Company no: 00453161

# THE BOOK SERVICE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

# THE BOOK SERVICE LIMITED

## STRATEGIC REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2017

*The directors present their Strategic Report for the company for the year ended 31 December 2017.*

Principal Activities
The company is a subsidiary of The Random House Group 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 warehousing and distribution.

Review of the business
The results and financial position of the company are set out on the attached financial statements. The company made an operating loss in the year of £5,769,718 (2016: loss of £969,467).

The directors report that turnover increased by 40.1% in 2017 compared with 2016 due to the transfer of warehousing and distribution of Penguin and Dorling Kindersley books to the company from January 2017. The extra turnover was offset by increased operating costs related to the warehousing and distribution of these books, costs directly incurred as a result of the physical transition of this volume from the Rugby site to the Frating site and costs arising from the implementation of a new sales order processing system.

Key Performance Indicators ('KPI's')
The company monitors progress and performance during the year and historical trend data is set out in the following KPI's:

- Turnover was £38,219,552 (2016: £27,280,520)
- Gross margin percentage for the year was 20% (2016: 37%)

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).

By order of the Board

M GARDINER
Director

26 September 2018

# THE BOOK SERVICE LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2017.

Future developments
The directors do not anticipate any significant changes in the activities of the company and the company will continue to seek new clients and opportunities for cost efficiencies.

Dividends
No interim dividend (2016: nil) was paid in the 2017 financial year and no final dividend is proposed (2016: nil).

Financial instruments
It is the company's policy to implement financial risk management objectives and policies, for each major type of forecasted transaction for which hedge accounting is used. 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 this report were as follows:

| | |
|---|---|
| M Gardiner | Chairman |
| T Weldon | |

Post balance sheet events
In the opinion of the directors, there are no post balance sheet events to disclose since the year end.

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 company 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 defined contribution 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 sexual orientation. 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.

## THE BOOK SERVICE LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
(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 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 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; 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 (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 ought to have taken as a director to make himself 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 reappointment will be proposed at the Annual General Meeting.

By order of the Board

M GARDINER
Director

26 September 2018

# *Independent auditors' report to the members of The Book Service Limited*

## Report on the audit of the financial statements

### Opinion

In our opinion, The Book Service Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss 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 2017; the Profit and Loss Account and Statement of Comprehensive Income for the year then ended and 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.

### 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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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.

### 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.

# *Independent auditors' report to the members of The Book Service Limited (continued)*

## Reporting on other information (continued)

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.

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 2017 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.

## Responsibilities for the financial statements and the audit

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of the directors' responsibilities set out on page 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. 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.

# *Independent auditors' report to the members of The Book Service Limited (continued)*

## Other required reporting

### 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
26 September 2018

# THE BOOK SERVICE LIMITED

## PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2017

| | Note | 2017 £ | 2016 £ |
|---|---|---|---|
| Turnover | 5 | 38,219,552 | 27,280,520 |
| Cost of sales | | (30,556,898) | (17,307,337) |
| Gross profit | | 7,662,654 | 9,973,183 |
| Administrative expenses | 6 | (13,432,372) | (10,942,650) |
| Operating loss | 6 | (5,769,718) | (969,467) |
| Interest receivable and similar income | 8 | 66,101 | 127,179 |
| Loss on ordinary activities before taxation | | (5,703,617) | (842,288) |
| Tax on loss on ordinary activities | 9 | 976,037 | 216,586 |
| Loss for the financial year | | (4,727,579) | (625,702) |

The notes on pages 10 to 21 are an integral part of these financial statements.

# THE BOOK SERVICE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2017

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Loss for the financial year | (4,727,579) | (625,702) |
| Other comprehensive income | - | - |
| Total comprehensive loss for the year | (4,727,579) | (625,702) |

Company no: 00453161

# THE BOOK SERVICE LIMITED

## BALANCE SHEET
As at 31 December 2017

| | Note | | 2017 | | 2016 |
|---|---|---|---|---|---|
| | | | £ | | £ |
| **Fixed assets** | | | | | |
| Tangible assets | 10 | | 2,862,978 | | 2,590,633 |
| Investments | 11 | | 100 | | 100 |
| Deferred tax asset | 12 | | 115,229 | | 81,363 |
| | | | 2,978,307 | | 2,672,096 |
| **Current assets** | | | | | |
| Debtors | 13 | 317,740,201 | | 154,902,565 | |
| Cash at bank and in hand | | 18,833,786 | | 7,444,658 | |
| | | 336,573,987 | | 162,347,223 | |
| Creditors: amounts falling due within one year | 14 | (342,905,922) | | (163,645,368) | |
| **Net current liabilities** | | | (6,331,935) | | (1,298,145) |
| **Net (liabilities) / assets** | | | (3,353,628) | | 1,373,951 |
| **Equity** | | | | | |
| Called up share capital | 15 | | 200,000 | | 200,000 |
| Profit and loss account | | | (3,553,628) | | 1,173,951 |
| **Total shareholders' funds** | | | (3,353,628) | | 1,373,951 |

The notes on pages 11 to 21 are an integral part of these financial statements.

These financial statements on pages 7 to 21 were authorised for issue by the board of directors on 26 September 2018 and were signed on its behalf by

M GARDINER
Director

# THE BOOK SERVICE LIMITED

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

| | Called up share capital £ | Profit and loss account £ | Total shareholders' funds £ |
|---|---|---|---|
| **Balance as at 1 January 2016** | 200,000 | 1,799,653 | 1,999,653 |
| **Changes in equity** | | | |
| Loss for the financial year | - | (625,702) | (625,702) |
| **Balance as at 31 December 2016** | 200,000 | 1,173,951 | 1,373,951 |
| **Changes in equity** | | | |
| Loss for the financial year | - | (4,727,579) | (4,727,579) |
| **Balance as at 31 December 2017** | 200,000 | (3,553,628) | (3,353,628) |

1 GENERAL INFORMATION

The Book Service Limited (the "company") is a private limited company and a subsidiary of The Random House Group Limited, a company registered in England and Wales. The company is UK domiciled and registered in England and Wales. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA. The principal activity of the company continued to be that of book warehousing and distribution. The company warehouses and distributes its books entirely in the UK.

2 STATEMENT OF COMPLIANCE

The individual financial statements of The Book Service 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

Basis of preparation of financial statements
The financial statements have been prepared 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

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, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
    - paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
    - paragraph 73(e) of IAS 16 'Property, plant & equipment'
- The following paragraphs of IAS 1 'Presentation of financial statements':
    - 10(d) (statement of cash flows)
    - 16 (statement of compliance with all IFRS)
    - 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.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern
The financial statements are prepared on a going concern basis notwithstanding the net current liabilities in the balance sheet at the year end. The directors believe this basis to be appropriate in light of the company's continued support from Penguin Books Limited. 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 2017 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 profit and loss account.

Turnover recognition
Turnover comprises the sale of distribution and warehousing services, net of Value Added Tax (VAT).

Taxation
The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

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.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Tangible Assets
Tangible assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of the fixed assets over their estimated useful lives on a straight line basis. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold buildings | Over the term of the lease |
| Plant and machinery | Over a period of between 5 and 15 years |
| Motor vehicles | Over 4 years |

Leased assets
Leases that do not transfer all the risks and rewards of ownership are classified in the financial statements as operating leases. Payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Financial Assets
The company classifies its financial assets as loans and receivables. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred subsequently all risks and rewards of ownership.

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. An additional provision is made based on an analysis of balances by age, previous losses experienced and general economic conditions.

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.

Employee benefits
As explained in note 17, the costs of the company's contributions to Penguin Random House Pension Scheme are charged to the profit and loss account in the period in which they arise.

## 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates, underlying assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances.

Key accounting estimates and assumptions

*(i) Provisions*
Other provisions include provisions arising in the ordinary course of business, such as provisions relating to deferred compensation and legal matters. These provisions are expected to be utilised within 5 years.

*(ii) Impairment of trade and other receivables*
The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the debtor, the ageing profile of receivables and historical experience. See note 13 for the net carrying amount of the receivables and associated impairment provision.

## 5 TURNOVER

The company's turnover arises from its principal activity of book warehousing and distribution and arises entirely within the United Kingdom.

## 6 OPERATING LOSS

Operating loss is stated after charging:

| | 2017 | 2016 |
|---|---|---|
| Administrative expenses: | £ | £ |
| Personnel costs: | | |
| Wages and salaries | 11,070,014 | 9,043,604 |
| Social security costs | 1,005,775 | 783,796 |
| Other pension costs | 945,427 | 883,386 |
| | | |
| Operating lease expenses | 1,184,088 | 1,080,072 |
| Impairment/(reversal of impairment) of trade receivables | 176,874 | (43,419) |
| Depreciation | 411,156 | 231,864 |

The audit fee for the company has been borne by its immediate parent company, The Random House Group Limited. Audit fees borne on the company's behalf amount to £3,400 (2016: £4,378).

## 7 EMPLOYEES AND DIRECTORS

Directors
The emoluments of the directors are paid by the parent company and Penguin Books Limited ("PBL"). Directors' services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company and PBL. Accordingly, no emoluments in respect of the directors are recharged to the company.

7 EMPLOYEES AND DIRECTORS (continued)

Employees
The monthly average number of persons, employed by the company during the year was:

STAFF COSTS - ADDITIONAL NUMBERS

| | 2017 | 2016 |
|---|---|---|
| | Number | Number |
| Administration | 163 | 168 |
| Selling and distribution | 224 | 199 |
| | 387 | 367 |

8 INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Interest receivable on cash pooling | 66,101 | 127,179 |

## 9 TAX ON LOSS ON ORDINARY ACTIVITIES

| | | 2017 | 2016 |
|---|---|---|---|
| (a) | Analysis of tax credit for the year | £ | £ |
| | Amount payable for group relief and UK corporation tax | | |
| | -current year | (1,038,310) | (226,631) |
| | -adjustments in respect of prior years | 96,138 | - |
| | Deferred tax, origination and reversal of timing differences | | |
| | -current year | (25,112) | 66,665 |
| | -adjustments in respect of prior years | (8,754) | (56,620) |
| | Total taxation credit on ordinary activities | (976,037) | (216,586) |

The current year tax credit represents amounts receivable from fellow UK subsidiaries of the Penguin Random House group in respect of current year tax losses surrendered in the United Kingdom.

The tax assessment for the year differs (2016: differs) from the standard effective rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained below:

| | | 2017 | 2016 |
|---|---|---|---|
| | | £ | £ |
| (b) | Factors affecting the taxation credit for the year: | | |
| | Loss on ordinary activities before taxation | (5,703,617) | (842,288) |
| | Corporation tax at standard rate of 19.25% (2016: 20%) | (1,097,946) | (168,458) |
| | Effects of: | | |
| | Expenses not deductible for tax purposes | 21,503 | 12,000 |
| | Total tax under provided in prior years | - | (56,620) |
| | Adjustments in respect of prior years | 87,384 | - |
| | Deferred tax rate differences | 13,022 | (3,508) |
| | Total tax credit for year | (976,037) | (216,586) |

*Current tax*
The standard rate of corporation tax in the United Kingdom changed from 20% to 19% with effect from 1 April 2017. Accordingly the company's losses are taxed at an effective rate of 19.25% (2016: 20%).

*Deferred tax*
During 2016 changes to the UK main corporation tax rate were enacted. The tax rate reduced to 19% with effect from 1 April 2017 and will fall to 17% with effect from 1 April 2020. Accordingly deferred tax has been provided at 17%.

10 TANGIBLE ASSETS

| | Long leasehold property | Plant and machinery | Motor vehicle | Assets under construction | TOTAL |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Cost: | | | | | |
| at 1 January 2017 | 253,179 | 4,733,791 | 4,195 | 1,141,110 | 6,132,275 |
| Additions | - | - | - | 683,501 | 683,501 |
| Transfers | - | 1,666,498 | - | (1,666,498) | - |
| at 31 December 2017 | 253,179 | 6,400,289 | 4,195 | 158,113 | 6,815,776 |
| Accumulated depreciation: | | | | | |
| at 1 January 2017 | (142,499) | (3,394,948) | (4,195) | - | (3,541,642) |
| Charge for the year | (14,733) | (396,423) | - | - | (411,156) |
| at 31 December 2017 | (157,232) | (3,791,371) | (4,195) | - | (3,952,798) |
| Net Book Amounts: | | | | | |
| at 31 December 2017 | 95,947 | 2,608,918 | - | 158,113 | 2,862,978 |
| at 31 December 2016 | 110,680 | 1,338,843 | - | 1,141,110 | 2,590,633 |

There were no contracted capital commitments outstanding at the year end (2016: nil). Assets under construction during the year related to plant and machinery.

11 INVESTMENTS

| | Shares in subsidiaries | Unlisted equity investments | Total |
|---|---|---|---|
| | £ | £ | £ |
| Shares, at cost: | | | |
| at 1 January 2017 and at 31 December 2017 | 100 | 150,000 | 150,100 |
| Accumulated impairment: | | | |
| at 1 January 2017 and 31 December 2017 | - | (150,000) | (150,000) |
| Net book amounts: | | | |
| at 31 December 2017 | 100 | - | 100 |
| at 31 December 2016 | 100 | - | 100 |

## 11 INVESTMENTS (continued)

The investment in subsidiary comprises the entire share capital of the dormant entity, Grantham Book Services Limited. The shares are classed as ordinary shares. The registered office of Grantham Book Services Limited is 20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA.

The unlisted equity investment comprises 30% of the ordinary shares of Bounce! Sales & Marketing Limited. The directors do not consider this investment to be a participating investment as they do not exercise a significant influence over the affairs of this company. The registered office of Bounce! Sales & Marketing Limited is Hathaway House, Popes Drive, London, N3 1QF and its principal activity is book sales and marketing.

## 12 DEFERRED TAX ASSET

| | £ |
|---|---|
| At 1 January 2017 | 81,363 |
| Increase in the year | 33,866 |
| at 31 December 2017 | 115,229 |

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| The deferred tax asset comprises: | | |
| Difference between capital allowances for year and depreciation | 45,595 | 13,321 |
| Other short term timing differences | 69,634 | 68,042 |
| | 115,229 | 81,363 |

## 13 DEBTORS

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Trade debtors | 178,232,675 | 89,859,844 |
| Amounts owed by group undertakings | 137,840,470 | 64,073,902 |
| Current tax debtor | 1,038,309 | 314,361 |
| Prepayments and accrued income | 628,747 | 654,458 |
| | 317,740,201 | 154,902,565 |

Amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £82.4m (2016: £56.7m) in respect to the cash pooling agreement with Penguin Random House Limited. Penguin Random House Limited is the parent entity of The Random House Group Limited. This amount incurs interest on a monthly basis. Interest has been charged at an average rate of 0.21% (2016: 0.40%).

13 DEBTORS (continued)

From 1 August 2017 the company took on group publisher trade debtor balances for Penguin Books Limited and other connected entities, including Dorling Kindersley Limited amounts. A corresponding creditor balance is included in 'Amounts owed to group publishers', as shown in note 14. Receivables are stated after provision for impairment of £588,427 (2016: £411,553).

| 14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 2017 £ | 2016 £ |
|---|---|---|
| Amounts owed to third party publishers | 70,342,501 | 65,488,397 |
| Amounts owed to group publishers | 261,641,512 | 81,794,443 |
| Amounts owed to group undertakings | 4,674,808 | 12,784,255 |
| Other creditors | 1,503,313 | 338,919 |
| Accruals | 4,743,788 | 3,239,354 |
| | 342,905,922 | 163,645,368 |

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

Included in amounts owed to group publishers is £78,621,000 (2016: £201,121) owed to Penguin Books Limited ("PBL"). On 20 September 2018 PBL signed an agreement with the commitment not to request repayment of £15,000,000 of the balance owed to them by the company for at least the next twelve months from the date of the audit report. This undertaking shall automatically terminate and lapse after the expiry of such period of time, but at the latest on 30 September 2019.

| 15 CALLED UP SHARE CAPITAL | 2017 £ | 2016 £ |
|---|---|---|
| Authorised, allotted, called up and fully paid: | | |
| 200,000 Ordinary shares of £1 each (2016: 200,000) | 200,000 | 200,000 |

## 16 COMMITMENTS

The company has commitments under operating leases to pay rentals during the forthcoming year as follows:

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Land and buildings: | | |
| expiring within one year | 1,059,000 | 1,059,000 |
| expiring between one and five years | 4,236,000 | 4,236,000 |
| expiring in more than five years | 176,500 | 1,235,500 |
| | 5,471,500 | 6,530,500 |
| Plant and machinery: | | |
| expiring within one year | 149,632 | 13,608 |
| expiring between one and five years | 589,064 | 2,366 |
| expiring in more than five years | 171,810 | - |
| | 910,506 | 15,974 |

## 17 PENSION FUND

The company is a member of the Penguin Random House Pension Scheme. This scheme is of the defined benefit type. The assets of the scheme are for the scheme as a whole and are not allocated to the employees, or ex-employees, of a particular company. Employees can move freely between the sponsoring companies and so it is not considered practicable to attempt to split the liabilities between the companies. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis as permitted by IAS 19 "Employee benefits" the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme. The assets of the scheme are invested by the trustees acting on the advice of independent investment advisors. The pension costs have been assessed in accordance with the advice of a qualified actuary. Contributions to the scheme are based on pension costs across the group as a whole. The scheme was closed to new members from 30 June 2002. Particulars of the actuarial valuation of the scheme are contained in the financial statements of The Random House Group Limited.

For new employees, from 1 July 2002, the company, together with its parent, The Random House Group Limited, operates a defined contribution pension scheme.

With effect from 1 April 2017 the company contributions towards ongoing benefit accrual were confirmed at a rate of 25.1% (increased from 24.8%) of pensionable earnings.

## 18 RELATED PARTIES

The company's immediate parent company is The Random House Group Limited ("RHG"). RHG 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

As the company is a wholly owned subsidiary of Penguin Random House Limited, the company is exempt from the requirement, under International Reporting Standard 24, to disclose transactions with entities that are wholly owned by this company. The company has taken advantage of this exemption.

During the year the company entered into the following transactions with related parties not wholly owned by PRHL:

| | 2017 | 2016 |
|---|---|---|
| | £ | £ |
| Sales fees charged to: | | |
| Prestel Publishing Ltd | 346,110 | 286,330 |
| Woodlands Books Ltd | 625,002 | 669,333 |
| Creditors | | |
| Prestel Publishing Ltd | 1,187,123 | 1,007,746 |
| Woodlands Books Ltd | 6,453,122 | 5,540,923 |