

REGISTERED NUMBER: 00861590

PENGUIN BOOKS LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**



PENGUIN BOOKS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their Strategic Report for the year ended 31 December 2018.

Principal activities

The company is a subsidiary of Penguin Random House Limited ("PRHL"), 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.

Review of the business

The results and financial position of the company are set out in the attached financial statements. The company made an operating profit for the year of £35,625,000 (2017: £35,243,000).

Key performance indicators ('KPI's')

The company monitors progress and performance during the year and historical trend data which is set out in the following KPI:

- Turnover was £194,476,000 (2017: £200,909,000).

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 GARDINER
Director

25 June 2019

PENGUIN BOOKS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and audited financial statements of the company for the year ended 31 December 2018.

Future developments

Looking ahead, the market remains challenging and the economic backdrop remains similarly tough. Nonetheless the company will continue to seek suitable publishing opportunities to ensure growth. The directors do not anticipate any significant changes in the activities of the company.

Dividends

Dividends of £30,000,000 were paid during 2018 (2017: £34,000,000).

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 as not significant.

Directors

The directors who held office during the year and up to the date of this report were as follows:

M Dohle	Chairman and Chief Executive
M Gardiner	
R Waddington	
T Weldon	

S Martin	Company Secretary
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Employees

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

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

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

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

PENGUIN BOOKS LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of directors' responsibilities

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

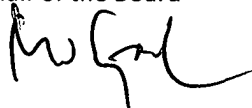
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the company's auditors are unaware; and each director has taken all the steps that he 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 GARDINER
Director

25 June 2019

Independent auditors' report to the members of Penguin Books Limited

Report on the audit of the financial statements

Opinion

In our opinion, Penguin Books Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: The Balance Sheet for the year ended 31 December 2018; the Income Statement and Statement of Comprehensive Income for the year ended 31 December 2018 and the Statement of Changes in Equity for the year then ended 31 December 2018; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

Reporting on other information (Continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

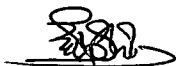
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Philip Stokes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 June 2019

PENGUIN BOOKS LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	Restated 2017
	Note	£'000	£'000
Turnover	5	194,476	200,909
Cost of sales		(84,888)	(89,073)
Gross profit		109,588	111,836
Distribution costs		(13,223)	(17,203)
Administrative expenses		(82,216)	(89,923)
Other operating income		21,738	30,533
Loss on disposal of fixed assets		(262)	-
Operating profit	6	35,625	35,243
Income from investments in subsidiaries	8	169	5,061
Impairment charge on investment in subsidiaries	13	-	(3,894)
Gain on sale of investment		-	500
Interest receivable and similar income	9	543	257
Profit on ordinary activities before taxation		36,337	37,167
Tax on profit on ordinary activities	10	(7,205)	(7,139)
Profit for the financial year		29,132	30,028

See note 25 for the impact of the restatements to the prior year balances.

The notes on pages 11 to 38 are an integral part of these financial statements.

PENGUIN BOOKS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		29,132	30,028
Other comprehensive income/(expense): items that will not be reclassified to profit or loss:			
Actuarial gains on pension scheme	17	1,868	3,047
Movement on deferred tax relating to pension surplus	14	(318)	(474)
Total comprehensive income for the year		30,682	32,601

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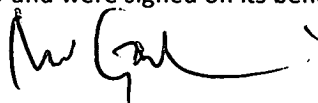
BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	Restated 2017 £'000
Fixed assets			
Intangible assets	11	441	576
Tangible assets	12	271	1,366
Investments	13	16,718	15,569
Deferred tax assets	14	1,766	2,541
		<u>19,196</u>	<u>20,052</u>
Current assets			
Stocks	15	12,243	13,074
Debtors	16	197,154	194,308
Cash at bank and in hand		2,342	724
Pension surplus: amounts falling due more than one year	17	2,044	-
		<u>213,783</u>	<u>208,106</u>
Creditors: amounts falling due within one year	18	<u>(86,701)</u>	<u>(79,947)</u>
Net current assets		<u>127,082</u>	<u>128,159</u>
Total assets less current liabilities		<u>146,278</u>	<u>148,211</u>
Creditors: amounts falling due after more than one year	19	(1,970)	(1,125)
Provisions for other liabilities	20	(23,147)	(26,218) *
Pensions and similar obligations	17	-	(323)
		<u>121,161</u>	<u>120,545</u>
Net assets		<u>121,161</u>	<u>120,545</u>
Capital and Reserves			
Called up share capital	21	88,300	88,300
Share premium account		1,139	1,139
Profit and loss account		31,722	31,106 *
		<u>121,161</u>	<u>120,545</u>
Total equity		<u>121,161</u>	<u>120,545</u>

*Prior year balances have been restated to present them in conformity with the current year treatment.
See notes 16, 20 and 25 for the impact of the restatements.

The notes on pages 11 to 38 are an integral part of these financial statements.

The financial statements on pages 7 to 38 were authorised for issue by the board of directors on 26 June 2019 and were signed on its behalf by:



M GARDINER
Director

PENGUIN BOOKS LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
Balance as at 1 January 2017		88,300	1,139	32,505	121,944
Profit for the financial year		-	-	30,028	30,028
Other comprehensive income/(expense) for the year:					
Actuarial gains on pension scheme	17	-	-	3,047	3,047
Movement on deferred tax relating to pension surplus	14	-	-	(474)	(474)
Dividends		-	-	(34,000)	(34,000)
Balance as at 31 December 2017		88,300	1,139	31,106	120,545
Change in accounting policy	25	-	-	(66)	(66)
Restated balance as at 1 January 2018		88,300	1,139	31,040	120,479
Profit for the financial year		-	-	29,132	29,132
Other comprehensive income/(expense) for the year:					
Actuarial gains on pension scheme	17	-	-	1,868	1,868
Movement on deferred tax relating to pension surplus	14	-	-	(318)	(318)
Dividends		-	-	(30,000)	(30,000)
Balance as at 31 December 2018		88,300	1,139	31,722	121,161

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 20 Vauxhall Bridge Road, London, SW1V 2SA.

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.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below or in note 4.

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

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
 - paragraph 73(e) of IAS 16 'Property, plant & equipment'
 - 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)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation of financial statements (Continued)

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

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.

New standards, amendments and IFRIC interpretations

IFRS 9 and IFRS 15 are new accounting standards that are effective for the year ended 31 December 2018. Neither accounting standard has had a material impact on the company (see note 25). There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2018 which 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 company operates ('the functional currency'). The financial statements are presented in sterling, which is also the functional currency of the company.

Transactions and balances

Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the 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, 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, turnover is recognised inclusive of any commissions and fees receivable for services rendered. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are included in turnover with a corresponding expense recognised in administrative expenses in the income statement.

Income from sub rights

Fees charged for the use of rights granted by the agreement and related services are recognised as turnover 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.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. A defined benefit plan is a pension plan that is not a defined contribution plan.

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.

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 equity 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 equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (Continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the 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 balance 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 an impairment.

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). Prior impairments of non-financial assets 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.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the assets over their estimated useful lives over periods of 4 years on a straight line basis. Amortisation expense is charged to the income statement.

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 company 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 it or sell it;

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

- 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.

Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation. Historical cost includes the original purchase price and costs directly attributed to bringing the asset to its working condition for intended use.

Depreciation is calculated to write off the cost of the tangible assets over their estimated useful lives on a straight line basis. The principal annual rates used for this purpose are as follows:

Freehold buildings	2% straight line;
Leasehold property	Over period of lease;
Plant and equipment	10-33.3% straight line; and
Fixtures and fittings	10-25% straight line.

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.

Stocks

Stocks mainly 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.

Other operating income

Other operating income consists of income not directly related to the operating as a publisher of books. It mainly comprises of the recharge of administrative, distribution and other operating expenses incurred by the company on behalf of other group undertakings as a management charge. The management charge comprises of certain fixed costs and the allocation of expenses calculated using specific percentages within a recharge model.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Royalty advances

Advances of royalties paid to authors are recognised once a contract is approved within the royalty system, provided it is a signature advance or has had a manuscript accepted on the work, less any provision required to adjust the advance to its net realisable value. Once a manuscript is marked as accepted in the future, contracted advances are recognised as payable. For unpublished titles, the contracts are assessed twice a 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 gross advance paid and the royalty earnings and sub rights income at the point of review. All titles are reassessed twice a year following the 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. From 1 January 2018 provisions for anticipated future sales returns and incentive discounts are no longer stated against trade debtors, but shown separately in provisions for other liabilities. Prior year comparatives have been restated for consistency with the current year treatment, which has been disclosed in note 25.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for insignificant trade debtors and a risk score on an individual basis for significant trade debtors. To measure the expected credit losses, trade debtors are grouped based on shared credit risk characteristics and the balance of uninsured debt across the company.

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.

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

Key accounting estimates and assumptions

(i) Advances

Advances of royalties paid to authors are recognised once a contract is approved within the royalty system, provided it is a signature advance or has had a manuscript accepted on the work, less any provision required to adjust the advance to its net realisable value for unpublished titles. 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 assessed twice a year and is based upon a detailed management review of the age of the advance, the future sales projections for new authors and prior sales history of repeat authors. The realisable value will then be adjusted on a title by title basis to reflect the result of this analysis. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned. The carrying amount of royalty advances are included in other debtors, see note 16 for reference.

(ii) 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. See note 19 for details of the returns provision value.

(iii) 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. See note 20 for the disclosures of the defined benefit pension scheme.

(iv) 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. See note 13 for the carrying amount of investments and associated provision.

(v) Impairment of trade debtors

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade debtors, management considers factors including the credit rating of the debtor, the ageing profile of receivables and historical experience. See note 16 for the net carrying amount of the receivables and associated impairment provision.

(vi) 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. See note 15 for the net carrying amount of the inventory and associated provision.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

5 TURNOVER

	2018 £'000	Restated 2017 £'000
Analysis of turnover by geography:		
UK and The Republic of Ireland	122,287	135,730
Rest of the World	72,189	65,179
	<hr/> 194,476	<hr/> 200,909

Prior year balances have been restated to present them in conformity with the current year treatment following the adoption of IFRS 15. See note 25 for details of the impact of the restatement.

Turnover includes supplies made to geographical locations worldwide. The products sold, means of selling and commercial terms are similar across the various markets and, in the opinion of the directors, the geographical markets supplied are not substantially different from each other.

6 OPERATING PROFIT

Operating profit is stated after charging:

	2018 £'000	2017 £'000
<i>Auditors' remuneration:</i>		
Statutory audit	294	294
Operating lease expenses	9,383	10,741
Impairment/(reversal of impairment) of trade receivables	1,857	(3,718)
(Reversal of impairment)/impairment of inventory	(52)	1,004
Foreign exchange (gain)/loss	(157)	86
<i>Personnel costs:</i>		
Wages and salaries	19,056	23,062
Social security costs	2,135	2,449
Other pension costs	7,273	8,497
	<hr/>	<hr/>

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
Snowman Enterprises Limited
Snowdog Enterprises Limited

Costs incurred in 2018 of £17,247,330 were recharged back to the associate group companies as a management charge (2017: £30,534,000).

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

7 EMPLOYEES AND DIRECTORS

Employees

The monthly average number of persons, including executive directors, employed by the company during the year was:

	2018 Number	2017 Number
Production	54	55
Selling and distribution	116	225
Administration	92	96
Editorial	148	159
	<hr/> 411	<hr/> 535

	2018 £'000	2017 £'000
<i>Directors' remuneration:</i>		
Aggregate emoluments	691	649
Amounts receivable under long term incentives	28	27
Company pension contributions to money purchase schemes	50	50

Retirement benefits are accruing to 1 director (2017: 1) under defined benefit pension schemes and to 1 director (2017: 1) under a money purchase scheme.

	2018 £'000	2017 £'000
<i>Highest paid director:</i>		
Emoluments	397	414
Defined benefit pension scheme accrued at the end of the year	12	12

The directors of the company are paid by the following companies:

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

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

8 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2018 £'000	2017 £'000
<i>Dividends received:</i>		
Frederick Warne and Co Limited	-	2,000
Ladybird Books Limited	-	2,000
Ventura Publishing Limited	-	500
Snowman Enterprises Limited	-	500
Penguin Books Deutschland GmbH	169	61
	<hr/> 169	<hr/> 5,061

9 INTEREST RECEIVABLE AND SIMILAR INCOME

	2018 £'000	2017 £'000
<i>Interest receivable and similar income:</i>		
Interest on pensions	79	3
Interest on loans to group undertakings	464	222
Other interest receivable	-	32
	<hr/> 543	<hr/> 257

10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge for the year:

	2018 £'000	2017 £'000
<i>Amount payable for group relief and UK corporation tax</i>		
Current year	7,117	6,969
Overseas tax	356	280
Double tax relief	(250)	(252)
Adjustments in respect of prior years	(475)	(491)
<i>Deferred tax, origination and reversal of timing differences</i>		
Current year	98	391
Adjustments in respect of prior years	359	242
	<hr/> 7,205	<hr/> 7,139

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

10 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessment for the year is higher (2017: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained below:

Factors affecting the tax charge for the year:

	2018 £'000	2017 £'000
Profit on ordinary activities before taxation	36,337	37,167
Corporation tax at standard rate of 19.00% (2017: 19.25%)	6,904	7,155
<i>Effects of:</i>		
Expenses not deductible for tax purposes	355	961
Income not taxable	(32)	(1,070)
Withholding tax	106	28
Adjustments in respect of prior years	(116)	(249)
Deferred tax rate differences	(12)	314
Total tax charge for year	7,205	7,139

The current year tax charge represents amounts payable to fellow UK subsidiaries of the Bertelsmann group in respect of current year tax losses surrendered in the UK.

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% from 1 April 2020. Accordingly the company's profits/losses are taxed at an effective rate of 19% (2017: 19.25%).

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

11 INTANGIBLE ASSETS

	Software £'000	Total £'000
Cost:		
At 1 January 2018	12,834	12,834
Disposals	(346)	(346)
Transfers	(51)	(51)
at 31 December 2018	12,437	12,437
Accumulated amortisation:		
At 1 January 2018	(12,258)	(12,258)
Disposals	278	278
Amortisation in the year	(16)	(16)
at 31 December 2018	(11,996)	(11,996)
Net book amounts:		
At 31 December 2018	441	441
At 31 December 2017	576	576

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

12 TANGIBLE ASSETS

	Land & buildings £'000	Plant & machinery £'000	Fixtures & fittings £'000	Total £'000
Cost:				
At 1 January 2018	219	14,788	7,807	22,814
Disposals	(219)	(7,580)	(2,406)	(10,205)
Transfers	-	-	51	51
At 31 December 2018	-	7,208	5,452	12,660
Accumulated depreciation:				
At 1 January 2018	(200)	(13,994)	(7,254)	(21,448)
Disposals	207	7,001	2,228	9,436
Charge for the year	(7)	(215)	(155)	(377)
At 31 December 2018	-	(7,208)	(5,181)	(12,389)
Net book amounts:				
At 31 December 2018	-	-	271	271
At 31 December 2017	19	794	553	1,366

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

13 INVESTMENTS

	Shares in subsidiaries £'000	Total £'000
Cost:		
At 1 January 2018	30,114	30,114
Additions	1,149	1,149
At 31 December 2018	31,263	31,263
Accumulated impairment:		
At 1 January 2018	(14,545)	(14,545)
At 31 December 2018	(14,545)	(14,545)
Net book amounts:		
At 31 December 2018	16,718	16,718
At 31 December 2017	15,569	15,569

The company's subsidiaries are listed in note 26.

During the year the company purchased 100% of the share capital of Hind Pocket Books Private Limited for £1,149,000 (INR 103,608,000) a company registered in India.

An impairment test was carried out in accordance with International Accounting Standard 36. The carrying amount and the equity value of each investment was compared to ascertain if impairment is necessary. No impairment charges were considered necessary for 2018 (2017: £3,894,000).

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 2018

14 DEFERRED TAX ASSETS AND LIABILITIES

Movement in recognised deferred tax during the year	1 January 2018 £'000	Amounts charged to the income statement £'000	Amounts charged to other comprehensive income £'000	Prior year adjustment £'000	Change in tax rate £'000	31 December 2018 £'000
Property plant and equipment	1,620	(153)	-	13	-	1,480
Provisions	866	134	-	(366)	-	634
Pension scheme	55	(79)	(318)	(6)	-	(348)
Total deferred tax	2,541	(98)	(318)	(359)	-	1,766

Movement in recognised deferred tax during the prior year	1 January 2017 £'000	Amounts charged to the income statement £'000	Amounts charged to other comprehensive income £'000	Prior year adjustment £'000	Change in tax rate £'000	31 December 2017 £'000
Property plant and equipment	2,100	(167)	-	(92)	(221)	1,620
Provisions	1,018	105	-	(150)	(107)	866
Pension scheme	529	-	(418)	-	(56)	55
Total deferred tax	3,647	(62)	(418)	(242)	(384)	2,541

Deferred tax

The tax rate will fall to 17% with effect from 1 April 2020. Accordingly deferred tax has been provided at 17%.

There are no unused tax losses or unused tax credits.

15 STOCKS

	2018 £'000	2017 £'000
Raw materials and consumables	1,376	1,039
Work in progress	3,214	3,546
Finished books	7,653	8,489
	12,243	13,074

There is no significant difference between the replacement cost of work in progress and finished goods and their carrying amounts. Stocks are stated after provisions for impairment of £3.1m (2017: £3.1m).

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

16 DEBTORS

	2018 £'000	2017 £'000
Trade debtors	729	5,026
Amounts owed by group undertakings	179,607	178,419
Other debtors	16,015	9,026
Prepayments and accrued income	803	1,837
	<hr/> 197,154	<hr/> 194,308

Amounts owed by group undertakings of £3,687,000 (2017: nil) fall due after more than one year.

Amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £80,850,000 (2017: £76,467,000) in respect of cash pooling agreements with the company's parent entity, Penguin Random House Limited ("PRHL"). These amounts incur interest on a monthly basis; the average interest rate for the year was 3.17% (2017: 2.84%). Also included in amounts owed by group undertakings is £78,307,000 (2017: £78,621,000) owed by The Book Service Limited ("TBS"). These amounts include trade debtor balances which are held in TBS. As of 31 December 2018, amounts owed by TBS are stated after provision for impairment of £6,159,000 (2017: £4,302,000).

On 6 June 2019 the company signed agreements with the commitment not to call for £40,000,000 and £30,000,000 of the balances owed to it by PRHL and TBS respectively. The agreements are provided for twelve months from the date of the audit report included in these financial statements and shall automatically terminate and lapse after the expiry of such period of time, and by no later than 30 June 2020.

As of 31 December 2018, author advances of £27.4m (2017: £17.0m) were reviewed for impairment. The amount of the provision was £11.2m (2017: £9.4m). The net carrying values are included in other debtors.

17 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 the company 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:

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.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

17 POST EMPLOYMENT BENEFITS (continued)

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.

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.

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 31 December 2018 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2018	2017
	%	%
Discount rate	2.90	2.50
Rate of price inflation (RPI)	2.20	2.20
Rate of increase in salaries	2.70	2.70
Rate of increase of pensions in payment:		
- Final Pay Section	3.10	3.10
- Penguin Section	3.70	3.70
- Underpin of the Money Purchase Section	2.20	2.20

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:

	2018	2017
	Years	Years
Current age 65	87.49	87.60
Current age 45	89.26	89.20

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

17 POST EMPLOYMENT BENEFITS (continued)

Reconciliation of scheme assets and liabilities:

	Fair value of plan assets £'000	Present value of obligation £'000	Total £'000
At 1 January 2018	73,072	(73,395)	(323)
Current service cost	-	(4,390)	(4,390)
Interest income / (expense)	1,878	(1,799)	79
	<hr/> 74,950	<hr/> (79,584)	<hr/> (4,634)
Remeasurements:			
Gain from change in demographic assumptions	-	244	244
Loss from change in financial assumptions	-	3,657	3,657
Gain from experience adjustments	-	4,871	4,871
Return on plan assets, excluding amounts included in interest expense	(6,904)	-	(6,904)
	<hr/> (6,904)	<hr/> 8,772	<hr/> 1,868
Contributions:			
Employers	4,810	-	4,810
Plan participants	1,169	(1,169)	-
Payments from plan:			
Benefit payments	(2,900)	2,900	-
	<hr/> 3,079	<hr/> 1,731	<hr/> 4,810
At 31 December 2018	<hr/> 71,125	<hr/> (69,081)	<hr/> 2,044

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

17 POST EMPLOYMENT BENEFITS (continued)

	Fair value of plan assets £'000	Present value of obligation £'000	Total £'000
At 1 January 2017	59,993	(62,775)	(2,782)
Current service cost	-	(5,191)	(5,191)
Interest income / (expense)	1,628	(1,625)	3
	<u>61,621</u>	<u>(69,591)</u>	<u>(7,970)</u>
Remeasurements:			
Gain from change in demographic assumptions	-	1,196	1,196
Gain from change in financial assumptions	-	357	357
Loss from experience adjustments	-	(4,641)	(4,641)
Return on plan assets, excluding amounts included in interest expense	6,135	-	6,135
	<u>6,135</u>	<u>(3,088)</u>	<u>3,047</u>
Contributions:			
Employers	4,600	-	4,600
Plan participants	1,436	(1,436)	-
Payments from plan:			
Benefit payments	(720)	720	-
	<u>5,316</u>	<u>(716)</u>	<u>4,600</u>
At 31 December 2017	73,072	(73,395)	(323)

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

	Change in Assumption	Impact on defined benefit obligation	
		Increase in Assumption	Decrease in Assumption
Discount rate	0.40%	Decrease by 8.4%	Increase in 9.6%
Salary growth rate	0.00%	Increase by 1.5%	Decrease by 1.4%
Pension growth rate	0.00%	Increase by 2.6%	Decrease by 2.4%
Life expectancy	+/- by 1 year	Increase by 3.4%	Decrease by 3.9%

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

17 POST EMPLOYMENT BENEFITS (continued)

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 year.

Total cost recognised as an expense:

	2018 £'000	2017 £'000
Current service cost	(4,390)	(5,191)
Interest cost	(1,799)	(1,625)
	<u>(6,189)</u>	<u>(6,816)</u>

The fair value of the plan assets was:

	2018 £'000	2017 £'000
Equity instruments	44,166	55,128
Bonds	13,404	13,209
Property	486	443
Cash and cash equivalents	865	807
Investment funds	12,204	3,485
	<u>71,125</u>	<u>73,072</u>

The return on the plan assets was:

	2018 £'000	2017 £'000
Interest income	1,878	1,628
Re-measurements	6,904	6,135
	<u>8,782</u>	<u>7,763</u>

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

17 POST EMPLOYMENT BENEFITS (continued)

Defined contribution scheme

Following the closure of the defined benefit scheme to new entrants, the company provided a defined contribution scheme for its employees, administered by Capita. The defined contribution scheme was replaced in March 2016 by a money purchase scheme administered by Aviva. The amount recognised as an expense for the defined contribution & money purchase schemes was:

	2018 £'000	2017 £'000
Current year contributions	1,699	2,232
	<u>1,699</u>	<u>2,232</u>

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £'000	Restated 2017 £'000
Trade creditors	32,403	27,997
Amounts owed to group undertakings	33,764	28,481
Taxation	6,868	6,718
Other creditors	4,277	3,136
Accruals and deferred income	9,389	13,615
	<u>86,701</u>	<u>79,947</u>

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

19 CREDITORS: AMOUNTS FALLING AFTER MORE THAN ONE YEAR AND LESS THAN 5 YEARS

	2018 £'000	2017 £'000
Trade creditors	1,970	1,125
	<u>1,970</u>	<u>1,125</u>

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

20 PROVISION FOR OTHER LIABILITIES AND CHARGES

The company had the following provisions during the year:

	Rugby dilapidation provision £'000	Rugby onerous lease provision £'000	Strand onerous lease provision £'000	Discount provision £'000	Returns provision £'000	Onerous contract provision £'000	Total £'000
At 1 January 2018 (restated)	3,369	2,548	3,227	3,050	14,024	-	26,218
Release to the Income statement	(665)	(700)	-	-	-	-	1,365.00
Additions to the income statement	-	-	3,686	3,706	10,750	1,778	19,920
Amount utilised during the year	(2,704)	(1,848)	-	(3,050)	(14,024)	-	(21,626)
At 31 December 2018	-	-	6,913	3,706	10,750	1,778	23,147

Prior year balances have been restated to present them in conformity with the current year treatment and following the adoption of IFRS 15. See note 25 for the impact of the restatements.

The addition to the Strand onerous lease provision of £3,686,000 during the year relates to the transfer of the onerous lease provision from Dorling Kindersley Limited ("DK"), a connected company, which sub-lets office space from the company. The amount was subsequently recharged to DK during the year, overall resulting in nil impact in the company's income statement.

21 CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid:		
88,300,000 (2017: 88,300,000) Ordinary shares of £1 each	88,300	88,300

22 COMMITMENTS

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2018 £'000	2017 £'000
Plant and machinery:		
Not later than one year	40	86
Between two and five years	10	67
Premises:		
Not later than one year	7,353	10,741
Between two and five years	3,677	12,336
	11,079	23,230

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

22 COMMITMENTS (continued)

There are commitments to authors for the payment of royalty advances amounting to £32,870,000 at 31 December 2018 (2017: £39,535,000). 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 2018 (2017: nil).

23 CONTINGENT LIABILITIES

The company has given a guarantee in respect of a lease agreement dated 14 December 2017 entered into by fellow subsidiary companies of the company's immediate parent company Penguin Random House Limited. The access date under the lease agreement is 1 July 2019 so it is not practical to state the timing or amount of any possible payments. As any future payments are possible, but not probable, no provision for any liability has been made in these financial statements.

24 RELATED PARTIES

The company's immediate parent company is Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann UK Limited 75% and Pearson PRH Holdings Limited 25%. The Company's ultimate parent company is Bertelsmann SE & Co KGaA, which is incorporated in Germany. Copies of Bertelsmann SE & Co KGaA's consolidated financial statements (the smallest and largest financial statements in which the company is consolidated) can be obtained from:

Bertelsmann SE & Co KGaA
Corporate Communications
Carl Bertelsmann Strasse 270
33311 Gütersloh, Germany

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

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

24 RELATED PARTIES (continued)

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

	2018 £'000	2017 £'000
Sales of books:		
Ikar, AS	5	8
Cost of sales:		
GGP Media GmbH	60	30
Other operating income:		
Pearson Education Limited	8,430	13,298
Other operating income relates to royalty income and income in respect of image rights.		
Purchases:		
Mohn Media Mohndruck GmbH	1,502	148
Penguin Group (USA) LLC	673	1,255
Purchases relate to purchases of inventory		
Administrative expenses: Other external charges		
Pearson Shared Services Limited	16,805	19,157

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

Debtors:

Penguin Random House LLC	119	-
Pearson Education Limited	82	4,149
Penguin Random House South Africa	28	355
Penguin Books Germany	-	61
Pearson PLC	-	11

Creditors:

Pearson Education Inc	4,035	-
Penguin Random House New Zealand	-	134
Penguin Random House Australia	-	519
Penguin Random House LLC	97	270
Penguin Random House SA	99	49
Penguin Books Deutschland GmbH	-	13
Penguin Books SA	-	39

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

25 CHANGES IN ACCOUNTING POLICIES

IFRS 15 Revenue from Contracts with Customers

The company has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

The adoption of IFRS 15 impacted the company in the following areas:

- Sales of ebooks under agency terms are now shown gross inclusive of commissions paid to etailers, with the commission payable shown as a cost within administrative expenses in the income statement; and
- Provisions for returns and expected volume discounts are now disclosed separately in provisions for liabilities and other charges.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 3 above. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

25 CHANGES IN ACCOUNTING POLICIES (continued)

The following tables show the adjustments recognised for each individual line item following the adoption of IFRS 9 and IFRS 15. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Statement of financial position (extract)	31 Dec 2017		31 Dec 2017		1 January 2018
	As originally presented	IFRS 15	Restated	IFRS 9	Restated
	£'000	£'000	£'000	£'000	£'000
Current assets					
Debtors	180,284	14,024	194,308	(66)	194,242
Cash at bank and in hand	724	-	724	-	724
Creditors: amounts falling due within one year	(82,997)	3,050	(79,947)	-	(79,947)
Net current assets	111,085	17,074	128,159	(66)	128,093
Total assets less current liabilities	131,137	17,074	148,211	(66)	148,145
Provisions for other liabilities	(9,144)	(17,074)	(26,218)	-	(26,218)
Net assets	120,545	-	120,545	(66)	120,479
Capital and reserves					
Called up share capital	88,300	-	88,300	-	88,300
Other reserves	1,139	-	1,139	-	1,139
Profit and loss account	31,106	-	31,106	(66)	31,040
Total equity	120,545	-	120,545	(66)	120,479

Statement of profit or loss and other comprehensive income (extract) 2017	As originally presented	IFRS 15	Restated
	£'000	£'000	£'000
Turnover	194,535	6,374	200,909
Gross profit	105,462	6,374	111,836
Administrative expenses	(83,549)	(6,374)	(89,923)

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

25 CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 15 had no impact on retained earnings as at 1 January 2018. The total impact on the company's retained earnings as at 1 January 2018 following the adoption of IFRS 9 is as follows:

	£'000
Closing retained earnings 31 December 2017	
IAS 39	31,106
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018:	
Increase in provision for trade receivables	(66)
	<hr/>
Opening retained earnings 1 January 2018 - IFRS 9	31,040
	<hr/>

26 SUBSIDIARY UNDERTAKINGS

Refer to the following table for the company's subsidiary undertakings at 31 December 2018.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2018

26 SUBSIDIARY UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
<u>Subsidiary undertakings</u>				
Allen Lane The Penguin Press Limited	Dormant Entity	100	Ordinary	80 Strand, London, WC2R 0RL
Frederick Warne & Co Limited	Publishing	100	Ordinary	80 Strand, London, WC2R 0RL
Michael Joseph Limited	Dormant Entity	100	Ordinary	80 Strand, London, WC2R 0RL
Hamish Hamilton Limited	Dormant Entity	100	Ordinary	80 Strand, London, WC2R 0RL
Penguin Books Deutschland GmbH	Publishing and Distribution	100	Ordinary	Myliisstrasse 9, Frankfurt, 60323
Ventura Publishing Limited	Publishing	100	Ordinary	80 Strand, London, WC2R 0RL
Ladybird Books Limited	Publishing	100	Ordinary	80 Strand, London, WC2R 0RL
Snowman Enterprises Limited	Media rights	100	Ordinary	80 Strand, London, WC2R 0RL
Children's Character Books Limited	Publishing	75	Ordinary	80 Strand, London, WC2R 0RL
Hind Pocket Books Private Limited	Book Publishing	100	Ordinary	30, Jor Bagh, New Dehli, India 110003