Penguin Books Limited

Registered Number:	00861590
Annual Report and Financial Statements For the Year Ended:	31 December 2016

Company No. 00861590

Penguin Books Limited
For the year ended 31 December 2016

STRATEGIC REPORT

The directors present their Strategic Report of Penguin Books Limited ("the company") for the year ended 31 December 2016.

Principal activities
The company is a subsidiary of Penguin Random House Limited, a company registered in England and Wales. The company is UK domiciled and registered in England and Wales. The principal activity of the company continues to be book publishing.

Business review
The results and financial position of the company are set out in the attached financial statements. Penguin Books Limited is a book publishing business and a subsidiary of Penguin Random House Limited, owned 53% by Bertelsmann SE & Co KGaA and 47% by Pearson plc. Profit before interest and taxation for 2016 was £21,172,000 compared to the previous year of £37,014,000.

Key performance indicators ("KPIs")
The company monitors progress and performance during the year and historical trend data is set out in the following key performance indicators:

Turnover was £185,893,000 (2015: £170,051,000);
Gross margin percentage for the year was 55% (2015: 56%);
The number of titles in the Bookscan full year Top 50 sellers listing was 17 (2015:14 titles).

Principal Risks and Uncertainties
The company is subject to risk management procedures and an annual risk assessment implemented by the ultimate parent company, Bertelsmann SE & Co KGaA. The company has procedures in place to make the directors aware of the various risks to the company's business. The risks are monitored and reported to management. The changing book market and particularly the transition to digital is creating both challenges and opportunities for the company, notably regarding the latter in terms of new markets and sales channels. The company is facing increased pressure on margins. Other risks arise from the entry of non-traditional publishers into the market, the decline in retail space in high street bookshops and economic uncertainty.

General
The company is presenting the financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

On Behalf of the Board

M.L. Gardiner

Mark Gardiner
Director
29 September 2017

Penguin Books Limited
For the year ended 31 December 2016

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Penguin Books Limited ("the company") for the year ended 31 December 2016.

Future outlook and development

Going forward we expect a continuation of the shift in sales from physical books to eBooks, reflecting the trend of a slowing pace as eBook sales flatten at 25%, but that overall our turnover will perform consistently 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. Following an extensive strategic review of its distribution business, the company concluded that it was necessary to consolidate its distribution operation into fewer sites. Having evaluated the potential different combinations of the Rugby, Frating and Grantham locations it was formally announced by the company on 4th December 2016 that it was proposing to close the Rugby Distribution Centre. Subsequently, the first consultation meeting was held with the Rugby-based staff in mid-December 2016. A provision of £9.0m based on best estimates as at 31 December 2016 relating to people and property costs has been booked in the accounts of Penguin Books Limited in respect of the exit. The company expects to recover £4.0m of these costs from Pearson plc and as such have recorded a receivable within the accounts as at 31 December 2016. The Company continued to attract and retain key talent, with the significant additions amongst others, of Sinead O'Connor, Ben MacIntyre, Pewdie Pie, Will I Am. No major authors left during the course of the year.

Results and dividends

A final dividend was not paid in 2016 (2015: £58,129,689) and the company reported a profit on ordinary activities before interest and taxation for the financial year of £19,318,000 (2015: £37,014,000).

Financial instruments

It is the company's policy to implement financial risk management objectives and policies for each major type of transaction. The directors consider the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk.

Directors

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

John Makinson	Resigned on 31st December 2016
Michael Symons	Resigned on 31st January 2017
Thomas Weldon	
Mark Gardiner	
Robert Waddington	Appointed on 31st January 2017
Markus Dohle	Appointed on 1st January 2017

Employees

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining its prosperity.

The company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the company's progress. The company operates a pension scheme for which all employees are eligible.

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or material status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Company No. 00861590

Penguin Books Limited
For the year ended 31 December 2016

DIRECTORS' REPORT (continued)

Statement of directors' responsibilities
The directors are responsible for preparing the Strategic Report, Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concem basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to present and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

On behalf of the Board

M.W Gard

Mark Gardiner
Director
29 September 2017

Independent auditors' report to the members of Penguin Books Limited

Report on the financial statements

Our opinion

In our opinion, Penguin Books Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

Independent auditors' report to the members of Penguin Books Limited (continued)

- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Phillip Stokes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2017

Company No. 00861590

Penguin Books Limited

INCOME STATEMENT
For the year ended:
31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	5	**185,893**	170,051
Cost of sales		**(83,616)**	(74,256)
Gross profit		**102,277**	95,795
Distribution costs		**(15,955)**	(15,271)
Administrative expenses		**(48,938)**	(42,540)
Operating profit	6	**37,384**	37,984
Income from other investments in subsidiaries	9	**2,788**	4,068
Impairment charge on investment in subsidiary		**(20,854)**	(5,038)
Gain on sale of investment		**-**	-
Profit on ordinary activities before interest and taxation		**19,318**	37,014
Interest receivable and similar income	10	**516**	370
Interest payable and similar charges	10	**-**	(72)
Profit on ordinary activities before taxation		**19,834**	37,312
Tax charge on profit on ordinary activities	11	**(7,574)**	(7,034)
Profit for the financial year		**12,260**	30,278

The notes on pages 10 to 31 are an integral part of these financial statements.

Company No. 00861590

Penguin Books Limited

STATEMENT OF COMPREHENSIVE INCOME
For the year ended:
31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		**12,260**	30,278
Other comprehensive (expense)/income: items that will not be reclassified to profit or loss			
Actuarial (loss) / gain on pension scheme	21	**(4,552)**	5,173
Movement on deferred tax relating to pension (deficit)/gain	11	**864**	(1,660)
Other Comprehensive (Expense) / Income for the year, net of tax		**(3,688)**	3,513
Total Comprehensive Income for the year		**8,572**	33,791

The notes on pages 10 to 31 are an integral part of these financial statements.

Penguin Books Limited

BALANCE SHEET
As at:
31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible Assets	13a	**652**	921
Tangible assets	13b	**2,511**	3,865
Investments	14	**18,569**	20,423
Deferred Tax Asset	18	**3,647**	3,086
		25,379	28,295
Current assets			
Stocks	15	**7,106**	8,040
Debtors	16	**160,816**	197,157
Cash at bank and in hand		**3,640**	1,975
		171,562	207,172
Creditors: amounts falling due within one year	17a	**(62,727)**	(113,045)
Net current assets		**108,835**	94,127
Total assets less current liabilities		**134,214**	122,422
Provisions for other liabilities and charges	17b	**(9,488)**	(8,967)
Pension (deficit) / gain	21	**(2,782)**	1,115
Net assets		**121,944**	114,570
Capital and reserves			
Called up share capital	19	**88,300**	88,300
Share premium account		**1,139**	1,139
Retained Earnings		**32,505**	25,131
Total shareholders' funds		**121,944**	114,570

The financial statements on pages 6 to 31 were approved by the board of directors on 29 September 2017 and were signed on its behalf by :

Mark Gardiner
Director
Penguin Books Limited
Registered no: 00861590

Penguin Books Limited

STATEMENT OF CHANGES IN EQUITY
For the Year Ended:
31 December 2016

	Called Up Share capital £'000	Share premium Account £'000	Retained Earnings £'000	Total Shareholders' Funds £'000
At 1 January 2015	88,300	1,139	48,530	137,969
Changes in equity 2015				
Dividends	-	-	(58,129)	(58,129)
Deferred tax on Pensions	-	-	(1,660)	(1,660)
Pension remeasurement	-	-	5,173	5,173
Prior Year Adjustment	-	-	939	939
Profit for the financial year	-	-	30,278	30,278
At 1 January 2016	**88,300**	**1,139**	**25,131**	**114,570**
Changes in equity 2016				
Dividends paid	-	-	-	-
Profit for the financial year	-	-	12,260	12,260
Pension remeasurement	-	-	(4,552)	(4,552)
Deferred tax on Pensions	-	-	864	864
Prior year adjustment	-	-	(1,198)	(1,198)
At 31 December 2016	**88,300**	**1,139**	**32,505**	**121,944**

The notes on pages 10 to 31 are an integral part of these financial statements.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended:
31 December 2016

1
GENERAL INFORMATION

Penguin Books Limited is a book publisher. The company sells its books globally with the majority of the sales in the UK. The company is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is 80 Strand, London, WC2R 0RL.

2
STATEMENT OF COMPLIANCE

The individual financial statements of Penguin Books Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

3
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation of financial statements
These financial statements are prepared on a going concern basis, under the historical cost convention. Certain prior year balances have been restated to present them in conformity with the current year treatment.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
    - paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
    - paragraph 73(e) of IAS 16 'Property, plant & equipment'
    - paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
    - The following paragraphs of IAS1 'Presentation of financial statements':
        - 10(d) (statement of cash flows)
        - 38A (requirement for minimum of two primary statements, including cash flow statements)
        - 38B-D (additional comparative information)
        - 111 (cash flow statement information)
        - 134-136 (capital management disclosures)

The company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about the group.

Going concern
The financial statements are prepared on a going concern basis which the directors believe to be appropriate in light of the company's current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements.

3
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and IFRIC interpretations
No new accounting standards or amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2016 have had a material impact on the company.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is also the functional currency of the company.

Transactions and balances
Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement.

Turnover
Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax and other sales taxes, rebates, trade marketing costs and discounts. Turnover from the sale 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 turnover 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 turnover. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in turnover.

Income from sub rights
Fees charged for the use of rights granted by the agreement and related services are recognised as revenue as the rights are used and the right to receive payment is established.

Dividend income
Dividend income is recognised when the right to receive payment is established.

Employee benefits
The company operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

Pension obligations
The company operates a defined contribution plan for certain employees.
A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The company also operates a defined benefit plan to certain employees.
Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

3
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)
The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past-service costs are recognised immediately in the income statement.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Investments
Investments are stated at cost and a provision is made for impairment. At the year-end management reviewed the investments in order to determine whether there was any objective evidence present that in accordance with IAS 36 would lead to impairment. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date, if there have been favourable events or changes in circumstances, since the impairment loss was recognised that would indicate that the impairment loss no longer exists or might have decreased.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

3
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of four years.

(i)Computer software
Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Tangible fixed assets
Tangible fixed assets are stated at historical 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.

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

Impairment of non-financial assets
Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they are largely independent cash inflows (cash-generating units).

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

3
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stocks
Stocks comprise finished goods and work in progress in respect of books, and are stated at the lower of cost and net realisable value. Cost is determined using FIFO method. Cost includes the costs of paper, printing and binding incurred on a title by title basis. Plant costs, which do not vary with the number of copies printed (for example typesetting, origination and illustration), are charged to the income statement in full on publication. Provision is made for obsolete and slow moving stocks. Net realisable value is estimated selling price in the ordinary course of business less applicable variable selling expenses.

Royalty advances
Advances of royalties to authors are recognised once a contract is approved within the royalty system, less any provision required to adjust the advance to its net realisable value. For unpublished titles, the contracts are assessed at key points within the year, to determine whether the value of a title is diminished from its original acquisition value. These titles are reassessed each year until publication occurs. For published titles, the company assesses the difference between the advance payable and the projected royalty earnings and sub rights income at the point of publication. All titles are reassessed at various times throughout the years following publication. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned.

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

Trade debtors and amounts owed by group undertakings
Trade debtors and amounts owed by group undertakings are stated at amortised cost after provision for bad and doubtful debts and anticipated future sales returns. Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision is made based on an analysis of balances by age, previous losses experienced and general economic conditions.

Trade creditors and amounts owed to group undertakings
Trade creditors and amounts owed to group undertakings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions
Provisions for restructuring costs are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probably that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

4
CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

Key accounting estimates and assumptions

(i) Advances
Advances of royalties to authors are recognised once a contract is approved within the royalty system, 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 new authors and prior sales history of repeat authors. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned.

(ii) Provisions
Other provisions include provisions arising in the ordinary course of business, such as provisions relating to LTIP (long-term incentive programme) and legal matters. These provisions are expected to be utilised within 5 years.

(iii) Impairment of trade and other receivables
The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the debtor, the ageing profile of receivables and historical experience.

(iv) Inventories provisioning
The company publishes books and is subject to changing customer demands. As a result it is necessary to consider the recoverability of the cost of inventories. When calculating the inventories provision, management considers the ageing of the inventories as well as predicted future sales based on historical sales data by publishing imprint.

(v) Returns provisioning
The company has agreements in place to allow customers to return books. As a result the company makes an estimate of future returns based on historic data, the ageing of sales and business experience.

(vi) Defined benefit scheme
The company has obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors including life expectancy, salary increases, asset valuations and the discount rate on corporation bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

(vii) Useful life of tangible and intangible assets
The useful life of the software is based on its expected utilisation by Penguin Books Limited. Software is amortised over its estimated useful life of four years, on a straight line basis.

Where factors such as technological advances or changes in market price indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

(viii) Impairment of Investments
Investments in subsidiary companies are held at cost less accumulated impairment losses. The company tests annually whether investments have suffered any impairment, with the carrying amount being written down for any impairment highlighted.

The company uses budgeted profits, projected cash flows and weighted average cost of capital in order to determine whether any impairment is required.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

5
Turnover

Geographical markets supplied by origin	**2016** £'000	2015 £'000
United Kingdom	**122,706**	116,969
Rest of Europe	**28,248**	21,735
Asia and Middle East	**10,550**	10,517
Africa	**1,945**	1,723
North and South America	**10,927**	10,357
Australasia	**11,517**	8,750
	185,893	170,051

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

6
Operating profit

	2016 £'000	2015 £'000
Operating profit is stated after charging:		
Depreciation of tangible fixed assets:		
- Owned assets	**1,503**	1,707
Amortisation of Intangible assets	**502**	823
Operating lease charges	**211**	242
Foreign exchange gain	**819**	928
Auditors' remuneration:		
- Statutory audit	**294**	158

As the primary operating company in the Penguin and Dorling Kindersley Group of companies (UK), the Company incurs administrative, distribution and other operating expenses on behalf of the following:

Penguin Random House Limited companies
Dorling Kindersley Limited
Frederick Warne & Co Limited
Ladybird Books Limited
Salspot Limited
Ventura Publishing Limited
Children's Character Books Limited
The Rough Guides Limited
Snowman Enterprises Limited
Snowdog Enterprises Limited
Costs incurred in 2016 of £12,137,833 were recharged back to the associate group companies as a management charge (2015: £45,847,791)

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

7
Directors

	2016	2015
	£'000	£'000
Aggregate emoluments	697	-
Amounts receivable under long term incentives	126	-
Company pension contributions to money purchase schemes	34	-

	2016	2015
Highest paid director	£'000	£'000
Emoluments	407	-
Amount receivable under long term incentives	-	-
Defined benefit pension scheme – accrued pension at end of year	3	-

Three directors were paid by Penguin Books Limited and the other directors are paid by the other companies:

Director	Paid by
T Weldon	Penguin Books Limited
M Gardiner	The Random House Group Limited
M Symons	Penguin Books Limited
J Makinson	Penguin Books Limited
R Waddington	The Random House Group Limited
M Dohle	Penguin Random House LLC

8
Employee information

	2016	2015
Staff costs	£'000	£'000
Wages and salaries	18,256	29,913
Social security costs	1,891	2,511
Other pension costs	5,448	8,442
	25,595	40,866

	2016	2015
Average monthly number of persons (including directors) employed by the company during the year	Number	Number
Production	44	61
Selling and distribution	222	319
Administration	83	79
Editorial	174	243
	522	702

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

9
Income from other investments in subsidiaries

	2016	2015
	£'000	£'000
Dividend from shares in group undertakings	2,788	4,068

In 2016 the company received dividends of £1,700,000 from Frederick Warne and Co Limited, £87,926 from Penguin Books Deutschland GmbH, £500,000 from Ventura Publishing and £500,000 from Snowman Publishing Limited . Dividends received are settled through intercompany. In 2015 the Company received dividends of £2,500,000 from Ladybird Books Limited, £1,568,000 from Penguin Books Deutschland GmbH.

10
Net interest

	2016	2015
	£'000	£'000
Interest payable and similar charges	-	(72)
Pension Scheme interest receivable	174	
Bank interest receivable	342	370
Interest receivable and similar income	516	370
Net interest receivable	516	298

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

11
Tax on profit

	2016 £'000	2015 £'000
Current tax :		
UK corporation tax on profits for the year	**7,255**	8,976
Adjustments in respect of prior years	**(265)**	(421)
	6,990	8,555
Overseas taxation	**598**	1,083
Double Tax Relief	**(186)**	
Total current tax	**7,402**	9,638
Deferred tax :		
Origination and reversal of timing differences	**517**	(2,107)
Adjustments in respect of prior years	**(345)**	(497)
Total deferred tax	**172**	(2,604)
Tax charge on profit/(loss) on ordinary activities	**7,574**	7,034
UK standard effective rate of corporation tax (%)	**20%**	20.25%

Tax included in Other Comprehensive Income

	2016 £'000	2015 £'000
Deferred Tax on Pension Remeasurement	**864**	(1,660)

The tax assessed for the year differs (2015: differs) from the standard effective rate of corporation tax in the UK as explained below :

	2016 £'000	2015 £'000
Profit/(loss) on ordinary activities before taxation	**19,834**	37,312
Profit on ordinary activities before taxation multiplied by UK standard effective rate 20.25% (2015: 21.50%)	**4,016**	7,556
Effects of:		
Expenses not deductible for tax purposes	**4,342**	1,410
Deferred tax rate differences	**(27)**	(1,470)
Adjustments in respect of prior years	**(610)**	(918)
Overseas withholding tax suffered	**412**	1,083
Income exempt from taxation	**(559)**	(627)
Total tax charge for the year	**7,574**	7,034

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

11
Tax on profit

The current year tax charge represents amounts receivable from / payable to fellow UK subsidiaries of the Penguin Random House group in respect of current year tax losses surrendered in the United Kingdom. The standard rate of corporation tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2016. Accordingly the company's profits / losses are taxed at an effective rate of 20% (2015: 20.25%).

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

12
Dividends

	2016	2015	**2016**	2015
	pence	pence	**£'000**	£'000
Equity – Ordinary				
Dividends paid in the year	-	65.831	-	58,129

Dividends paid are settled through intercompany.

13a
Intangible assets (restated)

	Software	**Total**
	£'000	**£'000**
Cost:		
At 1 January 2016	12,601	12,601
Additions	233	233
At 31 December 2016	**12,834**	**12,834**
Accumulated amortisation and impairment :		
At 1 January 2016	11,680	11,680
Additions	502	502
At 31 December 2016	**12,182**	**12,182**
Net book amount :		
At 31 December 2015	921	921
At 31 December 2016	**652**	**652**

The opening balances for intangible and tangible assets have been restated as £432,000 of assets under construction intangible assets had been classified as tangible in 2015.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

13b
Tangible assets (restated)

	Land & Buildings	Plant & Machinery	Fixtures & Fittings	Total
	£'000	£'000	£'000	£'000
Cost or valuation :				
At 1 January 2016	219	14,591	7,807	22,617
Additions	-	149	-	149
At 31 December 2016	**219**	**14,740**	**7,807**	**22,766**
Accumulated depreciation :				
At 1 January 2016	172	12,698	5,882	18,752
Charge for the year	14	730	759	1,503
At 31 December 2016	**186**	**13,428**	**6,641**	**20,255**
Net book value :				
At 31 December 2015	47	1,893	1,925	3,865
At 31 December 2016	**33**	**1,312**	**1,166**	**2,511**

The opening balances for intangible and tangible assets have been restated as £432,000 of assets under construction intangible assets had been classified as tangible in 2015.

14
Investments

	2016	2015
	£'000	£'000
Subsidiary undertakings	20,423	20,423
	20,423	20,423

Investments – subsidiary undertakings	Total
	£'000
Cost :	
At 1 January 2016	33,231
Additions	19,000
At 31 December 2016	**52,231**
Provision	
At 1 January 2016	12,808
Charge for the year	20,854
At 31 December 2016	**33,662**
Net book value :	
At 31 December 2015	20,423
At 31 December 2016	**18,569**

During the year the company purchased £19,000,000 of shares in The Rough Guides Limited.

An impairment test was carried out in accordance with International Accounting Standard 36. The carrying amount and the equity value of each investment have been compared to ascertain if impairment is necessary. Significant impairments in the investments have been arising from the reduction in the equity value of The Rough Guides Limited and Ventura Publishing Limited.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

14
Investments (continued)

Details of subsidiary undertakings :

Subsidiary	Principal activity	Class of shares held	Country of incorporation	2016 % owned	2015 % owned
Allen Lane The Penguin Press Limited	Dormant	Ordinary	UK	**100**	100
Frederick Warne & Co Limited; 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 Limited	Dormant	Ordinary	UK	**100**	100
Penguin Books Deutschland GmbH	Publishing & Distribution	Ordinary	Germany	**100**	100
The Rough Guides Limited	Publishing & Distribution	Ordinary	UK	**100**	100
Ventura Publishing Limited; owning	Merchandising	Ordinary	UK	**100**	100
Salspot Limited	Merchandising	Ordinary	UK	**100**	100
Ladybird Books Limited	Publishing & Distribution	Ordinary	UK	**100**	100
Snowman Enterprises Limited; owning	Publishing & Distribution	Ordinary	UK	**100**	100
Snowdog Enterprises Limited	Publishing & Distribution	Ordinary	UK	**100**	100
Children's Character Books Limited	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 2016

15
Stocks

	2016	2015
	£'000	£'000
Raw materials and consumables	**1,322**	1,454
Work in progress	**1,303**	832
Finished goods	**4,481**	5,754
	7,106	8,040

As of 31 December 2016, total stock balance of £7.1 m (2015; £8m) were reviewed for impairment. The amount of the provision was £2.1m (2015; £3.2m) as at 31 December 2016, and mainly relates to slow moving stock.

16
Debtors

	2016	2015
Amounts falling due within one year :	**£'000**	£'000
Trade debtors	**38,746**	45,060
Amounts owed by group undertakings	**116,418**	148,689
Other debtors	**4,498**	1,018
Prepayments and accrued income	**1,154**	2,390
	160,816	197,157

Amounts owed by group undertakings are unsecured and repayable on demand. Other debtors include author advances. Included within this is £79.8m (2015: £72.3m) in respect of cash pooling agreements with the company's parent entity, Penguin Random House Limited. These amounts incur interest on a monthly basis; the average interest rate for the year was 3.03% (2015: 2.03%)

As of 31 December 2016, Trade Debtors of £62.9m (2015: £66.7m) were reviewed for impairment. Trade Debtors are stated after the provision doubtful debts of £8.0m (2015; £9.6m), and returns of £16.2m (2015; £15.2m).

17
(a) Creditors

	2016	2015
Amounts falling due within one year :	**£'000**	£'000
Trade creditors	**(29,757)**	(51,881)
Amounts owed to group undertakings	**(7,619)**	(23,761)
Corporation tax	**(6,893)**	(9,650)
Other creditors	**(6,463)**	(4,629)
Accruals and deferred income	**(11,995)**	(23,124)
	(62,727)	(113,045)

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

Other creditors includes £420,000 (2015: £840,000) owed to T.V. Cartoons Limited for The Snowman Enterprises Limited investment. The remainder of the balance mainly consists of royalty accrual and freight costs.

17
(b) Provision for other liabilities and charges
Provision for other liabilities and charges comprise of provision for dilapidation costs of £1,850,000 (2015: £1,501,000) and provision for restructuring cost of £7,638,044 (2015: £7,466,000) following the expected closure of the Rugby Distribution Centre. See note 3 on accounting estimate and assumptions in determining the provision amount.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

18
Deferred taxation asset

	Provisions	Property Plant & Equipment	Total in Debtors	Pensions (Note 20)	Total
Asset	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2016	958	2,340	3,298	(212)	3,086
Amounts charged to the profit &loss	60	(240)	(180)	9	(171)
Amounts charged to statement of comprehensive income	-	-	-	864	864
Prior Year adjustment	-	-	-	(132)	(132)
At 31 December 2016	**1,018**	**2,100**	**3,118**	**529**	**3,647**

	2016	2015
	£'000	£'000
Total deferred taxation asset	**3,647**	3,086

19
Called up share capital

	2016	2015
	£'000	£'000
Total share capital	**88,300**	88,300

	2016	2015	**2016**	2015
Ordinary share £1 each	**No '000s**	No '000s	**£'000**	£'000
Allotted and fully paid	88,300	88,300	88,300	88,300

20
Operating lease commitments

	2016 Land & Buildings £'000s	2015 Land & Buildings £'000s	**2016 Plant & Machinery £'000s**	2015 Plant & Machinery £'000s
Future minimum operating lease payments:				
Within one year	**2,892**	2,892	**79**	62
Between two and five years	**3,386**	6,278	**134**	91
In over five years	-	-	-	-
	6,278	**9,170**	**213**	153

There are commitments to authors for the payment of royalty advances amounting to £4,137,000 at 31 December 2016 (2015: £3,957,000). Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

There were no contracted capital commitments outstanding at 31 December 2016 (2015: Nil).

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

21
Post-Employment Benefits

Penguin Random House – Penguin Pension Plan
The Penguin Pension Plan is a funded pension plan, with assets held in a separate trustee administered fund. It provides final salary benefits through the Final Pay and Penguin sections, and money purchase benefits with a defined benefit underpin through the Money Purchase Section.

The Penguin Pension Plan was established in July 2013 for Penguin Books Limited employees who had previously earned benefits in the Pearson Group Pension Plan. The first full actuarial valuation of the Penguin Pension Plan at 30 June 2015 was completed on 30 September 2016.

The risks of the scheme are as follows:

a) Investment Strategy

The plan liabilities are calculated using a discount rate set with reference to gilt yields, but the plan assets include return-seeking and other assets; if the plan assets underperform this yield, this will create a deficit.

b) Gilt Yields

Asset values and plan liabilities do not move in line as a result of changes in the yields available on fixed interest and index-linked gilts. This may arise because of a mismatch between the plan's holding in gilts and its liabilities in terms of their nature (ie fixed or inflation-linked) and/or their duration.

c) Life Expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

d) Inflation Risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities
A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 30 September 2016 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2016	2015
Expected rate of salary increases	**2.8%**	2.6%
Expected rate of increase of pensions in payment *	**2.5%**	2.4%
Discount rate	**2.6%**	3.9%
Rate of inflation	**2.3%**	2.1%

* 3.1% pa (2015: 3.0% pa) for Final Pay Section
3.7% pa (2015: 3.6% pa) for the Penguin Section and
2.3% pa (2015: 2.1% pa) for the underpin of the Money Purchase Section

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

21
Post-Employment Benefits (continued)

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into a life expectancy for a male aged 65 as follows:

	2016	2015
Current age 65	**88.1**	88.1
Current age 45	**90.2**	90.2

Reconciliation of scheme assets and liabilities:

	Assets £'000	**Liabilities £'000**	**Total £'000**
At 1 January 2016	44,555	(43,440)	1,115
Benefits paid	(168)	168	-
Employer contributions	5,244	-	5,244
Employee contributions	1,575	(1,575)	-
Current service cost	-	(4,763)	(4,763)
Interest income / (expense)	1,865	(1,691)	174
Re-measurement gains / (losses)	6,922	(11,474)	(4,552)
At 31 December 2016	**59,993**	**(62,775)**	**(2,782)**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate	0.50%	Decrease by 7.4%	Increase by 10.0%
Salary growth rate	0.50%	Increase by 8.7%	Decrease by 4.3%
Pension growth rate	0.50%	Increase by 3.9%	Decrease by 3.4%
Life expectancy	Increase or decrease by 1 year	Increase by 1.7%	Decrease by 1.6%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

21
Post-Employment Benefits (continued)

Total cost recognised as an expense:

	2016 £,000	2015 £'000
Current service cost	**(4,763)**	(6,260)
Interest cost	**(1,691)**	(1,419)
	(6,454)	(7,679)

The fair value of the plan assets was:

	2016 £'000	2015 £'000
Equity instruments	**43,092**	30,840
Bonds	**11,821**	9,227
Property	**358**	335
Cash and cash equivalents	**785**	904
Investment funds	**3,937**	3,249
	59,993	44,555

The return on the plan assets was:

	2016 £'000	2015 £'000
Interest income	**1,865**	1,388
Re-measurements	**6,922**	241
Total return on plan assets	**8,787**	1,629

22
Related party disclosure

The company's immediate parent is Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann SE & Co KGaA (53%) and Pearson PRH Holdings Limited (47%). The company's ultimate parent undertaking and controlling party is Bertelsmann SE & Co KGaA, which is incorporated in Germany, copies of whose consolidated financial statements (the smallest and largest financial statements in which the company is consolidated) can be obtained from:

Bertelsmann SE & Co KGaA
Corporate Communications
Carl Bertelsmann Strasse 270
Postfach 111
D-33311 Gütersloh
Germany

The directors consider that there are no key managers, whose roles and activities within the company define them as related parties under the terms of Financial Reporting Standard 101, outside the Board of Directors.

The remuneration of the directors is disclosed in Note 7 to the financial statements. Related party balances with fellow wholly-owned group undertakings are disclosed in Notes 16 and 17 to the financial statements.

The company is wholly-owned by PRHL and, as such, has taken exemptions under the terms of Financial Reporting Standard 101, from disclosing related party transactions with other wholly-owned subsidiaries of PRHL.

During the year the company entered into the following transactions with related parties. The profit and loss amounts shown below represent transactions for the full year, except where otherwise stated.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

22
Related party disclosure (continued)

Sales	**2016 £'000**	2015 £'000
Ikar, AS	**10**	2
Prisma Media Group	**-**	325
Circulo de Lectores S.A	**1**	29
Penguin Group (USA) LLC	**-**	-11
Pearson College	**1**	-
Pearson South Africa	**11**	-
Pearson Education Limited	**- -**	206(2)
Pearson Education North Asia Limited	**14**	-
Penguin Random House Group Spain	**24**	1,075

Cost of Sales	**2016 £'000**	2015 £'000
GGP Media GmbH	**82**	75
RTL Group SS	**-**	8

Other Operating Income	**2016 £'000**	2015 £'000
Pearson Education Limited	**11,590**	-
Pearson Education Southern Africa	**1**	-
Pearson Education Inc	**21**	-
Pearson Management Services	**89**	-
Pearson Shared Services	**39**	-

Other Operating Income relates to Royalty Income and income in respect of image rights.

Purchases	**2016 £'000**	2015 £'000
Mohn Media Mohndruck GmbH	**1,555**	1,212
Penguin Group (USA) LLC	**201**	6
Penguin Books SA	**39**	27
Pearson Education Limited	**-**	18
Prisma Media	**-**	6

Purchases relate to purchases of inventory.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

22
Related party disclosure (continued)

Distribution Expenses recovered	2016 £'000	2015 £'000
Pearson Education Limited	-	9,028

Pearson Education Limited's share of the distribution expenses arising from the Rugby Distribution Centre.

Administration Expenses recovered	2016 £'000	2015 £'000
The Publishers Association	-	16

Administrative Expenses: Management Fee	2016 £'000	2015 £'000
Pearson Shared Services Limited	505	-

Administrative Expenses: Other External Charges*	2016 £'000	2015 £'000
Pearson Shared Services Limited	12,884	11,832

Interest Receivable	2016 £'000	2015 £'000
Penguin Random House Limited	341	364

Dividend Paid	2016 £'000	2015 £'000
Penguin Random House Limited	-	-

Debtors	2016 £'000	2015 £'000
Ikar, AS	22	-
Penguin Random House Limited	-	77,327
Penguin Random House LLC	-	1,963
Pearson Education Limited	1,196	-
Pearson PLC	22	-
Circulo de Lectores S.A	21	-
Pearson Egitim Cozumleri TIC	34	-
Pearson Shared Services	4	3,454
Mohn Media	-	49
Pisma Media	-	69

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended:
31 December 2016

22
Related party disclosure (continued)

Creditors	2016 £'000	2015 £'000
Mohn Media Mohndruck GmbH	**19**	-
Pearson Education Inc	**162**	-
Penguin Random House Canada	**16**	2
Penguin Random House LLC	**394**	85
Penguin Random House SA	**24**	4
Penguin Books Deutchsland GMBH	**3**	29
Penguin Books Benelux B.V	**-**	21
Penguin Books SA	**14**	-
GGP Media	**7**	-
Pearson Education Canada	**14**	-

* Pearson charges are paid by Penguin Books Limited and subsequently recharged to other Penguin companies