. See note 17 for the impact the new accounting standards have had on the company. There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2018 which 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 functional 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, 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 licencing and sub rights**

Fees charged for the use of rights and licencing granted by the agreement and related services are recognised as the rights are used and the right to receive payment is established. The income is on a non-recurring basis and not part of the principal business activity of the company, which is a book publisher, hence the income is classified as other operating income on the Income Statement.

#### **Taxation**

The tax expense for the year comprises current tax.

The current 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 arise between the tax bases of assets and liabilities and their carrying amounts in the financial statements that give rise to deferred tax.

# FREDERICK WARNE & CO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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:

Owned artwork

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. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for insignificant trade debtors and a risk score on an individual basis for significant trade debtors. To measure the expected credit losses, trade debtors are grouped based on shared credit risk characteristics and the balance of uninsured debt across the company.

#### 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

|                                    | 2018  | 2017  |
|------------------------------------|-------|-------|
|                                    | £'000 | £'000 |
| Analysis of turnover by geography: |       |       |
| UK and The Republic of Ireland     | 3,226 | 2,777 |
| Rest of World                      | 5,792 | 4,695 |
|                                    | <hr/> | <hr/> |
|                                    | 9,018 | 7,472 |
|                                    | <hr/> | <hr/> |

Turnover includes supplies made to geographical locations worldwide. The products sold, means of selling and commercial terms are similar across the various markets and, in the opinion of the directors, the geographical markets supplied are not substantially different from each other.

Geographical analysis is based on the region in which the order is received. It would not be materially different if based on the country in which the customer is located.

# FREDERICK WARNE & CO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

### 5 OPERATING PROFIT

|  | 2018  | 2017  |
|--|-------|-------|
|  | £'000 | £'000 |
| Operating profit is stated after charging:       |       |       |
| Provision for returns                            | 79    | 146   |
| (Reversal of impairment)/impairment of inventory | (255) | 293   |
| Depreciation                                     | 4     | 4     |
| Personnel costs:                                 |       |       |
| - Wages and salaries                             | 220   | 148   |
| - Social security costs                          | 17    | 9     |
| - Other pension costs                            | 15    | 41    |
| Auditor's remuneration:                          |       |       |
| - Statutory audit                                | 7     | 7     |

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 in 2018 and 2017. No other services were provided by the company's auditors in 2018 (2017: none).

### 6 EMPLOYEES AND DIRECTORS

#### Employees

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.

#### Directors

Although the directors of the company have service contracts with Penguin Books Limited ("PBL") and The Random House Group Limited ("RHG"), the proportion of their time and efforts relating to the company, and therefore their emoluments, have been included in these financial statements.

The directors' emoluments were as follows:

|   | 2018  | 2017  |
|---|-------|-------|
|   | £'000 | £'000 |
| <i>Directors' remuneration:</i>               |       |       |
| Aggregate emoluments                          | 46    | 43    |
| Amounts receivable under long term incentives | 5     | 5     |
| Company pension contributions                 | 3     | 3     |

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

The highest paid directors' emoluments were as follows:

|   | 2018  | 2017  |
|---|-------|-------|
|   | £'000 | £'000 |
| <i>Highest paid director:</i>                 |       |       |
| Emoluments                                    | 27    | 23    |
| Amounts receivable under long term incentives | 4     | 4     |
| Defined benefit pension scheme accrued        | 2     | 2     |

# FREDERICK WARNE & CO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

### 6 EMPLOYEES AND DIRECTORS (continued)

Two directors are paid by PBL and the other director is paid by RHG as follows:

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

### 7 INTEREST RECEIVABLE

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| <i>Interest receivable and similar income:</i>   |               |               |
| Interest receivable on intercompany cash pooling | 26            | 9             |
|  | <u>26</u>     | <u>9</u>      |

### 8 TAX ON PROFIT

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| <i>Amount payable for group relief and UK corporation tax</i> |               |               |
| UK corporation tax on profit for the year                     | 1,276         | 840           |
| Overseas tax  | 20            | 52            |
| Double tax relief   | (20)          | (52)          |
| Adjustments in respect of prior years                         | 5             | 7             |
|   | <u>1,281</u>  | <u>847</u>    |
| <b>Tax charge on profit</b>                                   |               |               |

The tax assessed for the year differs from the standard effective rate of corporation tax in the UK for the year ended 31 December 2018 of 19% (2017: 19.25%). The differences are explained below:

|   | £'000        | £'000        |
|---|--------------|--------------|
| Profit on ordinary activities before taxation             | <u>6,717</u> | <u>4,310</u> |
| Corporation tax at standard rate of 19.00% (2017: 19.25%) | 1,276        | 830          |
| Effects of:   |              |              |
| Expenses not deductible for tax purposes                  | -            | 10           |
| Adjustments in respect of prior years                     | 5            | 7            |
|   | <u>1,281</u> | <u>847</u>   |
| <b>Total tax charge for year</b>                          |              |              |

The current year tax charge represents amounts payable to fellow UK subsidiaries of the Bertelsmann group in respect of current year tax losses surrendered in the UK.



# FREDERICK WARNE & CO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

### 8 TAX ON PROFIT (continued)

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% from 1 April 2020. Accordingly the company's profits/losses are taxed at an effective rate of 19% (2017: 19.25%).

### 9 DIVIDENDS

|                        | 2018<br>£'000 | 2017<br>£'000 |
|------------------------|---------------|---------------|
| <i>Dividends paid:</i> |               |               |
| Penguin Books Limited  | -             | 2,000         |
|                        | <hr/>         | <hr/>         |
|                        | -             | 2,000         |
|                        | <hr/>         | <hr/>         |

### 10 TANGIBLE ASSETS

|                           | Owned<br>Artwork<br>£'000 | Total<br>£'000 |
|---------------------------|---------------------------|----------------|
| Cost:                     |                           |                |
| At 1 January 2018         | 71                        | 71             |
|                           | <hr/>                     | <hr/>          |
| At 31 December 2018       | 71                        | 71             |
|                           | <hr/>                     | <hr/>          |
| Accumulated depreciation: |                           |                |
| At 1 January 2018         | 8                         | 8              |
| Charge for the year       | 4                         | 4              |
|                           | <hr/>                     | <hr/>          |
| At 31 December 2018       | 12                        | 12             |
|                           | <hr/>                     | <hr/>          |
| Net book amounts:         |                           |                |
| At 31 December 2017       | 63                        | 63             |
|                           | <hr/>                     | <hr/>          |
| At 31 December 2018       | 59                        | 59             |
|                           | <hr/>                     | <hr/>          |

The owned artwork relates to the Peter Rabbit series.

# FREDERICK WARNE & CO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

### 11 STOCKS

|                      | 2018<br>£'000 | 2017<br>£'000 |
|----------------------|---------------|---------------|
| Prepublication costs | 303           | 514           |
| Finished goods       | 377           | 102           |
|                      | <u>680</u>    | <u>616</u>    |

As of 31 December 2018 stocks were reviewed for impairment. The amount of the provision was £138,000 (2017: £393,000), and mainly relates to slow moving stock.

### 12 DEBTORS

|                                    | 2018<br>£'000 | Restated<br>2017<br>£'000 |
|------------------------------------|---------------|---------------------------|
| Trade debtors                      | 1,588         | 958                       |
| Amounts owed by group undertakings | 11,522        | 7,079                     |
| Other debtors                      | 256           | 188                       |
|                                    | <u>13,366</u> | <u>8,225</u>              |

See note 17 for the impact of the restatements.

Included in amounts owed by group undertakings are trade debtor balances held within The Book Service Limited ("TBS"), with a corresponding balance included in amounts owed by group undertakings. At 31 December 2018 £3,939,000 (2017: £4,306,000) was owed by TBS.

The amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £6,051,000 (2017: £1,870,000) in respect of cash pooling agreements with PBL's parent entity, Penguin Random House Limited ("PRHL"). These amounts incur interest on a monthly basis; the average interest rate for the year was 0.55% (2017: 0.21%).

### 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                    | 2018<br>£'000 | 2017<br>£'000 |
|------------------------------------|---------------|---------------|
| Trade creditors                    | 1,077         | 1,518         |
| Amounts owed to group undertakings | 959           | 899           |
| Corporation tax                    | 1,256         | 788           |
| Other creditors                    | 727           | 286           |
| Accruals and deferred income       | 154           | 532           |
|                                    | <u>4,173</u>  | <u>4,023</u>  |

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

# FREDERICK WARNE & CO LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

### 14 PROVISIONS FOR OTHER LIABILITIES

|   | Returns<br>provision<br>£'000 | Total<br>£'000 |
|---|-------------------------------|----------------|
| At 1 January 2018 (restated)                | 39                            | 39             |
| Amount released/(increased) during the year | 28                            | 28             |
|   | <hr/>                         | <hr/>          |
| At 31 December 2018                         | 67                            | 67             |
|   | <hr/>                         | <hr/>          |

### 15 CALLED UP SHARE CAPITAL

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Total share capital                             | 840           | 840           |
|   | <hr/>         | <hr/>         |
|   | 2018<br>£'000 | 2017<br>£'000 |
| Deferred share £1 each                          | 832           | 832           |
| 832,000 (2017: 832,000) Allotted and fully paid | <hr/>         | <hr/>         |
|   | 2018<br>£'000 | 2017<br>£'000 |
| Ordinary share £0.01 each                       | 8             | 8             |
| 832,000 (2017: 832,000) Allotted and fully paid | <hr/>         | <hr/>         |

### 16 RELATED PARTY DISCLOSURE

The immediate parent undertaking is Penguin Books Limited ("PBL").

PBL is a wholly owned subsidiary of Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann UK Limited (75%) and Pearson PRH Holdings Limited (25%). 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

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 PRHL. The company has taken advantage of this exemption.

## FREDERICK WARNE & CO LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

#### 17 CHANGE IN ACCOUNTING POLICY

##### IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in no adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 3 above.

##### IFRS 15 Revenue from Contracts with Customers

The company has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

The adoption of IFRS 15 impacted the company in the following areas:

- Provisions for returns and expected volume discounts now disclosed separately in provisions for liabilities and other charges.

The following tables show the adjustments recognised for each individual line item following the adoption of IFRS 15. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

| Statement of financial position (extract)             | 31 Dec 2017             |         | 31 Dec 2017 |
|---|-------------------------|---------|-------------|
|   | As originally presented | IFRS 15 | Restated    |
|   | £'000                   | £'000   | £'000       |
| <b>Fixed assets</b>                                   |                         |         |             |
| Tangible assets                                       | 63                      | -       | 63          |
| <b>Current assets</b>                                 |                         |         |             |
| Stocks  | 616                     | -       | 616         |
| Debtors   | 8,186                   | 39      | 8,225       |
| Cash at bank and in hand                              | 4                       | -       | 4           |
| <b>Creditors: amounts falling due within one year</b> | (4,023)                 | -       | (4,023)     |
| <b>Net current assets</b>                             | 4,783                   | 39      | 4,822       |
| <b>Total assets less current liabilities</b>          | 4,846                   | 39      | 4,885       |
| Provision for other liabilities                       |                         | (39)    | (39)        |
| <b>Net assets</b>                                     | 4,846                   | -       | 4,846       |