

Penguin Books Limited
(Registered Number 861590)

Report and Financial Statements
For the year ended 31 December 2002



Penguin Books Limited

Contents

	Pages
Directors' report	1-4
Report of the Auditors	5
Profit and loss account	6
Balance sheet	7
Notes to the Financial Statements	8-19

Penguin Books Limited

Directors' Report

The directors have pleasure in presenting their report and the financial statements for the year ended 31 December 2002.

Principal activity and business review

The principal activity of the company and its subsidiaries continues to be book publishing, and the warehousing and distribution of books.

Future developments

The company, together with its subsidiaries, will continue to develop its paperback and hardback publishing business.

Introduction of the Euro

A contingency plan has been developed in the event that the UK decides to join the euro-zone. The financial costs to date of preparations for the euro have not been material.

Results and dividend

	2002 £000
Profit on ordinary activities before taxation	418
Taxation	355
Profit on ordinary activities after taxation	773
Dividend paid	-
Retained profit for the year	773

Recommended dividend

During the year an interim dividend of £nil (2001 - £nil) was paid. The directors recommend that no final dividend be paid (2001 - £nil), and that the profit of £773,000 be transferred to reserves (2001 - profit of £9,310,000).

Penguin Books Limited

Directors' Report (Continued)

Directors

The current directors of the company and those who held office during the year are as follows:

D Wan	(Chairman – Resigned 1 June 2002)
A Forbes Watson	
C Power	(Resigned 28 February 2003)
S M D Floyer	
J Annan	
S Taylor	
A Welham	
H Fraser	
M Herridge	(Resigned 15 April 2002)
A S Lacey	
T Weldon	
P Bowron	
J Makinson	(Appointed 1 June 2002)
B Landers	(Appointed 20 May 2003)

The present directors will continue in office pursuant to the Articles of Association.

Directors' interests

At 31 December 2002, A Forbes Watson, C Power, S Floyer and J Makinson were also directors of The Penguin Publishing Company Limited, the company's immediate parent undertaking, and are therefore not required to notify this company of their interests in the shares and debentures of group undertakings, on the basis that such interests are disclosed in the accounts of the parent undertaking.

None of the directors had any interests in the shares of the company.

The directors' interests in the shares of the ultimate parent company, Pearson plc, as defined by section 324 of the Companies Act 1985 were as follows:

	Options		Shares	
	1 January 2002 or date of appointment	31 December 2002	1 January 2002 or date of appointment	31 December 2002
J Annan	17,654	17,654	42	942
S Taylor	35,300	34,901	27	2,877
A Welham	51,563	51,563	11,132	15,099
H Fraser	64,747	64,747	15,205	19,382
AS Lacey	36,165	33,877	8,069	12,319
T Weldon	24,794	25,745	619	3,886
P Bowron	19,103	19,923	331	4,090

The number of shares shown represents the maximum number of shares plus, in the case of the incentive plan, accumulated dividend shares, comprised in the original award which may be transferred to the individual concerned.

Penguin Books Limited

Directors' Report (Continued)

Policy on disabled persons

It is the company's policy to give full and fair consideration to applications for employment by disabled persons, having regard to their particular experience, aptitudes and abilities and mindful that the willingness and conscientiousness of many disabled persons goes far to counter-balance their disability. It is also the company's policy, where appropriate, to train, to develop the careers of, and to promote disabled employees.

If employees become disabled while they are in the company's employment, it is the company's policy to continue to employ them where practical, or if necessary and feasible, to rehabilitate them to appropriate alternative employment.

Employee involvement

The company attaches importance to the creation amongst its employees of a sense of involvement in and identification with the objective and success of the business.

For several years the company has aimed to encourage this sense of involvement specifically through the provision to every employee of annual information on the progress and objectives of the company. Regular meetings are held with staff and staff representatives to keep them informed of the company's progress.

All employees, after a specified period of service, are eligible to participate in the Pearson plc Save-As-You-Earn stock option scheme.

Health and safety

Through the medium of a Health & Safety Committee, consisting of senior staff, staff representatives and an independent medical advisor, the company constantly monitors and reviews its operations to ensure the safety of its employees and visiting members of the public and to ensure compliance with statutory requirements.

Elective resolutions

At the 1990 annual general meeting an elective resolution under section 379A of the Companies Act 1985 was passed in respect of dispensing with the following provisions:

- the laying of the annual report and financial statements before the company in general meeting;
- the holding of an annual general meeting; and
- the requirement to reappoint annually the registered auditors of the company in general meeting.

The provisions of this elective resolution will apply for subsequent years until the election is revoked.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 January 2003 and the directors appointed its successor PricewaterhouseCoopers LLP, as auditors.

Penguin Books Limited

Directors' Report (Continued)


Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order Of The Board



B Landers
Director

22 October 2003

80 Strand
London
WC2R 0RL

Independent Auditors' Report to the Members of Penguin Books Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

22 Oct 03 2003

Penguin Books Limited

Profit and loss account for the year ended 31 December 2002

	Notes	2002 £000	Re-presented 2001 £000
Turnover	2	112,120	105,835
Cost of sales		(61,892)	(54,012)
Gross profit		50,228	51,823
Distribution costs		(5,593)	(5,220)
Administrative expenses	3	(45,666)	(55,615)
Other operating income		2,587	3,386
Operating profit/(loss)	4	1,556	(5,626)
Profit on the sale of property	5	-	15,790
Income from shares in group undertakings		30	324
Other interest receivable and similar income		-	942
Interest payable and similar charges	6	(1,168)	(765)
Profit on ordinary activities before taxation		418	10,665
Tax on profit on ordinary activities	8	355	(1,355)
Profit on ordinary activities after taxation		773	9,310
Dividends paid		-	-
Retained profit for the financial year	17	773	9,310

The results shown above all arise from continuing operations.

The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

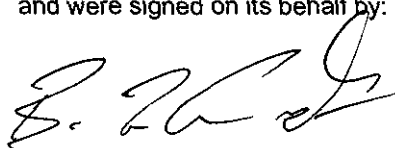
The notes on pages 8 to 19 form part of these financial statements.

Penguin Books Limited

Balance sheet at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Tangible Assets	9	7,424	6,918
Investments	10	29,262	25,031
		36,686	31,949
Current Assets			
Stocks	11	10,439	11,841
Debtors	12	150,280	123,172
Cash at bank and in hand		27,578	4,291
		188,297	139,304
Creditors: amounts falling due within one year	13	(165,836)	(111,738)
Net current assets		22,461	27,566
Total assets less current liabilities		59,147	59,515
Creditors: amounts falling due after one year	13	(330)	(633)
Provisions for liabilities and charges	14	(8,997)	(9,835)
		49,820	49,047
Capital and reserves			
Called up share capital	16	10,300	10,300
Share premium account	17	1,139	1,139
Profit and loss account	17	38,381	37,608
Equity shareholders' funds	18	49,820	49,047

The financial statements on pages 6 to 19 were approved by the board of directors on 22 October 2003 and were signed on its behalf by:



B Landers
Director

The notes on pages 8 to 19 form part of these financial statements.

Penguin Books Limited

Notes to The Financial Statements For the year ended 31 December 2002

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

The company is a wholly owned subsidiary of Pearson plc and the cash flows of the company are included in the consolidated group cash flow statement of Pearson plc. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement. The company is also exempt under the terms of Financial Reporting Standard No. 8 from disclosing the related party transactions (but not balances) with entities that are part of the Pearson plc group or investees of the Pearson plc group (see note 21).

A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention. Group financial statements have not been prepared, as permitted by s228 of the Companies Act 1985, as the company is a wholly owned subsidiary undertaking of another undertaking registered in England and Wales.

b) Turnover

Turnover represents the value of publications supplied net of discounts, returns, and sales taxes where appropriate.

c) Tangible fixed assets

Tangible fixed assets are stated at cost and are depreciated over their estimated economic lives by equal annual instalments.

The rates of depreciation used are:

Freehold buildings	2%
Leasehold property	over the period of the lease
Plant and machinery	10 - 33.3%
Fixtures and fittings	10 - 25%
Motor vehicles	25%

d) Fixed asset investments

Fixed asset investments are stated at cost less any provision for permanent diminution in value.

e) Stocks

Finished goods, work-in-progress and materials have been valued at the lower of cost and net realisable value. Cost comprises direct costs including related production overheads which, in the case of first impressions of books, includes initial publishing expenditure.

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

1 Principal Accounting Policies (Continued)

f) Deferred taxation

The company accounts for deferred taxation in line with the requirements of FRS 19 "Deferred Tax". Full provision is made for deferred taxation on all timing differences that have arisen but not reversed at the balance sheet date, except that deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered. Deferred tax balances are not discounted.

g) Foreign currencies

Transactions are translated at the rate of exchange applicable at the transaction date or, if hedged forward, at the contracted rate. Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Foreign exchange differences are taken to the profit and loss account as they arise.

h) Pension costs

The expected cost of the pension scheme (see note 20) is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the scheme. Variations from regular cost are apportioned over the expected average remaining service lives of current employees in the scheme.

i) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

j) Prior year comparatives re-presented

Certain items from the 2001 financial statements have been reclassified to conform with the current year presentation.

2 Turnover

The turnover is attributable to the one principal activity of the company and represents amounts invoiced to customers excluding value added tax, in respect of goods and services supplied from United Kingdom manufacturing plants. The analysis of turnover by destination is as follows:

	2002 £000	2001 £000
United Kingdom	85,501	79,271
Europe	8,276	8,062
Africa	1,256	1,053
North and South America	7,635	8,835
Asia	2,796	3,062
Australasia	6,656	5,552
	112,120	105,835

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

3 Exceptional items

During the period the following exceptional costs were incurred:

	2002 £000	2001 £000
Administrative expenses		
Closure costs (see note 14)	6,642	-
Redundancy costs	-	3,632
Provisions and charges for vacated property	(713)	9,850
Total exceptional items	5,929	13,482

4 Operating profit/(loss)

	2002 £000	2001 £000
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	2,209	2,248
Auditors' Remuneration:		
Audit services	174	207
Non-audit services	-	21
Hire of plant and machinery – operating leases	462	32
Hire of other assets - operating leases	1,105	5,923
Foreign exchange gain	(36)	(122)
Staff costs (see note 7)	46,629	43,874

As the primary company of the operating Group the Penguin Group (UK), the company incurs administrative, distribution and other operating expenses on behalf of the following Pearson group companies: Dorling Kindersley Ltd; Frederick Warne & Co Ltd; Ladybird Ltd; Funfax Ltd; Rough Guides Ltd. Costs in 2002 of £57,745,000 were recharged back to the associate group companies as a management charge.

Registered auditors' remuneration is in respect of Penguin Books Limited, the immediate parent undertaking, the fellow Pearson plc subsidiary undertakings of the Dorling Kindersley group of companies and certain Penguin group subsidiary undertakings.

5 Sale of property

	2002 £000	2001 £000
Profit on ordinary activities before taxation is after crediting:		
Profit on sale of property	-	15,790

During 2001 the company sold its distribution centre. From 2003 the company will need to pay rent whilst it continues to use the current property. The future lease commitments are outlined in note 19. It is the company's intention to vacate the site and move to a combined distribution centre with associated Pearson group companies during 2004.

6 Interest payable and similar charges

	2002 £000	2001 £000
On loans	1,168	765

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

7

Employees including directors

Costs of employees (including directors) were:

	2002 £000	2001 £000
Wages and salaries	40,475	38,713
Social security costs	3,266	3,012
Other pension costs (see note 20)	2,888	2,149
	46,629	43,874

The average number of persons (including directors) employed by the company during the year was:

	2002	2001
Administrative	1,149	1,055
Distribution	219	158
	1,368	1,213

Staff costs include remuneration to directors of Michael Joseph Limited, Acacia Interactive Limited, DK Adult Limited, DK Publishing Limited, DK Childrens Limited, DK Interactive Learning, DK Vision and Quest Limited who are not remunerated as directors of Penguin Books Limited. Their remuneration is disclosed in the accounts of this company.

Staff costs also include the following remuneration to directors of the company in respect of their services to the company:

	2002 £000	2001 £000
Directors' emoluments (including benefits in kind)	2,118	3,249
Company contributions to pension schemes	207	469
Compensation for loss of office	69	1,083
	2,394	4,801

Retirement benefits are accruing to 9 (2001: 13) directors under a defined benefit scheme and 2 (2001: 2) directors under a money purchase scheme.

The number of directors who exercised options or were granted shares during the year was 9 (2001: 9).

All directors participate in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met.

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

7 Employees including directors (Continued)

The directors remuneration disclosed above (excluding pension contributions) included amounts paid to the highest paid director as follows:

	2002 £000	2001 £000
Directors' emoluments (including benefits in kind)	461	393
Company contributions to a money purchase pension scheme	19	49
	480	442

Defined benefit pension scheme:

Accrued pension at end of year	-	23
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The highest paid director did not exercise any options during the year and participated in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met.

8 Tax on profit on ordinary activities

	2002 £000	2001 £000
The tax credit/(charge) comprises:		
Current tax		
UK corporation tax at 30% (2001:30%)	(1,429)	(2,259)
Adjustments in respect of prior periods	(35)	2,269
Overseas taxation	(64)	(109)
Double taxation relief	77	72
Total current tax	(1,451)	(27)
Deferred tax (see note 15)	1,806	(1,328)
Tax on profit on ordinary activities	355	(1,355)

The reconciliation from the tax credit/(charge) at the standard rate of UK corporation tax is as follows:

	2002 £000	2001 £000
Profit on ordinary activities before taxation	418	10,665
Profit on ordinary activities multiplied by standard rate of 30%	(125)	(3,200)
Accelerated capital allowances and other timing differences	(1,676)	2,060
Expenses not deducted for tax purposes	(317)	(2,808)
Overseas dividends plus foreign tax	(3)	(28)
Pension contribution relief in excess of pension charge	692	168
Prior year tax charge adjustments	(35)	2,269
Double tax relief	77	72
Overseas withholding tax suffered	(64)	(109)
Non taxable income	-	221
Sale of property	-	1,328
Current tax charge for the period	(1,451)	(27)

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

9 Tangible fixed assets

	Short Leasehold property £000	Plant & Machinery £000	Fixtures & fittings £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2002	896	13,777	1,918	260	16,851
Additions	-	2,602	128	-	2,730
Disposals	-	(2,362)	-	-	(2,362)
At 31 December 2002	896	14,017	2,046	260	17,219
Depreciation					
At 1 January 2002	896	7,573	1,204	260	9,933
Charge for the year	-	1,803	406	-	2,209
Disposals	-	(2,347)	-	-	(2,347)
At 31 December 2002	896	7,029	1,610	260	9,795
Net Book Value					
At 31 December 2002	-	6,988	436	-	7,424
At 31 December 2001	-	6,204	714	-	6,918

10 Fixed asset investments

	Total £000
Shares in group undertakings:	
Cost	
At 1 January 2002	30,725
Additions	4,231
At 31 December 2002	34,956
Provisions for diminution in value	
At 1 January 2002 and 31 December 2002	(5,694)
Net Book Values	
At 31 December 2002	29,262
At 31 December 2001	25,031

Penguin Books Limited

Notes to the Financial Statements For the year ended 31 December 2002 (Continued)

10 Fixed asset investments (Continued)

Interests in group undertakings are as follows:

Name	Country of incorporation	Activity	Class of share	Proportion held
Penguin Warehousing and Distribution Ltd	UK	Dormant	Ordinary	100%
Allen Lane The Penguin Press Ltd	UK	Publishing & Distribution	Ordinary	100%
Penguin Overseas Ltd	UK	Dormant	Ordinary	100%
Frederick Warne & Co Ltd; owning	UK	Publishing & Distribution	Ordinary	100%
Frederick Warne (Publishers) Ltd	UK	Dormant	Ordinary	100%
Michael Joseph Ltd; owning	UK	Publishing & Distribution	Ordinary	100%
Pelham Books Ltd	UK	Dormant	Ordinary	100%
Hamish Hamilton Ltd; owning	UK	Publishing & Distribution	Ordinary	100%
Hamish Hamilton Children's Books Ltd	UK	Dormant	Ordinary	100%
Elm Tree Books Ltd	UK	Dormant	Ordinary	100%
The Rainbird Publishing Group Ltd; owning	UK	Dormant	Ordinary	100%
George Rainbird Ltd	UK	Dormant	Ordinary	100%
Godfrey Cave Holdings Ltd; owning	UK	Dormant	Ordinary	100%
Omega Books Ltd	UK	Dormant	Ordinary	100%
Bloomsbury Books Ltd	UK	Dormant	Ordinary	100%
Godfrey Cave Associates Ltd	UK	Dormant	Ordinary	100%
Penguin France SA	France	Publishing & Distribution	Ordinary	100%
Penguin Italia Srl	Italy	Publishing & Distribution	Ordinary	95%
Penguin Books Deutschland GmbH	Germany	Publishing & Distribution	Ordinary	100%
Penguin Books SA (Spain)	Spain	Publishing & Distribution	Ordinary	96%
Penguin Books Hellas Ltd	Greece	Publishing & Distribution	Ordinary	94%
Penguin Books (South Africa) Pty	UK	Publishing & Distribution	Ordinary	100%
The Rough Guides Ltd; owning	UK	Publishing & Distribution	Ordinary	100%
The Rough Guides (US) Limited	UK	Dormant	Ordinary	100%
Ventura Publishing Ltd; owning	UK	Merchandising	Ordinary	100%
Salspot Ltd	UK	Publishing & Distribution	Ordinary	100%
Penguin Books Japan Ltd	Japan	Publishing & Distribution	Ordinary	99.5%
Ladybird Books Ltd; owning	UK	Publishing & Distribution	Ordinary	100%
Ladybird Direct Ltd	UK	Dormant	Ordinary	100%
Dorling Kindersley Verlag GmbH	Germany	Marketing	Ordinary	7.8%
Penguin Books Deutschland GmbH	Germany	Marketing	Ordinary	7.8%
Penguin Books Netherlands BV	Netherlands	Publishing & Distribution	Ordinary	5%

In the opinion of the directors, the value of interests in subsidiary undertakings is not less than the book value included in the balance sheet. All of the subsidiary undertakings, with the exception of Penguin Overseas Limited whose accounts are made up to 31 March, make up their financial statements to 31 December. As Penguin Overseas Limited is not trading the directors do not consider that it needs to make up accounts to 31 December 2002. During 2002 Penguin Books Ltd acquired the remaining 49% of Rough Guides Ltd, for consideration of £4.2 million. It also acquired 7.8% of the issued share capital of Dorling Kindersley Verlag GmbH.

Penguin Books Limited

Notes to the Financial Statements For the year ended 31 December 2002 (Continued)

11 Stocks

	2002 £000	2001 £000
Stocks comprise:		
Raw materials and consumables	408	284
Work in progress	1,486	669
Finished goods and goods for resale	8,545	10,888
	10,439	11,841

12 Debtors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade debtors	28,859	26,812
Amounts owed by group undertakings	97,689	78,440
Other debtors	14,698	13,388
Prepayments and accrued income	4,089	3,070
Pension Prepayment	2,233	556
Deferred tax (see note 15)	2,712	906
	150,280	123,172

13 Creditors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade creditors	24,770	32,272
Amounts owed to group undertakings	122,506	61,902
Corporation tax	2,555	1,416
Other Creditors	4,836	4,751
Accruals and deferred income	11,169	11,397
	165,836	111,738

	2002 £000	2001 £000
Amounts falling due after one year:		
Amounts owed to group undertakings	330	633

Amounts owed to group undertakings falling due after one year represent equity loans, which were provided by a Pearson Group Company. The loan is unsecured, interest free and open ended.

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

14 Provisions for liabilities and charges

	Closure Provision £000	Property provision £000	Other provisions £000	Total £000
As at 1 January 2002	-	9,835	-	9,835
Charged/(released) in the year	6,642	(713)	1,023	6,952
Utilised during the year	-	(7,790)	-	(7,790)
As at 31 December 2002	6,642	1,332	1,023	8,997

Property provision

The Company has operating lease commitments on properties that it no longer occupies. The provision represents the Company's future obligations under the lease agreements less sub lease rentals received or anticipated to be received on the properties. The future amounts to be utilised are dependent upon the net rent charges paid each year until expiration of the lease.

Included in the property provision the Company has obligations under three property lease agreements to perform necessary repairs and maintenance in order to bring the properties to the condition as required under the agreements. The costs will be incurred before the expiration of the lease agreements. The expected future payments are based on estimates provided by external property consultants.

Closure provision

This provision relates to the cost of closing the company's distribution facility in Harmondsworth, a consequence of the company's plan to move to a shared distribution centre during 2003 and 2004 with other Pearson undertakings.

15 Deferred taxation

The deferred taxation provided and the total potential liability were as follows:

	Amount provided		Total potential liability	
	2002 £000	2001 £000	2002 £000	2001 £000
Accelerated capital allowances	1,326	717	1,326	717
Items which will qualify for relief in future years	1,386	189	1,386	189
Net deferred tax asset	2,712	906	2,712	906

The movement in the asset during the year was as follows:

	£000
At 1 January 2002	906
Credited to the profit and loss account	1,806
At 31 December 2002	2,712

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

16 Called up share capital

	2002 £000	2001 £000
Authorised, allotted, called up and fully paid 10,300,000 ordinary shares of £1 each	10,300	10,300

17 Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At 1 January 2002	1,139	37,608	38,747
Profit for the year	-	773	773
At 31 December 2002	1,139	38,381	39,520

18 Reconciliation of movements in equity shareholders' funds

	2002 £000	2001 £000
Profit on ordinary activities after taxation	773	9,310
Dividends	-	-
Net increase in equity shareholders' funds	773	9,310
Opening equity shareholders' funds	49,047	39,737
Closing equity shareholders' funds	49,820	49,047

Penguin Books Limited

Notes to the Financial Statements For the year ended 31 December 2002 (Continued)

19 Future capital commitments

	2002 £000	2001 £000
Future capital commitments		
Contracts placed for future capital expenditure not provided in the financial statements	13	189

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as set out below:

	Land and Buildings		Other Operating Leases	
	2002 £000	2001 £000	2002 £000	2001 £000
Operating leases which expire:				
Within one year	769	314	49	191
Between 2 and 5 years inclusive	1,752	864	253	248
In more than 5 years	150	2,751	-	-
	2,671	3,929	302	439

20 Pension costs

The company is a member of The Pearson Group Pension Plan, which is a combination of both funded defined benefit and defined contribution schemes. Details of the Plan, including particulars of the most recent full valuation as at 1 January 2001 for the purposes of the Group's accounts, can be found in the Report and Accounts of Pearson plc for the year ended 31 December 2002. The pension costs relating to this Plan are assessed in accordance with the advice of an independent qualified actuary.

The valuation surplus of the group plan calculated by the actuary as at 1 January 2001 is being apportioned over the expected service lives of the group's employees who are members of the scheme. However, the UK Group scheme actuaries have estimated that the surplus arising at 1 January 2001 had been substantially eliminated by 1 January 2002, primarily due to adverse market movements in 2001. The Group has therefore not recognised any amortisation of the surplus for the year ended 31 December 2002. The next full triennial valuation is due to take place in January 2004.

The company's pension cost is an allocation of the group cost. For 2002 this cost is £2,875,000 (2001: £870,000).

Details of the pension prepayment are given in note 12.

Pearson plc has followed the transitional arrangements allowed by FRS 17. As at 31 December 2002 there was a deficit of £213 million in the Pearson Group Pension Plan. Further information about the assets and liabilities of the group plan and the major assumptions used by the actuary can be found in the financial statements of Pearson plc for the year ended 31 December 2002. Although the Pearson Group Pension Plan is a combination of defined benefit and contribution schemes the company will account for the Plan as if it were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities of the Plan.

Penguin Books Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (Continued)

21 Related party transactions

The Company is a wholly owned subsidiary within Pearson plc and utilises the exemption contained in Financial Reporting Statement No 8 "Related Party Disclosures" not to disclose any transactions with entities that are part of the Pearson plc group. The address at which the Pearson plc consolidated financial statements are publicly available is Company Secretary, Pearson plc, 80 Strand, London, WC2R 0RL.

22 Contingent liabilities

Bank Guarantees

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 34 of its subsidiaries, "the guarantors", are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. The net balance under this arrangement at 31 December 2002 was a cash balance of £9,194,609.

The maximum amount of this guarantee is limited to a net overdraft of £42,300,000. At 31 December 2002 this was the company's potential liability.

As at 31 December 2002 the potential liability arising from these guarantee arrangements amounted to £42,300,000 for the parent undertaking and fellow subsidiary undertakings and £Nil for the subsidiary undertakings of the company.