Penguin Books Limited
(Registered Number: 00861590)

Annual Report and Financial Statements
For the year ended 31 December 2009

Penguin Books Limited

Contents

Penguin Books Limited

Directors' report

The directors present their report and the financial statements of the company for the year ended 31 December 2009

Principal activities

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

Business review

Penguin Books Limited turnover increased by £2 2m in 2009 compared to 2008 This was driven by performance of Penguin Classics and Puffin, both of which had record years The gross profit percentage dropped to 40%, mainly due to the larger proportion of sales made through non-trade channels, especially Puffin

Administrative expenses increased by £20 6m year on year, with the key item being an adverse transactional foreign currency swing of £15m In addition, the Penguin restructure and exceptional pension charge increase created swings of £3m each The £19 5m dividend received in 2008 was not repeated in 2009

As a result of the above the loss before tax for the year was £10 7m compared to the previous year's profit of £34 7m

Penguin monitors progress and performance during the year and historical trend data is set out in the following key performance indicators,

	2009	2008
Sales growth	+2% YOY	+3% YOY
Gross profit %	40%	43%
New titles	593	608
Titles in Bookscan full year Top 50 sellers	5	4

Penguin Books Limited continued to attract and retain key talent, with no major authors leaving during the course of the year As the business moves forward it faces the continuing challenge of attracting key authors to ensure sustained growth

Going forward we expect our turnover to perform consistent with the market, which has shown significant volatility, outside of the largest brands Predicting market trends is difficult in the current economic climate However sustained focus on acquisition decisions, costs, and inventory management should continue to provide positive benefits Apart from generally difficult market conditions no key operating risks have been identified by the directors

In 2009 Penguin Books Limited further consolidated the work done since 2006 by cutting its carbon footprint for the third successive year, and achieved ISO14001 certification All of Penguin's direct paper purchases are now FSC certified, or 100% recycled post consumer waste We have clauses in all our supplier contracts stipulating that all paper must have FSC accreditation

ISO14001 is an Environmental Management Standard As well as better management of environmental risks, now and in the future, adoption of the standard will lead to cost savings in terms of consumption, waste and recycling For more information on Penguin Books Limited's environmental policies go to www penguin co uk/greenpenguin

Visitor numbers to Penguin UK sites in 2009 were up 6% on 2008 and page views grew to over 11 million At a time when internet consumption was changing and social media coming to the fore Penguin went where the conversations happen and saw huge increases in activity on Facebook 19,000 friends YTD, Twitter 71,000 followers YTD and a 35% rise in Penguin newsletter subscribers in 2009 over 2008

Penguin Books Limited remains committed to the highest employment standards Our people initiatives and policies continue to evolve to ensure that we attract and retain the best talent to Penguin and that our people continue to enjoy a happy, fulfilling and challenging career with us Our people make the difference and we seek to support, challenge and enable them through our innovative policies and programmes

Results and dividend

No interim dividend was paid in 2009 (2008 £24,000,000) The directors recommend that no final dividend be paid (2008 £nil), and the loss of £8,350,000 (2008 profit of £37,256,000) be deducted from (2008 transferred to) reserves

Directors

The directors of the company and those who held office during the year and up to the date of signing of the financial statements are as follows

Helen Fraser	Resigned 31/12/2009
John Makinson	
Brian Landers	Resigned 31/07/2009
Michael Symons	
Peter Field	
Suzanne Brennan	Appointed 06/07/2009
Thomas Weldon	Appointed 01/01/2010

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

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 option scheme

Directors' report (continued)

Health and safety

Through the medium of a Health and 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

Policy and practice on payment of creditors

Trade creditors at the year-end represented 51 days (2008 51 days) of purchases It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms

Statement of directors' responsibilities

The directors are responsible for preparing the 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 UK 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 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

Independent auditors

Elective resolutions to dispense with holding the Annual General Meeting, the laying of financial statements before the company in general meetings and the appointment of auditors are currently in force The auditors, PricewaterhouseCoopers LLP, will therefore be deemed to be re-appointed for the next financial year

Penguin Books Limited

Directors' report (continued)

Disclosure of information to auditors

Each of the persons who are directors at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 (1) to (4) of the Companies Act 2006

Approved by the Board of Directors and signed on behalf of the Board

SMBrennan 16/6/10

Suzanne Brennan
Director
80 Strand
London
WC2R 0RL

Independent Auditors' Report to the Members of Penguin Books Limited

We have audited the financial statements of Penguin Books Limited for the year ended 31 December 2009 which comprise of the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement on page 3 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Robin Holgate

Robin Holgate (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

18 June 2010

Penguin Books Limited

Profit and loss account for the year ended 31 December 2009

	Notes	2009	2008
		£000	£000
Turnover	2	**138,037**	135,866
Cost of sales		**(83,132)**	(78,120)
Gross profit		**54,905**	57,746
Distribution costs		**(7,113)**	(7,296)
Administrative expenses		**(60,704)**	(40,064)
Other operating income		**2,182**	2,378
Operating profit/(loss)	3	**(10,730)**	12,764
Interest receivable and similar income		**82**	2,434
Income from fixed asset investments		**-**	19,500
Interest payable and similar charges	4	**(48)**	(35)
Profit/(loss) on ordinary activities before taxation		**(10,696)**	34,663
Tax credit on profit/(loss) on ordinary activities	6	**2,346**	2,593
Profit/(loss) for the financial year	15	**(8,350)**	37,256

The results shown above all arise from continuing operations

There is no difference between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the financial year stated above, and their historical cost equivalents

The notes on pages 8 to 20 form part of these financial statements

Statement of total recognised gains and losses for the year ended 31 December 2009

	Notes	2009	2008
		£000	£000
Profit/(loss) for the financial year		**(8,350)**	37,256
Deferred tax on share-based payments directly recognised in equity	13	**109**	(36)
Total recognised gains/(losses) since the last annual report		**(8,241)**	37,220

Penguin Books Limited

Balance sheet as at 31 December 2009

	Notes	2009	2008
		£000	£000
Fixed assets			
Tangible Assets	7	**13,293**	13,675
Investments	9	**31,051**	32,029
		44,344	45,704
Current assets			
Stocks	10	**8,110**	8,344
Debtors	11	**151,040**	195,208
Cash at bank and in hand		**33,306**	26,369
Creditors amounts falling due within one year	12	**(119,705)**	(151,285)
Net current assets		**72,751**	78,636
Total assets less current liabilities		**117,095**	124,340
Net assets		**117,095**	124,340
Capital and reserves			
Called up share capital	14	**88,300**	88,300
Share premium account	15	**1,139**	1,139
Other reserves	15	**1,303**	967
Profit and loss account	15	**26,353**	33,934
Total shareholders' funds	15	**117,095**	124,340

The notes on pages 8 to 20 form part of these financial statements

The financial statements on pages 6 to 20 were approved by the board of directors on 18th June 2010 and were signed on its behalf by

S Brennan

Suzanne Brennan
Director

Company Number 00861590

1. Principal accounting policies

The financial statements have been prepared on the going concern basis, under the historical costs convention, in accordance with applicable Accounting Standards in the United Kingdom and the Companies Act 2006

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 1 (revised 1996) "Cash flow statements" from publishing a cash flow statement The company is also exempt under the terms of Financial Reporting Standard 8 "Related party disclosures" 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 (note 21)

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period Actual results could differ from those estimates Estimates are used principally when accounting for depreciation, investment impairment, provisions for doubtful debts, provisions for liabilities and charges, provisions for returns, employee pension schemes, taxes and author advances

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 on the going concern basis under the historical cost convention Group financial statements have not been prepared, as permitted by section 400 of the Companies Act 2006, as the company is a wholly owned subsidiary undertaking of another undertaking registered in England and Wales

b) Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax and other sales taxes, rebates, trade marketing costs and discounts

Turnover from the sales of books is recognised when title passes 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 revenues could be understated or overstated for a particular period

On certain contracts, where the company acts as agent, only commissions and fees receivable for services rendered are recognised as revenue Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in revenue Income from recharges of freight and other activities which are incidental to the normal revenue generating activities is included in other income

c) Fixed assets

Costs include the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use The cost of tangible fixed assets is depreciated over estimated economic lives in equal annual amounts The rates generally in use 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%

Notes to the financial statements for the year ended 31 December 2009 (continued)

d) **Fixed asset investments**

Fixed asset investments are stated at cost less any provision for impairment Investments are tested for impairment when an event that might affect asset values has occurred An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future cash flows from the investment

e) **Stocks and work-in-progress**

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 Provision is made for obsolete, slow moving and defective stocks

f) **Deferred taxation**

Provision is made in full for deferred tax that arises from timing differences that have originated but not reversed by the balance sheet date on transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be taxable profits from which the underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax assets and liabilities are not discounted No deferred tax is provided in respect of any future remittance of earnings of foreign subsidiaries or associates where no commitment has been made to remit such earnings

g) **Foreign currencies**

Transactions are translated at the rate of exchange applicable at the transaction date or, if hedged forward, at the contracted rate Monetary 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 company is a member of the Pearson Group Pension Plan which has both defined benefit and defined contribution sections The Plan is operated for the benefit of the majority of its employees, the assets of which are held separately from those of the company in independently administered funds As the company is unable to identify its share of the assets and liabilities of the group scheme, it accounts for contributions as if they were to a defined contribution pension scheme Contributions are charged to the profit and loss account in the year to which they relate

i) **Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

j) **Share-based payments**

Options and shares are awarded to the company's employees under Pearson share and option plans The fair value of options granted is recognised as an employee expense after taking into account the company's best estimate of the number of awards expected to vest Fair value is measured at the date of the grant and is spread over the vesting period of the option or share. The fair value of the options granted is measured using an option model that is most appropriate to the award. The fair value of shares awarded is measured using the share price at the date of the grant unless another method is more appropriate

k) **Trade debtors**

Trade debtors are initially recognised at fair value, which is usually the original invoiced amount and subsequently carried at amortised cost using the effective interest method less provisions made for doubtful receivables 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

l) **Author advances**

Advances of royalties to authors are included within trade and other receivables when the advance is paid less any provision required to adjust the advance to its net realisable value The realisable value of royalty advances relies on a degree of management judgement in determining the profitability of individual author contracts If the estimated realisable value of author contracts is overstated then this will have an adverse effect on operating profits as these excess amounts will be written off

The recoverability of royalty advances is based upon an annual detailed management review of the age of the advance, the future sales projections for mew authors and prior sales history of repeat authors The royalty advance is expensed at the contracted or effective royalty rate as the related revenues are earned Royalty advances which will be consumed within one year are held in current assets Royalty advances which will be consumed after one year are held in non current assets

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 The analysis of turnover by destination is as follows

	2009 £000	2008 £000
United Kingdom	**90,432**	95,400
Europe	**12,561**	10,658
Africa	**2,260**	1,930
North and South America	**9,169**	8,257
Asia	**6,799**	5,132
Australasia	**16,816**	14,489
	138,037	135,866

3 Operating profit/(loss)

	2009 £000	2008 £000
Operating profit/(loss) is stated after charging/crediting		
Depreciation of tangible fixed assets	**3,435**	2,483
Profit on disposal of investments	**-**	(431)
Auditors' Remuneration		
Audit services	**195**	195
Hire of plant and machinery – operating leases	**210**	257
Hire of other assets - operating leases	**12**	47
Foreign exchange loss/(gain)	**4,790**	(10,635)
Staff costs (note 5)	**55,640**	46,194

As the primary operating company in the Penguin Group (UK), the company incurs administrative, distribution and other operating expenses on behalf of the following Pearson Group companies Dorling Kindersley Limited, Frederick Warne & Co Limited, Ladybird Limited, Funfax Limited, and Rough Guides Limited (The) Costs incurred in 2009 of £65,261,000 were recharged back to the associate group companies as a management charge (2008 £69,658,000)

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

4 Interest payable and similar charges

	2009 £000	2008 £000
Interest payable on other loans	**48**	35

5 Employee costs and directors' remuneration

Costs of employees (including directors) were	2009 £000	2008 £000
Wages and salaries	**35,060**	34,686
Social security costs	**2,921**	3,163
Other pension costs (note 18)	**11,322**	7,837
Severance costs	**5,341**	-
Share-based payments (note 19)	**996**	508
	55,640	46,194

The average number of persons (including directors) employed during the year was as follows

By activity	2009 Number	2008 Number
Editorial	**408**	426
Production	**96**	105
Selling	**114**	82
Administrative	**235**	277
	853	890

Staff costs include remuneration to directors of Michael Joseph Limited, Acacia Interactive Limited, Dorling Kindersley Limited and DK Vision 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

	2009 £000	2008 £000
Directors' emoluments (including benefits in kind)	**2,025**	1,149
Company contributions to defined contribution pension schemes	-	121
	2,025	1,270

Retirement benefits are accruing to 5 (2008 5) directors under a defined benefit scheme and 0 (2008 1) director under a money purchase scheme The number of directors who exercised options or were granted shares during the year was 7 (2008 5) All directors participate in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met Within the emoluments stated above is £903,000 compensation for loss of office

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

5 Employee costs and directors' remuneration (continued)

	2009 £000	2008 £000
Directors' emoluments (including benefits in kind)	**1,175**	451
Defined benefit pension scheme accrued pension at end of year	**25**	22

The highest paid director participated in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met Emoluments of the highest paid director included £567,000 compensation for loss of office

6 Tax on profit/(loss) on ordinary activities

The tax credit comprises	2009 £000	2008 £000
Current tax		
UK corporation tax on profit/(losses) for the year	**(3,984)**	(1,563)
Overseas taxation	**230**	71
Adjustment in respects of prior years	**(140)**	(774)
Total current tax credit	**(3,894)**	(2,266)
Deferred tax credit (note 13)	**1,548**	(327)
Tax (credit) on ordinary activities	**(2,346)**	(2,593)

The tax assessed for the year is higher (2008 lower) than the standard rate of corporation tax in the UK The differences are explained below

	2009 £000	2008 £000
Profit/(Loss) on ordinary activities before taxation	**(10,696)**	34,663
Profit/(Loss) on ordinary activities multiplied by standard rate of 28% (2008 28 5%)	**(2,995)**	9,879
Accelerated capital allowances and other timing differences	**(202)**	916
Expenses not deducted for tax purposes	**583**	212
Overseas withholding tax expensed	**(64)**	(20)
Overseas withholding tax suffered	**230**	71
Pension contribution spreading	**(1,304)**	(1,327)
Tax free income	**-**	(5,558)
Notional interest for UK transfer pricing purposes	**(45)**	(2,394)
Share scheme deduction	**43**	(359)
Share based payments	**-**	145
Adjustment in respect of prior years	**(140)**	(258)
Brought forward trading losses utilised	**-**	(3,057)
Current tax credit for the year	**(3,894)**	(2,266)

Notes to the financial statements for the year ended 31 December 2009 (continued)

7 Tangible fixed assets

	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost			
At 1 January 2009	28,916	6,833	35,749
Additions	2,653	401	3,054
Disposals	(521)	-	(521)
At 31 December 2009	**31,048**	**7,234**	**38,282**
Accumulated depreciation			
At 1 January 2009	21,103	971	22,074
Charge for the year	2,801	634	3,435
Disposals	(520)	-	(520)
At 31 December 2009	**23,384**	**1,605**	**24,989**
Net book value			
At 31 December 2009	**7,664**	**5,629**	**13,293**
At 31 December 2008	7,813	5,862	13,675

8 Dividends

	2009 £000	2008 £000
Equity – Ordinary		
Interim paid nil (2008 27 18p per £1 00 share)	-	24,000

9 Investments

Shares in group undertakings	Total £000
Cost and Net Book Value	
At 1 January 2009	**32,029**
Impairment of investment in The Book Studio Ltd following sale of assets by that business	**(978)**
At 31 December 2009	**31,051**

9 Investments (Continued)

Interests in group undertakings are as follows

Name	Country of incorporation	Principal activities	Class of share	Proportion held
Allen Lane The Penguin Press Limited	UK	Dormant	Ordinary	100%
Frederick Warne & Co Limited, owning	UK	Publishing & Distribution	Ordinary	100%
Frederick Warne (Publishers) Limited	UK	Dormant	Ordinary	100%
Michael Joseph Limited, owning	UK	Dormant	Ordinary	100%
Pelham Books Limited	UK	Dormant	Ordinary	100%
Hamish Hamilton Limited, owning	UK	Dormant	Ordinary	100%
Hamish Hamilton Children's Books Limited and also owning	UK	Dormant	Ordinary	100%
Elm Tree Books Limited	UK	Dormant	Ordinary	100%
The Rainbird Publishing Group Limited, owning	UK	Dormant	Ordinary	100%
George Rainbird Limited	UK	Dormant	Ordinary	100%
Godfrey Cave Holdings Limited, owning	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 Limited	Greece	Publishing & Distribution	Ordinary	94%
The Rough Guides Limited (The), owning	UK	Publishing & Distribution	Ordinary	100%
Ventura Publishing Ltd, owning	UK	Merchandising	Ordinary	100%
Salspot Limited	UK	Publishing & Distribution	Ordinary	100%
Penguin Books Japan Limited	Japan	Publishing & Distribution	Ordinary	99 5%
Ladybird Books Limited	UK	Publishing & Distribution	Ordinary	100%
Penguin Books Deutschland GmbH	Germany	Marketing	Ordinary	100%
Penguin Books Netherlands BV	Netherlands	Publishing & Distribution	Ordinary	5%
Children's Character Books Limited	UK	Publishing & Distribution	Ordinary	75%

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 make up their financial statements to 31 December

10 Stocks

	2009	2008
	£000	£000
Stocks comprise		
Raw materials and consumables	**561**	192
Work in progress	**1,468**	2,066
Finished goods and goods for resale	**6,081**	6,086
	8,110	8,344

Notes to the financial statements for the year ended 31 December 2009 (continued)

11 Debtors

	2009 £000	2008 £000
Trade debtors	**18,855**	28,985
Amounts owed by group undertakings	**87,147**	122,948
Other debtors	**30,086**	29,399
Prepayments and accrued income	**1,701**	2,669
Corporation Tax	**9,188**	5,705
Deferred tax (note 13)	**3,641**	5,335
Deferred tax on share based payments (note 13)	**422**	167
	151,040	195,208

Balances owed by group undertakings are unsecured, interest free and payable on demand

12 Creditors

	2009 £000	2008 £000
Amounts falling due within one year		
Trade creditors	**24,090**	31,177
Amounts owed to group undertakings	**61,520**	96,902
Other creditors	**6,177**	5,512
Accruals and deferred income	**27,918**	17,694
	119,705	151,285

Balances owed to group undertakings are unsecured, interest free and payable on demand

13 Deferred taxation

The deferred taxation provided is as follows	**Amount provided**		**Total potential asset**	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Accelerated capital allowances	**2,337**	2,727	**2,337**	2,727
Pensions spreading	**1,304**	2,608	**1,304**	2,608
Share based payments	**422**	167	**422**	167
Net deferred tax asset	**4,063**	5,502	**4,063**	5,502

The movement in the asset during the year was as follows	2009 £000	2008 £000
At 1 January	**5,502**	5,211
(Debited)/credited to the profit and loss account – origination and reversal of timing differences	**(1,548)**	333
Adjustment in respect of the rate change	**-**	(6)
Deferred tax debit/(credit) in statement of total recognised gains and losses	**109**	(36)
At 31 December	**4,063**	5,502

13 Deferred taxation (continued)

There are trading tax losses of £6,364,065 (2008 £6,954,717) for which no deferred tax asset is recognised in the financial statements These trading losses will be utilised against any profits chargeable to corporation tax of Penguin Books Limited in 2010 and future years, but due to the uncertainties of the current economic outlook, the level of trading loss utilisation for 2010 cannot be accurately calculated at this point, so a deferred tax asset has not been recognised

14 Called up share capital

	2009 £000	2008 £000
Authorised, allotted and fully paid		
88,300,000 (2008 88,300,000) ordinary shares of £1 each	88,300	88,300

15 Reserves

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Other reserves £000
At 1 January 2009	88,300	1,139	33,934	967
Profit/(loss) for the financial year	-	-	(8,350)	-
Deferred tax on share-based payments directly recognised in equity	-	-	109	-
Share based payments	-	-	-	996
Shares vested in year	-	-	660	(660)
At 31 December 2009	**88,300**	**1,139**	**26,353**	**1,303**

16 Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
Profit/(loss) for the financial year	**(8,350)**	37,256
Share based payments	**996**	508
Other recognised gains and losses	**109**	(36)
Dividends paid	-	(24,000)
Net proceeds of issue of ordinary share capital	-	78,000
	(7,245)	91,728
Opening shareholders' funds	**124,340**	32,612
Closing shareholders' funds	**117,095**	124,340

17 Lease commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below

	Other 2009 £000	Other 2008 £000
Operating leases which expire:		
Within one year	12	130
Between 2 and 5 years inclusive	130	145
	142	275

18 Pension costs

The company participates in the Pearson Group Pension Scheme, which is a hybrid with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities The company is unable to identify its share of the underlying assets and liabilities of the Pearson Group Pension Scheme owing to information regarding non-active members, and changes to the group structure including acquisitions and disposals Accordingly, the Company accounts for its participation in the scheme as defined contribution under the multi-employer rules of FRS 17 The sponsoring entity to this scheme is Pearson Services Limited

The profit and loss charge for the company in respect of its participation in the scheme, representing regular contributions paid was £4,323,000 (2008 £4,294,000)

The total market value of assets in the Pearson Group Pension Scheme was £1,609 million as at 31 December 2009 (2008 £1,478 million) and the value of liabilities calculated in accordance with FRS 17 was £1,787 million as at 31 December 2009 (2008 £1,420 million) Hence the total FRS 17 deficit for Pearson Group Pension Scheme was £178 million (2008 £58 million surplus) This was determined by an actuarial valuation using the projected unit method

The company will be required to make incremental contributions to the scheme as part of the Group's obligations to fund the scheme and any deficit arising and contributions will increase by £3,047,000 for 2010 (2009 £152,000)

19 Share based payments

The company's employees are entitled to shares and options under the following equity-settled employee option and share plans

Save-for-Shares-Plans Under these plans, employees can save a portion of their monthly salary over periods of three, five or seven years At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equivalent to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan Options that are not exercised within six months of the third, fifth or seventh anniversary after grant lapse unconditionally

Long-Term Incentive Plan This plan was introduced in 2001 and renewed in 2006 and consists of two parts share options and/or restricted shares

19 Share based payments (continued)

Options were granted under this plan in 2001 based on a pre-grant earnings per share growth test and are not subject to further performance conditions on exercise The options became exercisable in tranches and lapse if they remain unexercised at the tenth anniversary of the date of grant

The vesting of restricted shares is normally dependent on continuing service and/or upon the satisfaction of corporate performance targets over a three-year or five-year period These targets may be based on market and/or non-market performance criteria Restricted shares awarded to senior management in 2007 and 2008 vest dependent on relative shareholder return, return on invested capital and a combination of earnings per share growth The award was split equally across all three measures Other restricted shares awarded in 2007 and 2008 vest depending on continuing service over a three-year period

Annual bonus share matching This plan permits executive directors and senior executives to invest up to 50% of any after tax annual bonus in Pearson shares If these shares are held and the Pearson Group meets an earnings per share growth target, the company will match them on a gross basis of up to one share for every one held

In addition to the above, share options remain outstanding under Executive Share Option, Reward and Special Share Option Plans These are legacy plans which were replaced with the introduction of the Long-Term Incentive Plan in 2001

The movement and weighted average exercise prices of share options granted under the Group's schemes are as follows

	2009	2009	2008	2008
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
	000s	£	000s	£
Outstanding at beginning of year	573	10 60	418	14 08
Granted during the year	76	5 47	189	5 87
Exercised during the year	(84)	6 67	(57)	4 59
Forfeited during the year	(73)	13 05	(134)	11 14
Expired during the year	(18)	5 53	(5)	6 63
Transfers	25	13 37	161	5 31
Outstanding at end of year	**499**	**10.44**	**573**	**10.60**
Options exercisable at the end of year	**258**	**14.9**	**332**	**14.04**

Options were exercised regularly during the year The weighted average share price during the year was £7 15 (2008 £6 44) Early exercises are treated as an acceleration of vesting and the Company therefore recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the original vesting period in the profit and loss account

The options outstanding at the end of the year have a weighted average remaining contractual lives and exercise prices as follows

19 Share based payments (continued)

	2009	2009	2008	2008
Range of exercise prices	Number of share options	Weighted average contractual life	Number of share options	Weighted average contractual life
£	000s	Years	000s	Years
0-5	9	1 19	38	0 80
5-10	307	2 38	307	2 81
10-15	122	1 36	151	1 83
15-20	-	-	9	0 44
20-25	-	-	-	-
>25	61	0 19	68	1 19
	499	**1.84**	**573**	**2.19**

In 2009 and 2008 options were granted under the Worldwide Save for Shares Plan The weighted average estimated fair value for the options granted was calculated using a Black-Scholes option pricing model

The weighted average estimated fair values and the inputs to the Black-Scholes model are as follows

	2009	2008
	Weighted average	Weighted average
Fair value (£)	1 68	1 96
Weighted average share price (£)	7 13	7 62
Weighted average exercise price (£)	5 47	5 87
Expected volatility	27 27%	20 84%
Expected life (years)	3 9	4 0
Risk free rate	2 42%	4 63%
Forfeiture rate	3 4%	3 5%
Expected dividend yield	4 74%	4 12%

The expected volatility is based on the historic volatility of the Pearson Group's share price over the previous 3 to 7 years depending on the vesting term of the options

During the year, the following shares were granted under restricted share arrangements

	2009	2009	2008	2008
	Number of shares	Weighted average fair value	Number of shares	Weighted average fair value
	000s	£	000s	£
Annual bonus share matching plan	4	6 70	3	6 73
Long-term incentive plan	152	6 23	94	6 23

Restricted shares granted under the Annual Bonus Share Matching Plan are valued using the share price at the date of grant

20 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 2009 was a debit balance of £4,238,177 (2008 a credit balance of £306,079)

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000 At 31 December 2009 this was the company's potential liability

As at 31 December 2009 and 31 December 2008 the potential liability arising from these guarantee arrangements amounted to £50,000,000 for the parent undertaking and fellow subsidiary undertakings and £nil for the subsidiary undertakings of the company

21 Ultimate parent undertaking

The immediate parent undertaking is The Penguin Publishing Company Limited

The ultimate parent undertaking is Pearson plc, a company that is registered in England and Wales Copies of the consolidated financial statements of Pearson plc may be obtained from The Company Secretary, Pearson plc, 80 Strand, London WC2R 0RL