Penguin Books Limited

Registered Number	00861590

Annual Report and Financial Statements	
For the Year Ended	31 December 2010

Penguin Books Limited

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2010

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 £28 7m in 2010 compared to 2009. This was driven mainly by the performance of the Michael Joseph and Puffin divisions, and in particular the record breaking sales of Jamie Oliver's "30 Minute Meals" The gross profit percentage rose slightly to 43%, (and by £16 3m) due to the larger proportion of sales made through trade & export channels Digital sales accounted for 1 5% of our turnover, we expect this to rise over the next few years but to largely be substituting for physical sales Distribution costs were in line with 2009, reflecting a real saving when expressed as a proportion of turnover Administrative expenses and Other Income were in line with 2009 As a result of the above the profit before tax and interest for the year was £5 9m compared to the previous year's loss of £10 7m

Key performance indicators

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

- Sales growth has increased 21% yoy (2009 increase 2% yoy),
- Gross Profit for the year is 43% (2009 40%),
- New titles in 2010 were 537 (2009 557), and
- Titles in Bookscan full year Top 50 seller were 6 (2009 5 titles)

Future Outlook & Development

Going forward we expect a shift in sales from physical books to ebooks, but overall for our turnover to perform consistent with the market, which has shown significant volatility 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 Penguin Books Limited continued to attract and retain key talent, with the significant additions, amongst others, of Le Carre and Stephen Fry No major authors left during the course of the year As the business moves forward it faces the continuing challenge of attracting key authors to ensure sustained growth

Principal risks and uncertainties and financial risk management

From the perspective of the company, the principal risks and uncertainties and financial risk management are integrated with the principal risks of the consolidated financial statements of Pearson plc (the "group") and are not managed separately Accordingly, the principal risks and uncertainties and financial risk management of Pearson plc, which include those of the company, are discussed in the group's annual report which does not form part of this report

Results and dividends

No interim dividend was paid in 2009 (2009 £Nil) The directors recommend that no final dividend be paid (2009 £nil), and the profit of £2,108,000 (2009 loss of £8,350,000) be added to the reserves

Directors

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

Suzanne Brennan
John Makinson
Michael Symons
Peter Field
Thomas Weldon appointed 1 January 2010

Employees

Disabled Persons - The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status The group 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 group If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary

Employee involvement - The group 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 group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining its prosperity The group encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the company's progress

Policy and practice on payment of creditors

Trade creditors at the year-end represented 58 days (2009 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 prepared 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 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 show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

In the case of each of the persons who are directors at the time when the report is approved, the following applies

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware, and
- he / she 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 auditor is aware of that information

On behalf of the board if signed by a director

S Brennan

Suzanne Brennan
Director

26 May 2011

Company registered number
00861590

Penguin Books Limited

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 2010 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet 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 statement of directors' responsibilities the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) 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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and,
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters 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
27 May 2011

Penguin Books Limited

PROFIT AND LOSS ACCOUNT
For the year ended .
31 December 2010

		2010	2009
Continuing operations	**Note**	**£'000**	£'000
Turnover	3	**166,784**	138,037
Cost of sales		**(95,562)**	(83,132)
Gross profit / (loss)		**71,222**	54,905
Distribution costs		**(7,070)**	(7,113)
Administrative expenses		**(61,348)**	(60,704)
Other operating income		**1,897**	2,182
Operating profit / (loss)	4	**4,701**	(10,730)
Income from fixed asset investments		**1,231**	0
Profit / (loss) on ordinary activities before interest and taxation		**5,932**	(10,730)
Interest receivable and similar income	8	**176**	82
Interest payable and similar charges	8	**(147)**	(48)
Profit / (loss) on ordinary activities before taxation		**5,961**	(10,696)
Tax on profit / (loss) on ordinary activities	9	**(3,853)**	2,346
Profit / (loss) for the financial year	17	**2,108**	(8,350)

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

Penguin Books Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended :
31 December 2010

	Note	2010 £'000	2009 £'000
Profit / (loss) for the financial year		**2,108**	(8,350)
Deferred tax on share-based payments directly recognised in equity	17	0	109
Total recognised gains and losses relating to the year	17	**2,108**	(8,241)

Penguin Books Limited

BALANCE SHEET
As at :
31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	10	**10,877**	13,293
Investments	11	**29,926**	31,051
		40,803	44,344
Current assets			
Stocks	12	**6,691**	8,110
Debtors	13	**157,303**	151,040
Cash at bank and in hand		**44,155**	33,306
		208,149	192,456
Creditors - amounts falling due within one year	14	**(129,123)**	(119,705)
Net current assets		**79,026**	72,751
Total assets less current liabilities		**119,829**	117,095
Net assets		**119,829**	117,095
Capital and reserves			
Called up share capital	16	**88,300**	88,300
Share premium account	17	**1,139**	1,139
Other reserves	17	**1,264**	1,303
Profit and loss reserve	17	**29,126**	26,353
Total shareholders' funds	18	**119,829**	117,095

The financial statements on pages 4 to 33 were approved by the board of directors on 26 May 2011 and were signed on its behalf by

S M Brennan

Suzanne Brennan
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended :
31 December 2010

1
Accounting policies

Basis of accounting
The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards The principal accounting policies, which have been applied consistently, are set out below

Basis of consolidation
statements of Pearson plc which are publicly available Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

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

Foreign currencies
Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet

Tangible fixed assets
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis

- Freehold buildings 2% straight line,
- Plant and machinery 10-33 3% straight line,
- Fixtures and fittings 10-25% straight line,
- Freehold land is not depreciated, and
- Leasehold buildings are depreciated over the period of the lease

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

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 Provision is made for obsolete, slow moving and defective stocks

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where 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 have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of 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 substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Pensions
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, a fellow subsidiary entity

Share-based payments
Options and shares are awarded to the company's employees under Pearson share and option plans The fair value of the options granted is recognised as an employee expense after taking account of the Company's best estimate of the number of awards expected to vest Fair value is measured at the date of 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 the shares awarded is measured using the share price at the date of grant unless another method is more appropriate

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

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

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

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended .
31 December 2010

2
Cash flow statement and related party disclosure

The company is a wholly-owned subsidiary of Pearson plc and is included in the consolidated financial statements of Pearson plc, which are publicly available Consequently, the company has taken exemption from preparing a cash flow statement under the terms of FRS 1 "Cash flow statements (Revised 1996)" The company is also exempt under the terms of FRS 8 "Related Party Transactions" from disclosing related party transactions with entities that are part of the Pearson plc group or investees of the Pearson plc group

3
Segment reporting

Turnover - geographical markets supplied by destination	2010 £'000	2009 £'000
United Kingdom	**115,967**	90,432
Rest of Europe	**12,621**	12,561
Asia and Middle East	**6,587**	6,799
Africa	**3,913**	2,260
North and South America	**10,071**	9,169
Australasia	**17,625**	16,816
	166,784	138,037

The company's activities consist of one class of business namely book publishing

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

4
Operating profit / (loss)

	2010	2009
	£'000	£'000
Operating profit / (loss) is stated after charging / (crediting)		
Staff costs	**48,869**	55,640
Depreciation of tangible fixed assets		
- Owned assets	**4,733**	3,435
Operating lease charges		
- Plant and machinery	**143**	210
- Other	**0**	12
Provisions against investments	**1,456**	0
Foreign exchange (gain) / loss	**(1,152)**	4,790
Services provided by the company's auditor		
- Fees payable for the audit	**180**	195

Fees paid to the company's auditor, PricewaterhouseCoopers LLP, and its associates for services other than the statutory audit of the company are not disclosed in the company's accounts since the consolidated accounts of the company's ultimate parent company, Pearson plc, are required to disclose non-audit fees on a consolidated basis

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
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 2010 of £55,846,347 were recharged back to the associate group companies as a management charge (2009 £65,261,000)

5
Directors' emoluments

	2010	2009
	£'000	£'000
Aggregate emoluments	1,041	2,025
Aggregate compensation for loss of office	0	903
	1,041	2,928

Staff costs include the above remuneration to directors of the company in respect of their services to the company All directors participate in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met

	2010	2009
	Number directors	Number directors
Directors accruing benefits under defined benefit scheme	3	5
Directors who exercised share options	5	7
Directors entitled to shares under long-term incentive schemes	5	7

	2010	2009
Highest paid director	£'000	£'000
Aggregate emoluments	556	1,175
Defined benefit pension scheme - accrued pension at end of year	28	25
Aggregate compensation for loss of office	0	567
Share options exercised under long-term incentive scheme (number)	7	17
Shares received under long-term incentive scheme (number)	8	0

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

6
Employee information

Staff costs	2010 £'000	2009 £'000
Wages and salaries	**32,266**	35,060
Social security costs	**3,040**	2,921
Other pension costs	**11,025**	11,322
Share-based payment costs	**626**	996
Severance	**1,913**	5,341
	48,870	55,640

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

Average monthly number of persons (including directors) employed by the company during the year	2010 Number	2009 Number
Production	**89**	96
Selling and distribution	**108**	114
Administration	**217**	235
Editorial	**362**	408
	776	853

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

7
Income from fixed asset investments

	2010	2009
	£'000	£'000
Income from shares in group undertakings	1,231	0
	1,231	0

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

8
Net interest

	2010	2009
	£'000	£'000
Third party interest payable/paid	(147)	(48)
Interest payable and similar charges	**(147)**	(48)
Bank interest receivable	176	82
Interest receivable and similar income	**176**	82
Net interest receivable / (payable)	**29**	34

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

9
Tax on profit / (loss) on ordinary activities

	2010	2009
	£'000	£'000
Current tax		
UK corporation tax on profits / (losses) for the year	3,052	(3,984)
Adjustments in respect of prior years	(24)	(140)
	3,028	(4,124)
Double tax relief	(111)	
	2,917	(4,124)
Overseas taxation	111	230
Total current tax	3,028	(3,894)
Deferred tax		
Origination and reversal of timing differences	553	1,654
Deferred tax on share-based payments	146	(146)
Adjustments in respect of prior years	126	41
Total deferred tax	825	1,548
Tax charge / (credit) on profit / (loss) on ordinary activities	3,853	(2,346)
UK standard effective rate of corporation tax (%)	28	28

The tax assessed for the period differs from the standard effective rate of corporation tax in the UK as explained below

	2010	2009
	£'000	£'000
Profit / (loss) on ordinary activities before taxation	5,961	(10,696)
Profit / (loss) on ordinary activities before taxation multiplied by UK standard effective rate	1,669	(2,995)
Effects of		
Excess of capital allowances over depreciation for the year	338	(202)
Other expenses not deductible for tax purposes	626	583
Other timing differences	522	
Adjustments in respect of prior years	(24)	(140)
Pensions spreading	(1,304)	(1,304)
Share-based payments	(59)	43
Provisions against inter-companies and investments	3,368	0
Transfer Pricing Adjustment	(3)	0
Overseas witholding tax	0	166
Utilisation of tax losses b/f	(1,782)	0
Notional interest for UK transfer pricing purposes	21	(45)
Tax Free Income	(344)	0
Current tax charge / (credit) for the year	3,028	(3,894)

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

10
Tangible assets

	Land and buildings	Plant and machinery	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost or valuation :				
At 1 January 2010	0	31,048	7,234	38,282
Additions	0	2,295	0	2,295
Disposals	0	(7,904)	(22)	(7,926)
At 31 December 2010	**0**	**25,439**	**7,212**	**32,651**
Accumulated depreciation :				
At 1 January 2010	0	23,384	1,605	24,989
Charge for the year	0	4,449	263	4,712
Disposals	0	(7,904)	(22)	(7,926)
At 31 December 2010	**0**	**19,929**	**1,846**	**21,775**
Net book value :				
At 31 December 2009	0	7,664	5,629	13,293
At 31 December 2010	**0**	**5,510**	**5,366**	**10,877**

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

11
Investments

	2010	2009
	£'000	£'000
Subsidiary undertakings	29,595	31,051
Associated undertakings	331	0
	29,926	31,051

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

11a
Fixed asset investments - subsidiary undertakings

	Total
	£'000
Cost :	
At 1 January 2010	31,051
At 31 December 2010	**31,051**
Provision	
At 1 January 2010	0
Charge for the year	1,456
At 31 December 2010	**1,456**
Net book value :	
At 31 December 2009	31,051
At 31 December 2010	**29,595**

Frederick Warne (Publishers) Limited, The Rainbird Publishing Group Limited, George Rainbird Limited, Penguin France SA, formerly dormant 100% owned subsidiaries are now in liquidation Penguin Books Hellas Limited, a formerly dormant 94% owned subsidiary is now in liquidation A provision for impairment of £1,455,955 has been made in 2010 (£Nil 2009) and is recognised in administrative expenses

Details of subsidiary undertakings ·

Subsidiary	Principal activity	Class of shares held	Country of incorporat-ion	2010 % owned	2009 % owned
Allen Lane The Penguin Press Ltd	Dormant	Ordinary	UK	100%	100%
Strand Books Limited	Dormant	Ordinary	UK	100%	100%
Frederick Warne & Co Ltd, owning	Publishing & Distribution	Ordinary	UK	100%	100%
Michael Joseph Limited, owning	Dormant	Ordinary	UK	100%	100%
Pelham Books Limited	Dormant	Ordinary	UK	100%	100%
Hamish Hamilton Limited, owning	Dormant	Ordinary	UK	100%	100%
Hamish Hamilton Children's Books	Dormant	Ordinary	UK	100%	100%
Elm Tree Books Limited	Dormant	Ordinary	UK	100%	100%
Godfrey Cave Holdings Limited	Dormant	Ordinary	UK	100%	100%
Penguin Italia Srl	Publishing & Distribution	Ordinary	Italy	95%	95%
Penguin Books Deutschland GmbH	Publishing & Distribution	Ordinary	Germany	100%	100%
Penguin Books SA (Spain)	Publishing & Distribution	Ordinary	Spain	96%	96%
The Rough Guides Limited (The)	Publishing & Distribution	Ordinary	UK	100%	100%
Ventura Publishing Ltd, owning	Merchandising	Ordinary	UK	100%	100%
Salspot Limited	Publishing & Distribution	Ordinary	UK	100%	100%
Penguin Books Japan Limited	Publishing & Distribution	Ordinary	Japan	99 5%	99 5%
Ladybird Books Limited	Publishing & Distribution	Ordinary	UK	100%	100%
Penguin Books Deutschland GmbH	Marketing	Ordinary	Germany	100%	100%
Penguin Books Netherlands BV	Publishing & Distribution	Ordinary	Netherlands	5%	5%
Children's Character Books Ltd	Publishing & Distribution	Ordinary	UK	75%	75%

In the opinion of the directors, the value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

11b
Fixed asset investments - associated undertakings and joint ventures

	Total
	£'000
Cost :	
At 1 January 2010	0
Additions	331
At 31 December 2010	**331**
Provision	
At 1 January 2010	0
Charge for the year	0
At 31 December 2010	**0**
Net book value :	
At 31 December 2009	0
At 31 December 2010	**331**

In 2010 Penguin Books Limited made a contribution to a joint venture for the sum of £331,000 as set up costs The joint venture has not begun to trade yet

Joint venture

Joint venture	Publishing & Distribution	UK	14 9%

In the opinion of the directors, the value of the investments in associated undertakings and joint ventures is not less than the amount at which they are stated in the balance sheet

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2010

12
Stocks

	2010	2009
	£'000	£'000
Raw materials and consumables	967	561
Work in progress	1,130	1,468
Finished goods and goods for resale	4,594	6,081
	6,691	8,110

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

13
Debtors

	2010	2009
Amounts falling due within one year :	**£'000**	£'000
Trade debtors	**38,689**	18,855
Amounts owed by group undertakings	**89,851**	87,147
Deferred taxation	**2,962**	3,641
Corporation tax	**0**	9,188
Other debtors	**23,416**	30,086
Prepayments and accrued income	**2,109**	1,701
Deferred taxation on share based payments	**276**	422
	157,303	151,040

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

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2010

14
Creditors

Amounts falling due within one year :	2010 £'000	2009 £'000
Trade creditors	**(33,054)**	(24,090)
Amounts owed to group undertakings	**(64,783)**	(61,520)
Corporation tax	**(3,099)**	0
Other creditors	**(6,605)**	(6,177)
Accruals and deferred income	**(21,582)**	(27,918)
	(129,123)	(119,705)

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

15
Deferred taxation

	Other timing differences	Pension spreading	Share Based Payments	Accelerated Capital Allowances	Total
Asset	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2010	0	1,304	422	2,337	4,063
Amounts released to the profit and loss	504	0	0	121	625
Amounts charged to the profit and loss	0	(1,304)	(146)	0	(1,450)
At 31 December 2010	**504**	**0**	**276**	**2,458**	**3,238**

	2010	2009
	£'000	£'000
Total deferred taxation	3,238	4,063

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

16
Called up share capital

	2010	2009
	£'000	£'000
Total share capital	88,300	88,300

	2010	2009	2010	2009
Ordinary share £1 each	**No '000s**	No '000s	**£'000**	£'000
Allotted and fully paid	**88,300**	88,300	**88,300**	88,300

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

17
Reserves

	Share premium	Profit and loss	Other reserves	Total
	£'000	£'000	£'000	£'000
At 1 January 2010	1,139	26,353	1,303	28,795
Profit / (loss) for the financial year	0	2,108	0	2,108
Share-based payments charge	0	0	626	626
Shares vested in year	0	665	(665)	0
At 31 December 2010	**1,139**	**29,126**	**1,264**	**31,529**

Other reserves comprise the accumulated charge for the parent company's share-based payment plans

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2010

18
Reconciliation of movements in shareholders' funds

	2010	2009
	£'000	£'000
Profit / (loss) for the financial year	2,108	(8,350)
Share-based payments charge	626	996
Other recognised gains and losses	0	109
	2,734	(7,245)
Opening shareholders' funds	117,095	124,340
Closing shareholders' funds	119,829	117,095

Other recognised gains and losses relate to deferred tax asset recognised in the STRGL

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2010

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

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 year

The vesting of restricted shares is normally dependent on continuing service and/or upon the satisfaction of corporate performance targets over a three-year period These targets may be based on market and/or non-market performance criteria Restricted shares awarded to senior management in 2009 and 2010 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 2008 and 2009 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 group meets the 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 the following plans
Executive Share Option Plan
Reward Plan
Special Share Option Plan

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

	2010 Number of share options 000s	**2010** Weighted average exercise price £	2009 Number of share options 000s	2009 Weighted average exercise price £
Outstanding at beginning of year	**499**	**10.44**	573	10 60
Granted during the year	**46**	**8 06**	76	5 47
Exercised during the year	**(72)**	**6.66**	(84)	6 67
Forfeited during the year	**(41)**	**7 38**	(73)	13 05
Expired during the year	**(69)**	**21 97**	(18)	5 53
Transferred during the year	**(24)**	**14 96**	25	13 37
Outstanding at end of year	**340**	**8 62**	**499**	**10.44**
Options exercisable at end of year	**125**	**12.98**	**258**	**14 90**
Weighted average share price during the year of options exercised		**9 63**		**7 15**

Options were exercised regularly during the year Early excercises 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 weighted average remaining contractual lives and exercise prices as follows

Range of exercise prices £	2010 Number of share options 000s	2010 Weighted average contract. life Years	2009 Number of share options 000s	2009 Weighted average contract life Years
0-5	**1**	**1 16**	9	1 19
5-10	**235**	**2 22**	307	2 38
10-15	**104**	**0 36**	122	1 36
15-20	**0**	**0 00**	0	0 00
20-25	**0**	**0 00**	0	0 00
>25	**0**	**0 00**	61	0 19
	340	**1.65**	499	1 84

In 2010 and 2009 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

	2010 Weighted average	2009 Weighted average
Fair value	**2 14**	1 68
Weighted average share price	**9 48**	7 13
Weighted average exercise price	**8.06**	5 47
Expected volatility	**28.17%**	27 27%
Expected life	**4.0**	3 9
Risk-free rate	**2 26%**	2 42%
Forfeiture rate	**3 52%**	3 39%
Expected dividend yield	**3 75%**	4 74%

The expected volatility is based on the historic volatility of the Company'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

	2010 Number of shares 000s	2010 Weighted average fair value £	2009 Number of shares 000s	2009 Weighted average fair value £
Annual Bonus Share Matching Plan	**1**	**10 25**	4	6 70
Long-term Incentive Plan	**101**	**10 18**	152	6 23

Restricted shares granted under the Annual Bonus Share Matching Plan are valued using the share price at the date of grant From 2008 shares granted include the entitlement to dividends during the vesting period and therefore the share price is not discounted

Participants of the Long-Term Incentive Plan are entitled to dividends during the vesting period The fair value of shares granted under the Long-Term Incentive Plan that vest unconditionally was determined using the share price at the date of grant The number of shares to vest was adjusted based on historical experience to account for any potential forfeitures Restricted shares with a market performance condition were valued by an independent actuary using a Monte Carlo model Restricted shares with a non-market performance condition were fair valued based on the share price at the date of grant Non-market performance conditions were considered by adjusting the

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2010

20
Operating lease commitments

	2010	2009
	Other	Other
	£'000	£'000
Expiring		
Within one year	**21**	12
Between two and five years	**90**	130
	111	142

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2010

21
Contingent liabilities

Bank guarantees
The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 35 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 2010 was credit balance of £8,952,264 (2009 debit balance £4,238,177) The maximum amount of this guarantee is limited to a net overdraft of £50,000,000

	2010	2009
Potential liability arising from these guarantee arrangements :	**£'000**	£'000
Parent undertaking and fellow subsidiary undertakings	**50,000**	50,000
Subsidiary undertakings of the company	**0**	0

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended .
31 December 2010

22
Pension commitments

	2010	2009
	£'000	£'000
Profit and loss charge for the company in respect of its participation in the scheme representing regular contributions paid	**4,284**	4,323

Pearson Group Pension Scheme :
(determined by an actuarial valuation using the projected unit method)

Total market value of assets	**1,848,000**	1,609,000
Value of liabilities (calculated in accordance with FRS 17)	**(1,841,000)**	(1,787,000)
Total FRS 17 surplus / (deficit)	**7,000**	(178,000)

The company participates in the Pearson Group Pension Scheme
This is a hybrid with both defined benefit 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 company will be required to make incremental contributions as part of the group's obligations to fund the scheme and any deficit arising and contributions are expected to remain at similar levels to the current year in 2011

23
Ultimate parent undertaking

The immediate parent undertaking is The Penguin Publishing Company Ltd

The ultimate parent undertaking and controlling party is Pearson plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of Pearson plc's consolidated financial statements can be obtained from the Company Secretary at Pearson plc, 80 Strand, London WC2R 0RL