

REGISTERED NUMBER: 00861590

**PENGUIN BOOKS LIMITED**

ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019

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# **PENGUIN BOOKS LIMITED**

## **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present their Strategic Report for the year ended 31 December 2019.

### **Principal activities**

The Company is a subsidiary of Penguin Random House Limited ("PRHL"), a company registered in the United Kingdom. The Company is UK domiciled and registered in the United Kingdom. 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 £39,063,000 (2018: £35,625,000). At the year-end the Company had net assets of £129,886,000 (2018: £121,161,000) and cash at bank and in hand of £3,629,000 (2018: £2,342,000).

### **Key performance indicators ('KPI's')**

The Company monitors progress and performance during the year using KPI's. During the year, the Company's turnover was £210,542,000 (2018: £194,476,000). During the year the gross profit margin was 55.38% (2018: 56.35%).

### **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 Penguin 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. 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.

### **COVID-19**

The Company, like all companies globally on different timescales, has been impacted by the global COVID-19 pandemic outbreak since February 2020.

The safety of our employees is a major concern for us during these troubling times and the Company has implemented a comprehensive program of employee safety management and communication through each developing stage in the fight against this outbreak. We follow governmental advice on safe working conditions and good business practice and we operate safe distancing of our employees during the course of their work.

We have very clear and regular communication channels in place with our client base to ensure that we align their expectations with our restricted capabilities in the current environment. This approach has enabled us to continue to support our clients through this crisis, although on a reduced basis in many instances. In turn this has continued to allow us to trade and operate our business successfully.

All cash funding required to operate the business continues to be supported by the Group's global cash pooling structures that have always been in place and the overall Group cash reserves are robust which puts all Group companies in a good position to withstand the cash flow demands during this period of time.

# **PENGUIN BOOKS LIMITED**

## **STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

### **COVID-19 (continued)**

Despite the wider economic impact of the virus within the UK, the book industry has held up well. The Company has seen a dramatic improvement in ebook and digital audio sales during lockdown which has gone some way to compensate for the drop in physical sales. In addition the Company's online physical presence, driven by our largest customer, has increased year-on-year since lockdown. There are a number of cost mitigation initiatives in place, making the short term impact of the virus manageable. The Company is not without impacts like most of the world, but will return a reasonable profit in 2020 and a positive cash flow generation. The directors of the Company do not see COVID-19 impacting their view that the Company will continue to operate as a going concern through 2020 and 2021 and the foreseeable future and expects 2021 to return to pre COVID-19 levels or better.

### **Directors' section 172 statement**

The Directors of the company must act in accordance with a set of general duties, as detailed in section 172 of the UK Companies Act 2006, summarised as follows:

'A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

- the likely consequences of any decisions in the long-term;
- the interest of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between the shareholders of the company.'

The directors fulfil these duties as follows:

### **Risk management**

The company has a long-term strategic plan that effectively identifies, evaluates and mitigates the risks which the company faces, ensuring they are sufficiently considered and, if applicable, hedged against for the future. The directors will invariably delegate day-to-day management and decision making to executive management, but will ensure that management is acting in accordance with the strategy and plans agreed by the board.

### **The interest of the company's employees**

The board recognises that employees are central to the long-term success of the company. 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 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.

# PENGUIN BOOKS LIMITED

## STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### Directors' section 172 statement (continued)

#### **Business relationships with suppliers, customers and others**

The directors appreciate the importance of fostering business relationships with key stakeholders, such as customers and suppliers, and focus on the maintenance and growth of these relationships in their decision-making and strategic planning. The company employs dedicated relationship managers to foster these relationships which also ensures the board has a high degree of visibility to take stakeholder considerations into account.

#### **Community and environment**

The company's approach is to use its position of strength to ensure it is an asset to the communities and people with which it interacts. The board ensures significant consideration is given to the impact of the company's operations on the community and environment in their decision-making. The company strives to create positive change in reducing the environmental impact of its businesses and to meet the highest level of health and safety and environmental standards, whilst maintaining effective and continuing business practices.

#### **Shareholders**

The board recognises the importance of regular and open dialogue with the shareholders and the need to ensure the strategy and goals of the company are effectively communicated to them. Feedback on these plans and objectives is welcomed by the directors and major business decisions are made closely and with the approval of the shareholders.

On behalf of the Board



**M GARDINER**  
Director

13 August 2020

# **PENGUIN BOOKS LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors present their report and audited financial statements of the Company for the year ended 31 December 2019.

### **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. The directors of the Company do not see COVID-19 impacting their view that the Company will continue to operate as a going concern through 2020 and 2021 and the foreseeable future and expects 2021 to return to pre COVID-19 levels or better.

### **Dividends**

A final dividend of £31,000,000 was paid during 2019 (2018: £30,000,000). No interim dividend was paid. The directors do not recommend any further dividends.

### **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 of the Company who were in office during the year and up to the date of signing the financial statements were:

M Dohle	Chairman and Chief Executive
M Gardiner	Director
R Waddington	Director
T Weldon	Director
S Martin	Company Secretary

### **Employee**

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 2019**

### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 FRS 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### **Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### **Engagement with customers, suppliers and other stakeholders**

The directors appreciate the importance of fostering business relationships with key stakeholders, such as customers and suppliers, and focus on the maintenance and growth of these relationships in their decision-making and strategic planning. The company employs dedicated relationship managers to foster these relationships which also ensures the board has a high degree of visibility to take stakeholder considerations into account.

### **Employee engagement**

The board recognises that employees are central to the long-term success of the company. 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 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.

## **PENGUIN BOOKS LIMITED**

### **DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **Independent auditors**

Following completion of the current year audit PricewaterhouseCoopers LLP will stand down as the Company's auditors. The Board intends to subsequently appoint KPMG LLP as the Company's new auditor.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M. W. Gardiner', written in a cursive style.

**M GARDINER**  
Director

13 August 2020

## ***Independent auditors' report to the members of Penguin Books Limited***

### **Report on the audit of the financial statements**

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#### **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 2019 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 as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the period then ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **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.

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#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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#### **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.

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.



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

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### **Reporting on other information (Continued)**

#### *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 2019 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.

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### **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, 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *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.

**PENGUIN BOOKS LIMITED**

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

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**Other required reporting**

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**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  
13 August 2020

# PENGUIN BOOKS LIMITED

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Turnover	5	210,542	194,476
Cost of sales		(93,943)	(84,888)
Gross profit		116,599	109,588
Distribution costs		(19,228)	(13,223)
Administrative expenses		(73,654)	(82,216)
Other operating income		15,346	21,738
Loss on disposal of fixed assets		-	(262)
Operating profit	6	39,063	35,625
Income from shares in group undertakings	8	10,504	169
Amounts written off investments	14	(829)	-
Interest receivable and similar income	9	926	543
Interest payable and similar charges	9	(132)	-
Profit before taxation		49,532	36,337
Tax on profit	10	(7,781)	(7,205)
Profit for the financial year		41,751	29,132

The notes on pages 14 to 45 are an integral part of these financial statements.

# PENGUIN BOOKS LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Profit for the financial year		41,751	29,132
Other comprehensive (expense)/income: items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on pension scheme	18	(2,190)	1,868
Movement on deferred tax relating to pension deficit/(surplus)	15	372	(318)
<b>Total comprehensive income for the year</b>		<b>39,933</b>	<b>30,682</b>

# PENGUIN BOOKS LIMITED

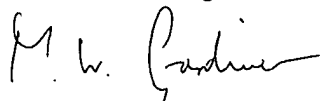
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## BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Intangible assets	11	-	441
Tangible assets	12	737	271
Right-of-use asset	13	18,652	-
Investments	14	15,889	16,718
Deferred tax assets	15	1,273	1,766
		<u>36,551</u>	<u>19,196</u>
<b>Current assets</b>			
Stocks	16	14,984	12,243
Debtors	17	199,720	197,154
Cash at bank and in hand		3,629	2,342
Pension surplus: amounts falling due more than one year		-	2,044
		<u>218,333</u>	<u>213,783</u>
<b>Creditors: amounts falling due within one year</b>	19	<u>(85,569)</u>	<u>(86,701)</u>
<b>Net current assets</b>		<u>132,764</u>	<u>127,082</u>
<b>Total assets less current liabilities</b>		<u>169,315</u>	<u>146,278</u>
Creditors: amounts falling due after more than one year	20	(22,210)	(1,970)
Provisions for other liabilities	21	(17,219)	(23,147)
<b>Net assets</b>		<u>129,886</u>	<u>121,161</u>
<b>Capital and Reserves</b>			
Called up share capital	22	88,300	88,300
Share premium		1,139	1,139
Profit and loss account		40,447	31,722
<b>Total equity</b>		<u>129,886</u>	<u>121,161</u>

The notes on pages 14 to 45 are an integral part of these financial statements.

The financial statements on pages 10 to 45 were authorised for issue by the board of directors on 13 August 2020 and were signed on its behalf by:



M GARDINER  
Director

# PENGUIN BOOKS LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total equity £'000
<b>Balance as at 1 January 2018</b>		88,300	1,139	31,040	120,479
Profit for the financial year		-	-	29,132	29,132
<b>Other comprehensive income for the year:</b>					
Actuarial gains on pension scheme	17	-	-	1,868	1,868
Movement on deferred tax relating to pension surplus	15	-	-	(318)	(318)
Dividends(0.34p per share)		-	-	(30,000)	(30,000)
<b>Balance as at 31 December 2018</b>		88,300	1,139	31,722	121,161
Change in accounting policy IFRS 16			-	(131)	(131)
Restated balance as at 1 January 2019		88,300	1,139	31,591	121,030
Profit for the financial year		-	-	41,751	41,751
<b>Other comprehensive expense for the year:</b>					
Actuarial losses on pension scheme	17	-	-	(2,190)	(2,190)
Movement on deferred tax relating to pension surplus	15	-	-	372	372
Dividends (0.35p per share)		-	-	(31,000)	(31,000)
Change in deferred tax due to accounting policy IFRS 16				(77)	(77)
<b>Balance as at 31 December 2019</b>		88,300	1,139	40,447	129,886

The notes on pages 14 to 45 are an integral part of these financial statements.

### Called up share capital

The called up share capital account records the nominal value of shares issued.

### Share premium account

The share premium account is used to record the premium on shares issued.

### Profit and loss account

This includes all current and prior period retained profits and losses. All reserves in respect of profit and loss and distributable reserves.

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### 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 the United Kingdom. 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 financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101.

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 2019

### 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 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material impact on the Company's financial statements. See Note 26 for details of this change. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

#### **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 2019

### 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 2019

### 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 admin expenses in 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 to software product and use it or sell it;

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 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. Development costs are written off over the assets useful life.

#### 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 charged to the income statement under administrative expenses and 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 machinery	10-33.3% straight line; and
Fixtures and fittings	10-25% straight line.

#### 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 2019

### 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 financial assets include loans and receivables. The company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

#### 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.

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.

#### Leases

The Company leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years but may have extension options.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

## **PENGUIN BOOKS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Leases (continued)**

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Company has chosen not to do so for the right-of-use buildings held by the Company.

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Leases (continued)

The company does not recognise a right-of-use asset in respect of the lease of premises which it has granted occupation under licence to another group company. The right of-use asset is recognised by the licensee in this scenario. The company recognises the net present value of the lease receivable due from the licensee under the licence to occupy agreement. The lease receivable is discounted using the interest rate implicit in the lease. The finance income is credited to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture. There were no short term or low value leases in the year.

As explained here and in note 26, the Company has changed its accounting policy for leases where the Company is the lessee. The impact of the change is explained in note 26. Prior to this change, leases of property, plant and equipment where the Company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in creditors: amounts falling due within 12 months and the long-term component was included in creditors: amounts falling due after more than one year. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

### 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 2019

### 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 17 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 21 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 18 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 14 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 17 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 16 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 2019

#### 4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

##### Key accounting estimates and assumptions (continued)

###### *(vii) Lease accounting*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the company is typically reasonably certain to extend (or not terminate).

Otherwise, the company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

See note 13 for the net carrying amount of the lease liability and right-of-use asset.



# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 5 TURNOVER

	2019 £'000	2018 £'000
Analysis of turnover by geography:		
UK and The Republic of Ireland	132,267	122,287
Rest of the World	78,275	72,189
	<hr/> 210,542	<hr/> 194,476

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/(crediting):

	2019 £'000	2018 £'000
<i>Auditors' remuneration:</i>		
Statutory audit	294	294
Lease expenses	-	9,383
(Reversal of impairment)/impairment of trade receivables	(739)	1,857
Inventories recognised as an expense	45,685	42,074
Reversal of impairment of inventory	(367)	(52)
Foreign exchange loss/(gain)	206	(157)
Depreciation of tangible assets	50	377
Amortisation of intangible assets	441	16
<i>Personnel costs:</i>		
Wages and salaries	19,624	19,056
Social security costs	2,153	2,135
Other pension costs	5,327	7,273

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 2019 of £15,080,000 were recharged to the associate group companies as a management charge (2018: £17,247,000).

## PENGUIN BOOKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 6 OPERATING PROFIT (continued)

The reversal of impairment on trade receivables was due to customers having lower uninsured debt. The reversals of impairment on inventories resulted due to a reduction in the stock provision for the year based on anticipated future sales, offset by a slight increase in the paper stock provision on prior year.

#### 7 EMPLOYEES AND DIRECTORS

##### Employees

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

	2019 Number	2018 Number
Production	49	54
Selling and distribution	115	116
Administration	89	92
Editorial	142	149
	<hr/> 395	<hr/> 411

	2019 £'000	2018 £'000
<i>Directors' remuneration:</i>		
Aggregate emoluments	758	691
Amounts receivable under long term incentives	31	28
Company pension contributions to money purchase schemes	54	50
	<hr/>	<hr/>

Retirement benefits are accruing to 1 director (2018: 1) under defined benefit pension schemes and to 1 director (2018: 1) under a money purchase scheme.

	2019 £'000	2018 £'000
<i>Highest paid director:</i>		
Emoluments	417	397
Defined benefit pension scheme accrued at the end of the year	14	12
	<hr/>	<hr/>

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 2019

### 8 INCOME FROM INVESTMENT IN SUBSIDIARIES

	2019 £'000	2018 £'000
<i>Dividends received:</i>		
Frederick Warne and Co Limited	8,000	-
Ladybird Books Limited	1,500	-
Ventura Publishing Limited	500	-
Snowman Enterprises Limited	400	-
Penguin Books Deutschland GmbH	104	169
	<hr/> 10,504	<hr/> 169

### 9 INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
<i>Interest receivable and similar income:</i>		
Interest on pensions	120	79
Interest on amounts owed by group under takings	735	464
Interest income - lease receivable	71	-
	<hr/> 926	<hr/> 543

### INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £'000	2018 £'000
<i>Interest payable and similar charges:</i>		
Interest on leases liabilities	132	-
	<hr/> 132	<hr/> -

### 10 TAX ON PROFIT

#### *Analysis of tax charge for the year:*

	2019 £'000	2018 £'000
<i>Amount payable for group relief and UK corporation tax</i>		
Current year	7,547	7,117
Overseas tax	416	356
Double tax relief	(369)	(250)
Adjustments in respect of prior years	(679)	(475)
Total Amount payable for group relief and UK corporation tax	<hr/> 6,915	<hr/> 6,748
<i>Deferred tax, origination and reversal of timing differences</i>		
Current year	279	98
Adjustments in respect of prior years	587	359
Total Deferred tax, origination and reversal of timing differences	<hr/> 866	<hr/> 457
	<hr/> 7,781	<hr/> 7,205

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 10 TAX ON PROFIT (continued)

The effective tax for the year is lower (2018: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2019 of 19.00% (2018: 19.00%). The differences are explained below:

*Factors affecting the tax charge for the year:*

	2019 £'000	2018 £'000
Profit before taxation	49,532	36,337
Corporation tax at standard rate of 19.00% (2018: 19.00%)	9,411	6,904
<i>Effects of:</i>		
Expenses not deductible for tax purposes	444	355
Income not taxable	(1,996)	(32)
Withholding tax	48	106
Adjustments in respect of prior years	(93)	(116)
Deferred tax rate differences	(33)	(12)
Total tax charge for year	7,781	7,205

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 20.00% to 19.00% with effect from 1 April 2017. Accordingly the Company's profits/losses are taxed at an effective rate of 19.00% (2018: 19.00%).

The deferred tax asset has been calculated at 17.00%. Following the 2020 Budget, the tax rate will no longer fall to 17.00% on 1 April 2020. A tax rate of 19.00% has been substantively enacted from 1 April 2020. If the tax rate of 19.00% had been enacted at the Balance Sheet date, the recognised deferred tax asset would have been £1,422,000.

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 11 INTANGIBLE ASSETS

	Software £'000	Total £'000
Cost:		
At 1 January 2019	12,437	12,437
	<hr/>	
at 31 December 2019	12,437	12,437
	<hr/>	
Accumulated amortisation:		
At 1 January 2019	(11,996)	(11,996)
Amortisation in the year	(441)	(441)
	<hr/>	
at 31 December 2019	(12,437)	(12,437)
	<hr/>	
Net book amounts:		
At 31 December 2019	-	-
	<hr/>	
At 31 December 2018	441	441
	<hr/>	

The company has no intangible assets whose titled are restricted and has none pledged as security for liabilities.

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 12 TANGIBLE ASSETS

	Plant & machinery £'000	Fixtures & fittings £'000	Assets under construction £'000	Total £'000
Cost:				
At 1 January 2019	7,208	5,452	-	12,660
Additions	-	-	516	516
At 31 December 2019	7,208	5,452	516	13,176
Accumulated depreciation:				
At 1 January 2019	(7,208)	(5,181)	-	(12,389)
Charge for the year	-	(50)	-	(50)
At 31 December 2019	(7,208)	(5,231)	-	(12,439)
Net book amounts:				
At 31 December 2019	-	221	516	737
At 31 December 2018	-	271	-	271

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 13 LEASES

The Company has lease contracts for various offices and vehicles used in the operations. The company has a lease contract for office premises, known as the Strand, which it sub-lets various floors to a fellow subsidiary company of Penguin Random House Limited, Dorling Kindersley Limited. In accordance with the provisions of 'IFRS 16: Leases', the company recognises a proportion of the Right-of-use Asset measured by the rights it retains in the underlying asset. The risk associated with the rights the company retains in the underlying asset are considered low and no specific risk management strategy is adopted as a result. The Strand lease expired on 30 June 2020 and has not been renewed.

For the rights which are not retained in the asset, the company recognises a lease receivable representing the net present value of the rent due to them from Dorling Kindersley Limited under the sub lease arrangements.

The lease receivable is discounted using the interest rate implicit in the lease.

The company recognises a lease liability for the net present value of future rent payments due under the licence agreement, discounted using the interest rate implicit in the lease.

Interest income is recognised on the lease receivable due to the sub lease arrangement constituting a finance lease under IFRS16.

The company has entered into lease contracts for various office floors, known as Embassy Gardens, with a fellow subsidiary company of Penguin Random House Limited, under a licence agreement granted to the company. In accordance with the provisions of 'IFRS 16: Leases', the company recognises a right-of-use asset for the leased premises which it occupies under licence by another group company. The company recognises a lease liability for the net present value of future rent payments due under the licence agreement, discounted using the interest rate implicit in the lease. The company has no risk as the sub lease terms are the same as the head lease terms

The amounts recognised in the financial statements in relation to the leases are as follows:

#### (i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	31st Dec 2019	1st Jan 2019
<b>Right-of-use assets</b>	£'000	£'000
Buildings	18,566	3,209
Vehicles	86	12
	<b>18,652</b>	<b>3,221</b>
<b>Lease Receivable</b>		
Buildings	2,005	5,748
	<b>2,005</b>	<b>5,748</b>
<b>Lease liabilities</b>		
Current	(3,995)	(7,458)
Non-current	(17,387)	(3,428)
	<b>(21,382)</b>	<b>(10,886)</b>

Additions to the right-of-use assets during the 2019 financial year were £17,766,000

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 13 LEASES (continued)

#### (ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2019	2018
	£'000	£'000
<b>Depreciation charge of right-of-use assets</b>		
Buildings	(2,508)	-
Vehicles	(19)	-
	<b>(2,527)</b>	-
Interest expense (included in finance cost)	(132)	-
Future minimum lease payments as at 31 December 2019 are as follows:		
Not later than one year	(3,978)	-
Later than one year and not later than five years	(8,661)	-
Later than five years	(10,826)	-
<b>Total gross payments</b>	<b>(23,465)</b>	-
Impact of finance expenses	2,083	-
<b>Carrying amount of liability</b>	<b>(21,382)</b>	-

The total cash outflow for leases in 2019 was £7,474,000.

#### Maturity of lease receivables

Not later than one year	1,996	-
Later than one year and not later than five years	-	-
Later than five years	-	-
<b>Total gross receipts</b>	<b>1,996</b>	-
Impact of finance income	9	-
<b>Carrying amount of receivable</b>	<b>2,005</b>	-



## PENGUIN BOOKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 14 INVESTMENTS

	Shares in subsidiaries £'000	Total £'000
Cost:		
At 1 January 2019	31,263	31,263
Disposals		-
Transfers		-
	<hr/>	<hr/>
At 31 December 2019	31,263	31,263
	<hr/>	<hr/>
Accumulated impairment:		
At 1 January 2019	(14,545)	(14,545)
Charge for year	(829)	(829)
	<hr/>	<hr/>
At 31 December 2019	(15,374)	(15,374)
	<hr/>	<hr/>
Net book amounts:		
At 31 December 2019	15,889	15,889
	<hr/>	<hr/>
At 31 December 2018	16,718	16,718
	<hr/>	<hr/>

The Company's subsidiaries are listed in note 26. None of the investments are publicly traded.

An impairment test was carried out in accordance with International Accounting Standard 36. The carrying amount and the recoverable amount of each investment was compared to ascertain if impairment is necessary. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. An impairment charge was recorded in the year in respect of the investment in Hind Pocket Books Private Limited of £829,000 (2018: no impairment), due to an assessed decrease in the equity value of the company. The recoverable amount of the investment was assessed as £320,000, which is based on its value in use.

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 15 DEFERRED TAX ASSETS

Movement in recognised deferred tax during the year	1 January 2019 £'000	Restatement for IFRS 16 £'000	Restated 1 January 2019 £'000	Amounts charged to the income statement £'000	Amounts charged to other comprehensive income £'000	Prior year adjustment £'000	31 December 2019 £'000
Property plant and equipment	1,480	(77)	1,403	(174)	-	(122)	1,107
Provisions	634	-	634	(119)	-	(387)	128
Pension scheme	(348)	-	(348)	14	372	-	38
<b>Total deferred tax</b>	<b>1,766</b>	<b>(77)</b>	<b>1,689</b>	<b>(279)</b>	<b>372</b>	<b>(509)</b>	<b>1,273</b>

Movement in recognised deferred tax during the prior year	1 January 2018 £'000	Restatement for IFRS 16 £'000	Restated 1 January 2018 £'000	Amounts charged to the income statement £'000	Amounts charged to other comprehensive income £'000	Prior year adjustment £'000	31 December 2018 £'000
Property plant and equipment	1,620	-	1,620	(153)	-	13	1,480
Provisions	866	-	866	134	-	(366)	634
Pension scheme	55	-	55	(79)	(318)	(6)	(348)
<b>Total deferred tax</b>	<b>2,541</b>	<b>-</b>	<b>2,541</b>	<b>(98)</b>	<b>(318)</b>	<b>(359)</b>	<b>1,766</b>

There are no unused tax losses or unused tax credits.

### 16 STOCKS

	2019 £'000	2018 £'000
Raw materials and consumables	3,567	1,376
Work in progress	2,027	3,214
Finished books	9,390	7,653
	<b>14,984</b>	<b>12,243</b>

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 £2,600,000 (2018: £3,100,000).

No inventories have been pledged as security for liabilities.

## PENGUIN BOOKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 17 DEBTORS

	2019 £'000	2018 £'000
Trade debtors	823	729
Amounts owed by group undertakings	173,818	179,607
Other debtors	24,807	16,015
Prepayments and accrued income	272	803
	<hr/>	<hr/>
	199,720	197,154

Amounts owed by group undertakings of £NIL (2018: £3,687,000) fall due after more than one year.

Amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £67,406,000 (2018: £80,850,000) 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 3.32% (2018: 3.17%). Also included in amounts owed by group undertakings is £92,037,000 (2018: £78,307,000) owed by The Book Service Limited ("TBS"). These amounts include trade debtor balances which are held in TBS. As of 31 December 2019, amounts owed by TBS are stated after provision for impairment of £5,420,000 (2018: £6,159,000).

As of 31 December 2019, author advances of £33,200,000 (2018: £27,400,000) were reviewed for impairment. The amount of the provision was £10.7m (2018: £11.2m). The net carrying values are included in other debtors.

#### 18 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. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance of the plan including investment decisions and contribution schedules lies jointly with the company and the board of trustees of the fund.

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 expected contributions by the employer to plan assets in next financial year is £3,064,000. The following information shows the maturity analysis of the expected benefit payments. Less than 1 year - £1,241,000, less than 2 years - £515,000, less than 3 years - £399,000, less than 4 years - £392,000, less than 5 years - £952,000 and less than 10 years - £9,365,000.

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 2019

#### 18 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 2017 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2019	2018
	%	%
Discount rate	2.10	2.90
Rate of price inflation (CPI)	2.10	2.20
Rate of increase in salaries	2.60	2.70
Rate of increase of pensions in payment:		
- Final Pay Section	2.80	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:

	2019	2018
	Years	Years
Current age 65	88.75	87.49
Current age 45	90.00	89.26

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 18 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 2019	71,125	(69,081)	2,044
Current service cost	-	(3,361)	(3,361)
Interest income / (expense)	2,084	(1,964)	120
	<hr/> 73,209	<hr/> (74,406)	<hr/> (1,197)
Remeasurements:			
Gain from change in demographic assumptions		334	334
Loss from change in financial assumptions		(7,117)	(7,117)
Gain from experience adjustments		(9,251)	(9,251)
Return on plan assets, excluding amounts included in interest expense	13,844		13,844
	<hr/> 13,844	<hr/> (16,034)	<hr/> (2,190)
Contributions:			
Employers	3,157		3,157
Plan participants	1,070	(1,070)	-
Payments from plan:			
Benefit payments	(2,733)	2,733	-
	<hr/> 1,494	<hr/> 1,663	<hr/> 3,157
<b>At 31 December 2019</b>	<hr/> <b>88,547</b>	<hr/> <b>(88,777)</b>	<hr/> <b>(230)</b>

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 18 POST EMPLOYMENT BENEFITS (continued)

	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
	<u>74,950</u>	<u>(79,584)</u>	<u>(4,634)</u>
Remeasurements:			
Gain from change in demographic assumptions	-	244	244
Gain from change in financial assumptions	-	3,657	3,657
Loss from experience adjustments	-	4,871	4,871
Return on plan assets, excluding amounts included in interest expense	(6,904)	-	(6,904)
	<u>(6,904)</u>	<u>8,772</u>	<u>1,868</u>
Contributions:			
Employers	4,810	-	4,810
Plan participants	1,169	(1,169)	-
Payments from plan: Benefit payments	(2,900)	2,900	-
	<u>3,079</u>	<u>1,731</u>	<u>4,810</u>
<b>At 31 December 2018</b>	<b><u>71,125</u></b>	<b><u>(69,081)</u></b>	<b><u>2,044</u></b>

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	0.50%	Decrease by 8.8%	Increase by 10.1%
Salary growth rate	0.50%	Increase by 1.5%	Decrease by 1.4%
Pension growth rate	0.50%	Increase by 2.8%	Decrease by 2.6%
Life expectancy	+/- by 1 year	Increase by 3.6%	Decrease by 4.2%

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 18 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:

	2019 £'000	2018 £'000
Current service cost	(4,390)	(4,390)
Interest cost	(1,799)	(1,799)
	<u>(6,189)</u>	<u>(6,189)</u>

The fair value of the plan assets was:

	2019 £'000	2018 £'000
Equity instruments	56,528	44,166
Bonds	15,842	13,404
Property	451	486
Cash and cash equivalents	1,063	865
Investment funds	14,663	12,204
	<u>88,547</u>	<u>71,125</u>

The return on the plan assets was:

	2019 £'000	2018 £'000
Interest income	2,084	1,878
Re-measurements	(13,844)	6,904
	<u>(11,760)</u>	<u>8,782</u>

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 18 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:

	2019 £'000	2018 £'000
Current year contributions	1,070	1,699
	<u>1,070</u>	<u>1,699</u>

### 19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Trade creditors	29,289	32,403
Amounts owed to group undertakings	28,404	33,764
Taxation	7,178	6,868
Other creditors	5,090	4,277
Accruals and deferred income	11,613	9,389
Lease Liability	3,995	-
	<u>85,569</u>	<u>86,701</u>

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

### 20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £'000	2018 £'000
Trade creditors	4,592	1,970
Pensions and similar obligations	230	-
Lease liability	17,388	-
	<u>22,210</u>	<u>1,970</u>

The returns provision, as shown in note 21, is expected to be utilised within the next 12 months and therefore no amount of the provision is included in 'creditors: amounts falling due after more than one year'.



# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 21 PROVISION FOR OTHER LIABILITIES

The Company had the following provisions during the year:

	Strand onerous lease provision £'000	Embassy Gardens onerous lease provision £'000	Embassy Gardens Dilapidation provision £'000	Discount provision £'000	Returns provision £'000	Onerous contract provision £'000	Total £'000
At 1 January 2018	3,227	-	-	3,050	14,024	-	20,301
Amount utilised during the year	-	-	-	(3,050)	(14,024)	-	(17,074)
Additions to the income statement	3,686	-	-	3,706	10,750	1,778	19,920
At 31 December 2018	6,913	-	-	3,706	10,750	1,778	23,147
At 1 January 2019	6,913	-	-	3,706	10,750	1,778	23,147
Effect of adoption of IFRS 16 (note 25)	(5,496)	-	-	-	-	-	(5,496)
Adjusted balance at 1 January 2019	1,417	-	-	3,706	10,750	1,778	17,651
Amount utilised during the year	(962)	-	-	(3,706)	(10,750)	-	(15,418)
Additions to the income statement	-	322	97	3,024	11,278	265	14,986
At 31 December 2019	455	322	97	3,024	11,278	2,043	17,219

#### *Strand and Embassy Gardens onerous lease provisions*

The company has provided for the estimated double running costs on the transition from the leased offices at the Strand to Embassy Gardens in 2020.

#### *Embassy Gardens dilapidation provision*

The company has provided for the estimated restoration costs on Embassy Gardens for any obligations arising on fit-out works completed at the year end. Any future restoration obligations will be recognised at the point the works are completed.

#### *Discount provision*

The company has agreements in place to offer discounts on goods offered to customers, usually as a reward for repeated business.

#### *Returns provision*

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. The provision is expected to be utilised within 12 months from the balance sheet date.

#### *Onerous contracts*

Where a provision is greater than the advance paid on manuscripts which have not yet been delivered, the company recognises the excess as an onerous contract rather than disclosing in the total unpublished provision included in debtors.

## PENGUIN BOOKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 22 CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Authorised, allotted, called up and fully paid:		
88,300,000 (2018: 88,300,000) Ordinary shares of £1 each	88,300	88,300

#### 23 COMMITMENTS

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods (under IAS 17):

	2019 £'000	2018 £'000
Plant and machinery:		
Not later than one year	-	40
Between two and five years	-	10
Premises:		
Not later than one year	-	7,353
Between two and five years	-	3,677
	-	11,079

There are commitments to authors for the payment of royalty advances amounting to £44,265,000 at 31 December 2019 (2018: £32,870,000). Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

Based on the square footage of levels 3-5 at Embassy Gardens, the company had a contractual obligation of £3,981,000 for the fit out costs, including technology, at 31 December 2019 (2018: nil).

#### 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 2019

### 24 RELATED PARTIES (continued)

During the year the Company entered into the following material transactions with related parties not wholly owned by PRHL. All these entities are subsidiaries within the Bertelsmann SE & Co KGaA group:

	2019 £'000	2018 £'000
<b>Sales of books:</b>		
Ikar, AS	5	5
<b>Cost of sales:</b>		
GGP Media GmbH	658	60
<b>Other operating income:</b>		
Pearson Education Limited	25	8,430

Other operating income relates to royalty income and income in respect of image rights.

#### Purchases:

Mohn Media Mohndruck GmbH	1,296	1,502
Penguin Group (USA) LLC	780	673

Purchases relate to purchases of inventory

#### Administrative expenses: Other external charges

Pearson Shared Services Limited	13,010	16,805
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Pearson charges are paid by Penguin Books Limited and subsequently recharged to other Penguin companies.

#### Debtors:

Penguin Random House LLC	107	119
Pearson Education Limited	-	82
Penguin Random House South Africa	-	28

#### Creditors:

Pearson Shared Services Limited	1,035	4,035
Penguin Random House LLC	-	97
Penguin Random House SA	3	99

Creditor balances are unsecured and no guarantees have been received. Creditor balances will be settled in cash.

There were no transactions with the pension scheme during the year other than those disclosed in note 18.

# PENGUIN BOOKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

### 25 CHANGES IN ACCOUNTING POLICIES

#### Effect of adoption of IFRS 16 – Leases

As indicated in note 3, the Company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.1%.

#### i. Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

#### ii. Measurement of lease liabilities

	£'000
Operating lease commitments disclosed as at 31 December 2018	(11,079)
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(10,886)
(Less): short-term leases not recognised as a liability	-
(Less): low-value leases not recognised as a liability	-
Lease Liability recognised as at 1 January 2019	(10,886)

## **PENGUIN BOOKS LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019**

#### **25 CHANGES IN ACCOUNTING POLICIES**

##### **Effect of adoption of IFRS 16 – Leases (continued)**

##### **iii. Measurement of right-of-use assets**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

##### **iv. Adjustments recognised in the statement of financial position on 1 January 2019**

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019: Figures disclosed in £'000

- Right-of-use assets – increase by £3,221
- Onerous Lease – decrease by £5,496
- Lease liabilities – increase by £10,886
- Lease receivable – increase by £5,748
- Deferred Tax asset – increase by £77
- Prepaid expense – decrease by £1,838

The net impact on retained earnings on 1 January 2019 was a decrease of £131,000.

#### **26 POST BALANCE SHEET EVENTS**

On 1 April 2020 the Company's intermediate parent company, Bertelsmann UK Limited, acquired the remaining 25% of Penguin Random House Limited, the Company's parent company.

Since 31 December 2019, a worldwide pandemic disease known as COVID-19 or coronavirus has caused severe health issues for millions of people globally. Subsequent to the financial statement date, global concerns about COVID-19 have impacted the global macroeconomic environment.

The impact of COVID-19 on the company's business could be material to the company's operating results, cash flows and financial position. The magnitude of the impacts will depend on the duration and extent of the COVID-19 pandemic and the impact of local governmental actions and consumer behaviour in response to the pandemic. Due to the evolving and uncertain nature of this situation, the company is not able to estimate the full extent of the adverse impact on the company's operating results, cash flows and financial position particularly over the near to medium term. The COVID-19 worldwide outbreak and market volatility may have an adverse impact on the financial performance in 2020. The company cannot quantify the magnitude and duration of such impact at this time. The company continues to monitor and assess its business operations daily, and where needed, investigating and implementing remedial measures to manage its financial and liquidity position.

#### **27 SUBSIDIARY UNDERTAKINGS**

Refer to the following table for the Company's subsidiary undertakings at 31 December 2019.

## PENGUIN BOOKS LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2019

#### 27 SUBSIDIARY UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
<b><u>Subsidiary undertakings</u></b>				
Allen Lane The Penguin Press Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Frederick Warne & Co Limited	Publishing	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Michael Joseph Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Hamish Hamilton Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Penguin Books Deutschland GmbH	Publishing and Distribution	100	Ordinary	Myliisstrasse 9, Frankfurt, 60323
Ventura Publishing Limited	Publishing	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Ladybird Books Limited	Publishing	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Snowman Enterprises Limited	Media rights	100	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Children's Character Books Limited	Publishing	75	Ordinary	20 Vauxhall Bridge Road, London, SW1V 2SA
Hind Pocket Books Private Limited	Book Publishing	100	Ordinary	30, Jor Bagh, New Dehli, India 110003