

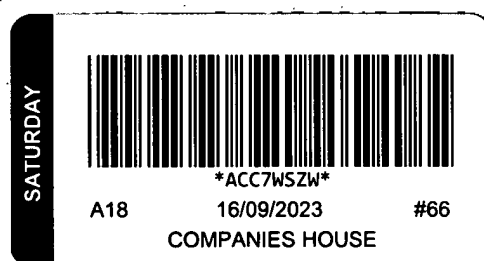
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**PENGUIN BOOKS LIMITED**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2022**



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**PENGUIN BOOKS LIMITED**

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**COMPANY INFORMATION**

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<b>Directors</b>	M Dohle (resigned 31 December 2022) M Gardiner R Waddington T Weldon N Malaviya (appointed 1 January 2023)
<b>Company secretary</b>	S Martin
<b>Registered number</b>	00861590
<b>Registered office</b>	20 Vauxhall Bridge Road London SW1V 2SA
<b>Independent auditor</b>	KPMG LLP 15 Canada Square London E14 5GL

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PENGUIN BOOKS LIMITED

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## PENGUIN BOOKS LIMITED

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### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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#### Introduction

The directors present their Strategic Report for Penguin Books Limited ('the Company' or 'PBL') for the year ended 31 December 2022.

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.

#### Business review

The results and financial position of the Company are set out in the attached financial statements. The Company made a profit for the financial year of £ 30,472,000 (2021: £27,306,000).

#### Principal risks and uncertainties

The Company is subject to risk management procedures and an annual risk assessment implemented by the ultimate parent company, Bertelsmann SE & Co KGaA. The Company has procedures in place to make the directors aware of the various risks to the Company's business. The risks are monitored and reported to 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. The continuing uncertainty in the global economy and high level of inflation in the UK presents ongoing pressures on costs and margins.

#### Key performance indicators

The Company monitors progress and performance during the year using KPI's. During the year, the Company's turnover was £ 240,722,000 (2021: £ 226,777,000). During the year the gross profit margin was 53.33% (2021: 55.85%).

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## PENGUIN BOOKS LIMITED

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### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

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#### Directors' statement of compliance with duty to promote the success of the Company

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:

#### 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.

#### 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.

## PENGUIN BOOKS LIMITED

### STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2022

#### PRH Streamlined Energy and Carbon Reporting Disclosure 2022

UK Greenhouse gas emissions and energy use data for the period 1 January 2022 to 31 December 2022. The previous year ending 2021 figures have been included to demonstrate Penguin Random House's commitment to reducing their energy use and greenhouse gas emissions.

The scope of this disclosure includes both production and non-production sites based in multiple locations worldwide. The disclosure below includes worldwide greenhouse gas emissions and energy use data for the entire Penguin Random House Group UK.

**Energy Consumption - Green Electricity** – PRH made the decision to purchase electricity from Renewable Resources from October 2018 onwards.

	2021	2022
Total Energy Consumption kWh	9,994,580	9,453,796
Total Electricity Procured kWh	5,381,631	5,238,662
Percentage "Green Electricity"	100%	100%
Total Heat Procurement in kWh	4,543,842	4,338,628

#### In 2022

- Penguin Random House UK Facilities replaced over 135 light fittings with LED lights in 2022.
- The Solar PV installation at the Colchester Distribution Centre produced 387,102 kWh of electricity for the site, 17.7% of the total requirement in 2022.
- PRH achieved ISO14001 accreditation for their Environmental Management System
- There were noticeable increases in Emissions from employee business travel and employee commuting as work returns to normal after the Covid 19 pandemic:
- There are noticeably higher emissions in Scope 1 Stationary fuels in 2022, this is due to PRH incorrectly reporting Natural Gas supplied heating in Scope 2 Heat in previous years.

#### Targets

Penguin Random House UK is committed to managing environmental issues effectively across our entire value chain. We have set three key targets for the future. The details of these are outlined in the PRH Sustainability Policy [https://wp.penguin.co.uk/wp-content/uploads/2022/06/Penguin\\_Sustainability\\_Policy\\_Spring\\_22-3.pdf](https://wp.penguin.co.uk/wp-content/uploads/2022/06/Penguin_Sustainability_Policy_Spring_22-3.pdf)

- **Zero by 30:** reduce our carbon footprint to become climate neutral in our direct operations by 2021, and in our wider supply chain by 2030
- **Sustainable sourcing:** ensure 100% of our paper and other core materials continue to be ethically and sustainably sourced.
- **Content:** use the power of our brand, books, and authors to amplify the climate emergency and encourage positive behaviour change

Site related emissions	unit	2020	2021	2022	% Diff
Scope 1 Stationary Fuels *	t CO2e	21	32	784	2350%
Scope 1 Refrigerant Losses	t CO2e	141	36	97	169%
Scope 2 Electricity	t CO2e	-	-	-	-
Scope 2 Heat *	t CO2e	982	1,178	111	-91%
<b>Total</b>	<b>t CO2e</b>	<b>1,144</b>	<b>1,246</b>	<b>992</b>	<b>-20%</b>

PENGUIN BOOKS LIMITED

STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2022

PRH Streamlined Energy and Carbon Reporting Disclosure 2022 (continued)

Employee related emissions	unit	2020	2021	2022	% Diff
Scope 1 Mobile Fuels	t CO2e	32	33	60	82%
Scope 3 Business Travel	t CO2e	55	82	1,041	1170%
Scope 3 Employee Commuting	t CO2e	1,018	1,413	1,890	34%
Scope 3 IT Devices	t CO2e	499	229	315	38%
Scope 3 Office Paper	t CO2e	43	37	45	21%
<b>Total</b>	<b>t CO2e</b>	<b>1,647</b>	<b>1,794</b>	<b>3,351</b>	<b>87%</b>

Product related emissions	unit	2020	2021	2022	% Diff
Scope 3 Paper Manufacture	t CO2e	14,412	21,284	20,511	-4%
Scope 3 Printers / Print Materials	t CO2e	11,163	14,059	13,982	-1%
Scope 3 CD/DVD Manufacturing	t CO2e	-	65	165	154%
Scope 3 Warehouse Services	t CO2e	-	461	464	1%
Scope 3 Transport	t CO2e	5,833	9,278	9,114	-2%
<i>Paper Mill to Printer</i>	<i>t CO2e</i>	<i>2,365</i>	<i>3,645</i>	<i>3,312</i>	<i>-9%</i>
<i>Other Materials to Printer</i>	<i>t CO2e</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Printer to Warehouse</i>	<i>t CO2e</i>	<i>2,114</i>	<i>4,070</i>	<i>4,199</i>	<i>3%</i>
<i>Distribution (Delivery &amp; Returns)</i>	<i>t CO2e</i>	<i>1,353</i>	<i>1,563</i>	<i>1,603</i>	<i>3%</i>
Scope 3 Packaging & Transport Materials	t CO2e	-	785	939	20%
Scope 3 Video Production	t CO2e	-	-	-	-
<b>Total before consolidation</b>	<b>t CO2e</b>	<b>31,407</b>	<b>45,932</b>	<b>45,175</b>	<b>-2%</b>

PENGUIN BOOKS LIMITED

STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2022

PRH Streamlined Energy and Carbon Reporting Disclosure 2022 (continued)

Other Scope 3 Emissions	unit	2020	2021	2022	% Diff
Scope 3 Waste	t CO2e	83	168	199	18%
Scope 3 Energy related emissions	t CO2e	125	151	165	9%
Scope 3 End of Life (product waste)	t CO2e	900	889	922	4%
<b>Total</b>	<b>t CO2e</b>	<b>1,108</b>	<b>1,208</b>	<b>1,286</b>	<b>6%</b>

<b>Total Emissions</b>	<b>t CO2e</b>	<b>35,307</b>	<b>50,180</b>	<b>50,806</b>	<b>1%</b>
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Total Emissions	unit	2020	2021	2022	% Diff
Scope 1	t CO2e	194	101	942	833%
Scope 2	t CO2e	982	1,178	111	-91%
thereof heat	t CO2e	982	1,178	111	-91%
Scope 3	t CO2e	34,131	48,901	49,753	2%
<b>Sum S1+S2+S3</b>	<b>t CO2e</b>	<b>35,307</b>	<b>50,180</b>	<b>50,806</b>	<b>1%</b>

Intensity Ratio	Unit	2020	2021	2022	% Diff
Tonnes of CO2e per £M Revenue	t CO2e	63.99	96.87	95.57	1.35%



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PENGUIN BOOKS LIMITED

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STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2022

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PRH Streamlined Energy and Carbon Reporting Disclosure 2022 (continued)

Reporting Methodology

We have followed the UK BEIS (Department Business, Energy & Industrial Strategy) 2019 guidance. The Management provides assurance that these disclosures are true and correct to the best of their knowledge as the energy and emission figures provided are taken from Bertelsmann's "Green Screen". This is a Bertelsmann owned internal recording application used by all companies within the Bertelsmann Group including Penguin Random House UK and adequate procedures are performed by Management to review the accuracy. All conversions are completed using government guidance ratios and the scopes 1, 2 and 3 are as outlined by BEIS guidance pages 50 and 51.

In addition to the above, PRH have begun to offset site related emissions as of 2021.

Total Offsetting	Unit	2021	2022	% Diff
Site related	t CO2e	1,279	1,053	-18%
Employee related	t CO2e	-	-	-
Product related	t CO2e	-	22	-

- \* Pre 2022 gas supplies purchased direct from a supplier were reported as Scope 2 Heat instead of Scope 1 Stationary Fuels

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**PENGUIN BOOKS LIMITED**

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**STRATEGIC REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2022**

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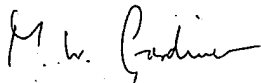
**Community and environment**

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.

This report was approved by the board and signed on its behalf.



**M Gardiner**  
Director

Date: 28 June 2023

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## PENGUIN BOOKS LIMITED

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### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

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The directors present their report and the financial statements for the year ended 31 December 2022.

#### Future developments

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.

#### Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate given the following considerations.

The Company meets its day to day working capital requirements from cash pool arrangements, together with operational cash flows, and trading intercompany balances within the group headed by Bertelsmann SE & Co. KGaA, the ultimate parent company.

The directors have prepared cash flow forecasts considering prior trends and expected titles to be published in the future and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides, the Company will require additional funds, through funding from its ultimate parent company, Bertelsmann SE & Co. KGaA, to meet its liabilities as they fall due during 12 month from the date of approval of these financial statements, the going concern assessment period.

The directors considered the operating nature of the entity, current global economic uncertainty and expectations for the future trading along with the outstanding intercompany payables and intercompany receivables for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA and repayment of outstanding balances from fellow subsidiaries to meet its liabilities as they fall due for that period. Those forecasts are dependent on Bertelsmann SE & Co. KGaA not seeking repayment of the amounts currently due to the group and providing additional financial support during that period.

Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Further details regarding the adoption of the going concern basis can be found in note 2 to the financial statements.

#### Dividends

Dividends of £30,000,000 were paid during the financial year (2021: £70,000,000).

#### Financial instruments

It is the Company's policy to implement financial risk management objectives and policies for each major type of transaction. The directors consider the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk as not significant.

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PENGUIN BOOKS LIMITED

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**DIRECTORS' REPORT (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

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**Employees**

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

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

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

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

**Directors**

The directors who served during the year were:

M Dohle (resigned 31 December 2022)  
M Gardiner  
R Waddington  
T Weldon

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**PENGUIN BOOKS LIMITED**

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**DIRECTORS' REPORT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2022**

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**Disclosure of information to auditor**

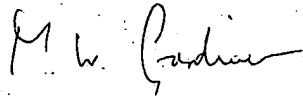
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Auditor**

Following completion of current year audit, KPMG LLP will step down as the Company's auditors. The Board intends to subsequently appoint Grant Thornton UK LLP as the Company's successor auditor.

This report was approved by the board and signed on its behalf.



**M Gardiner**  
Director

Date: 28 June 2023

20 Vauxhall Bridge Road  
London  
SW1V 2SA

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**PENGUIN BOOKS LIMITED**

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**DIRECTORS' RESPONSIBILITIES STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2022**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to, any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and,
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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## PENGUIN BOOKS LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENGUIN BOOKS LIMITED

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#### Opinion

We have audited the financial statements of PENGUIN BOOKS LIMITED ("the Company") for the year ended 31 December 2022 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

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## PENGUIN BOOKS LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENGUIN BOOKS LIMITED

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#### **Fraud and breaches of laws and regulations – ability to detect**

##### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Penguin Random House Limited's ("PRHL") policies and procedures to prevent and detect fraud that apply to this group company as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the limited rationalisations and opportunities to fraudulently recognise revenue.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by specific users and those posted to unrelated accounts.

##### *Identifying and responding to risks of material misstatement related to compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

##### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing noncompliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.



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## PENGUIN BOOKS LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENGUIN BOOKS LIMITED

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#### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

#### Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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PENGUIN BOOKS LIMITED

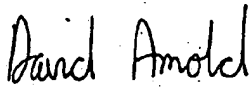
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENGUIN BOOKS LIMITED

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**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**David Arnold (Senior statutory auditor)**

**for and on behalf of KPMG LLP,**  
*Chartered Accountants*  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

Date: 30 June 2023

PENGUIN BOOKS LIMITED

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £000	2021 £000
Turnover	4	240,722	226,777
Cost of sales		(112,332)	(100,124)
<b>Gross profit</b>		<b>128,390</b>	<b>126,653</b>
Distribution costs		(13,092)	(12,126)
Administrative expenses		(81,767)	(80,298)
Other operating income		7,642	6,059
<b>Operating profit</b>	5	<b>41,173</b>	<b>40,288</b>
Amounts written off investments	13	(2,803)	(5,355)
Interest receivable and similar income	7	850	59
Interest payable and similar expenses	8	(335)	(427)
<b>Profit before tax</b>		<b>38,885</b>	<b>34,565</b>
Tax on profit	9	(8,413)	(7,259)
<b>Profit for the financial year</b>		<b>30,472</b>	<b>27,306</b>

The notes on pages 21 to 53 form part of these financial statements.

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PENGUIN BOOKS LIMITED

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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2022

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	Note	2022 £000	2021 £000
Profit for the financial year		30,472	27,306
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain on defined benefit schemes		16,731	2,943
Deferred tax allocated to actuarial gains		(4,183)	(442)
		12,548	2,501
<b>Total comprehensive income for the year</b>		<b>43,020</b>	<b>29,807</b>

The notes on pages 21 to 53 form part of these financial statements.

**PENGUIN BOOKS LIMITED**  
**REGISTERED NUMBER: 00861590**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2022**

	Note	2022 £000	2021 £000
<b>Fixed assets</b>			
Intangible assets	11	-	-
Tangible assets	12	5,996	6,745
Right-of-use asset	12	12,552	14,514
Investments	13	6,945	9,748
Deferred tax assets	14	-	1,179
		<u>25,493</u>	<u>32,186</u>
<b>Current assets</b>			
Stocks	15	16,640	17,008
Debtors: amounts falling due within one year	16	212,902	223,193
Cash at bank and in hand		46	277
Defined benefit asset	17	17,970	-
		<u>247,558</u>	<u>240,478</u>
Creditors: amounts falling due within one year	18	(92,739)	(105,072)
<b>Net current assets</b>		<u>154,819</u>	<u>135,406</u>
<b>Total assets less current liabilities</b>		<u>180,312</u>	<u>167,592</u>
Creditors: amounts falling due after more than one year	19	(19,117)	(24,045)
		<u>161,195</u>	<u>143,547</u>
<b>Provisions for liabilities</b>			
Deferred tax liability	14	(3,414)	-
Other provisions	20	(19,021)	(17,807)
		<u>(22,435)</u>	<u>(17,807)</u>
<b>Net assets</b>		<u><u>138,760</u></u>	<u><u>125,740</u></u>

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PENGUIN BOOKS LIMITED  
REGISTERED NUMBER: 00861590

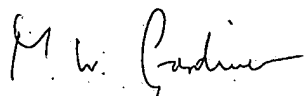
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BALANCE SHEET (CONTINUED)  
AS AT 31 DECEMBER 2022

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	Note	2022 £000	2021 £000
<b>Capital and reserves</b>			
Called up share capital	22	88,300	88,300
Share premium account		1,139	1,139
Profit and loss account		49,321	36,301
		<u>138,760</u>	<u>125,740</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



**M Gardiner**  
Director

Date: 28 June 2023

The notes on pages 21 to 53 form part of these financial statements.

**PENGUIN BOOKS LIMITED**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
<b>At 1 January 2021</b>	<b>88,300</b>	<b>1,139</b>	<b>76,494</b>	<b>165,933</b>
Profit for the year	-	-	27,306	27,306
Actuarial gains on pension scheme	-	-	2,501	2,501
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>29,807</b>	<b>29,807</b>
Dividends: Equity capital	-	-	(70,000)	(70,000)
<b>At 1 January 2022</b>	<b>88,300</b>	<b>1,139</b>	<b>36,301</b>	<b>125,740</b>
Profit for the year	-	-	30,472	30,472
Actuarial gains on pension scheme	-	-	12,548	12,548
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>43,020</b>	<b>43,020</b>
Dividends: Equity capital	-	-	(30,000)	(30,000)
<b>At 31 December 2022</b>	<b>88,300</b>	<b>1,139</b>	<b>49,321</b>	<b>138,760</b>

The notes on pages 21 to 53 form 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 are distributable reserves.

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## PENGUIN BOOKS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 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. Accounting policies

##### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("UK-adopted IFRS"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

##### 2.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member



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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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**2. Accounting policies (continued)**

**2.3 Going concern**

The Company meets its day to day working capital requirements from cash pool arrangements, together with operational cash flows, and trading intercompany balances within the group headed by Bertelsmann SE & Co. KGaA, the ultimate parent company.

The directors have prepared cash flow forecasts considering prior trends and expected titles to be published in the future and performed a going concern assessment which indicates that, in both the base and reasonably possible downsides, the Company will require additional funds, through funding from its ultimate parent company, Bertelsmann SE & Co. KGaA, to meet its liabilities as they fall due during 12 month from the date of approval of these financial statements, the going concern assessment period.

Directors considered the operating nature of the entity, current global economic uncertainty and expectations for the future trading along with the outstanding intercompany payables and intercompany receivables for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA and repayment of outstanding balances from fellow subsidiaries to meet its liabilities as they fall due for that period. Those forecasts are dependent on Bertelsmann SE & Co. KGaA not seeking repayment of the amounts currently due to the group and providing additional financial support during that period.

Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the Company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

**2.4 Impact of new international reporting standards, amendments and interpretations**

There are no new amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have had a material impact on the Company's financial statements.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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2. Accounting policies (continued)

2.5 Foreign currency translation

**Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in pound 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 spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account within 'Administrative expenses'.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account under administrative expenses.

2.6 Turnover

Turnover is measured at 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.

2.7 Income from sub rights

Income from licensing and subrights are recognised as turnover when the the performance obligation under the agreement has been satisfied.

An assessment is made on the nature of each licence to determine if the customer receives a right to access or use of the company's intellectual property. The point of recognition is dependent upon this assessment when the rights are transferred and used.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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**2. Accounting policies (continued)**

**2.8 Royalty advances**

Advances of royalties paid to authors are recognised once a contract has been signed or manuscript has been accepted on the title. These become payable once a manuscript is marked as accepted in the future.

There may be a need for a write-down in the value of the advances, either through a valuation allowance or directly through a write-off, for the following reasons:

In the case of advances on books not yet published, management may anticipate that the book may sustain an economic loss. The unpublished titles are assessed twice a year to determine whether the title is an onerous contract or not. Provision is created for the onerous titles based on the future projections of revenues and associated costs.

For published titles, the contracts are assessed each quarter, to determine whether the title will be able to recover the 'unearned royalty advances' i.e. advance paid less royalty earnings and sub rights income, based on future sales of the titles. The unearned royalty advance to the extent not recoverable through future sales is provided for.

Advances of royalties paid to authors under licensing agreements are recognised upon signing of the contract if the signature advance, or an advance payable on a specific date, are not linked to any further obligation by the proprietor. Any advances on publication or delivery are recognised upon acceptance of the manuscript of the title it is linked to.

Once the author advance is earned out, future author payments are expensed at the contracted or effective royalty rate as the related turnover is earned.

**2.9 Dividend income**

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

**2.10 Other Operating Income**

Other operating income consists of income not directly related to the Company's principal activity in relation to the publication 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 is a combination of certain fixed costs and the allocation of expenses calculated using agreed specific percentages within a recharge model.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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2. Accounting policies (continued)

2.11 Employee Benefits

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

*Pension obligations*

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

The Company also operates a defined benefit plan for 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.

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## PENGUIN BOOKS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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#### 2. Accounting policies (continued)

##### 2.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

##### 2.13 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.

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.

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.

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.

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.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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2. Accounting policies (continued)

2.13 Leases (continued)

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.

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.

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.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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2. Accounting policies (continued)

2.14 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

**Computer Software**

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

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it or sell it;
- 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.

2.15 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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**2. Accounting policies (continued)**

**2.15 Tangible fixed assets (continued)**

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold property	- Over the life of lease
Plant and machinery	- 10-33% straight line
Fixtures and fittings	- 10-25% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Assets under construction are not depreciated. Borrowing costs attributable to assets under construction are recognised as an expense when incurred.

**2.16 Valuation of investments**

Investments in subsidiaries are measured at cost less accumulated impairment.

At each year-end, management review the investments in order to determine whether there is any objective evidence present that in accordance with IAS 36 would lead to an impairment being charged.

Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversals at each reporting date, where a favourable event or change in circumstance has materialised that would indicate loss no longer exists or has decreased in size.

**2.17 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.



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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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2. Accounting policies (continued)

2.18 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 direct 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.

A provision is made for excess, obsolete and slow moving stocks. Net realisable value is calculated as the estimated selling price in the ordinary course of business less applicable variable selling expenses.

2.19 Financial assets

The company classifies its financial assets in the following categories:

- Amortised cost
- Fair Value through profit or loss (FVTPL)
- Fair Value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 a separate line item in the profit or loss under 'net impairment losses on financial and contract assets'.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. The company does not have any assets classified at FVOCI nor FVTPL.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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**2. Accounting policies (continued)**

The company assesses at the end of each reporting period whether there is objective evidence that one or more event has occurred which has impacted on the estimated cash flows of the financial asset.

Financial assets are impaired and impairment losses are incurred only if such objective evidence of impairment can be reliably measured.

**2.20 Debtors**

Trade debtors and amounts owed by group undertakings are stated at amortised cost after provision for bad and doubtful debts. The provision for such events is 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.

No impairment provision is made on amounts owed by group undertakings on the grounds that they are repayable on demand.

**2.21 Creditors**

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**2.22 Provisions for liabilities and onerous contracts**

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

If the Company considers a contract has become onerous, whereby the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from it, an onerous contract provision is recognised for the present obligations under the contract. Onerous contract provisions which arise on advances paid on unpublished manuscripts which have not yet been delivered are utilised on various timescales based on manuscript delivery and performance. Management estimates the future recoverability based on performance within the contract.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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2. Accounting policies (continued)

2.23 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, 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.

Key accounting estimates and assumptions

(i) Advances

Advances of royalties paid to authors are recognised once a contract has been signed or manuscript has been accepted on the title.

Unpublished titles:

In the case of advances on books not yet published, management may anticipate that the book may sustain an economic loss. The significant titles when unpublished are assessed twice a year for onerous losses, and provisions on a contract level are created as per IAS 37.

The realisable value of royalty advances relies on a degree of management judgement in determining the profitability of individual author contracts. The recoverability of royalty advances 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. Future sales projections are normally upto one year for domestic sales and upto two years for international sales, and for licencing agreements, varies as per the terms of the agreement.

The carrying amount of royalty advances on unpublished titles, net of provisions are included in advance royalties, see note 16 for reference.

The onerous provision created in respect of royalty contracts are recorded in note 20 of the financial statements.

Published titles:

Upon publication, the realisable value for significant titles will then be adjusted on a title by title basis recoverability of the unearned royalty advances on quarterly basis i.e. advance paid less royalty earnings and sub rights income, basis future sales of the titles as per IAS 36. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned. The carrying amount of royalty advances (net of provision) are included in advance royalties, see note 16 for reference.

(ii) Returns provisioning

The Company has agreements in place to allow customers to return books. As a result the Company makes an estimate of future returns based on historic data, the ageing of sales and business experience. See note 20 for details of the returns provision value.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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3. Judgments in applying accounting policies (continued)

(iii) Defined benefit scheme

The Company has an 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 corporate 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 17 for the disclosures of the defined benefit pension scheme.

(iv) Impairment of investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. The Company tests annually whether investments have suffered any impairment, with the carrying amount being written down for any impairment highlighted. The Company uses budgeted profits, projected cash flows and weighted average cost of capital in order to determine whether any impairment is required. See note 13 for the carrying amount of investments and associated provision.

4. Turnover

Analysis of turnover by geographical location:

	2022 £000	2021 £000
United Kingdom	137,444	134,995
Rest of the World	103,278	91,782
	<u>240,722</u>	<u>226,777</u>

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.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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5. Operating profit

The operating profit is stated after charging:

	2022 £000	2021 £000
Wages and salaries	23,093	22,950
Social security costs	2,721	2,489
Other pension costs	3,672	3,776
Auditors remuneration	220	220
(Reversal of)/impairment of trade receivables	(755)	1,240
Depreciation of tangible fixed assets	873	796
Depreciation of right-of-use assets	1,814	1,868
Exchange differences	(521)	161
Cost of stocks recognised as an expense	53,518	49,487
Impairment of stocks	745	383

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  
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  
Penguin Random House Ireland Limited  
Virgin Books Limited  
Woodlands Books Limited

Costs incurred in 2022 of £6,906,000 were recharged to the associate group companies as a management charge (2021: £6,530,000).

The reversal of impairment on trade receivables was due to customers having lower uninsured debt.

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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6. Employees

The average monthly number of employees, including the directors, during the year was as follows:

	2022 No.	2021 No.
Production	57	52
Selling and distribution	96	84
Administration	160	140
Editorial	124	139
	<u>437</u>	<u>415</u>

	2022 £000	2021 £000
Directors' remuneration:		
Aggregate emoluments	911	791
Amounts receivable under long term incentives	71	52
Company pension contributions	68	61
	<u>1,050</u>	<u>904</u>

Retirement benefits are accruing to 2 directors (2021: 2) under defined benefit pension schemes and to 1 director (2021: 1) under a money purchase scheme.

	2022 £000	2021 £000
Highest paid director:		
Emoluments	517	439
Defined benefit pension scheme accrued at the end of the year	21	18
	<u>538</u>	<u>457</u>

Two directors were paid by The Random House Group Limited and two directors were paid by other companies as follows:

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**PENGUIN BOOKS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

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**Director**

M Dohle

M Gardiner

R Waddington

T Weldon

**Paid by**

Penguin Random House LLC

The Random House Group Limited

The Random House Group Limited

Penguin Books Limited

**7. Interest receivable**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Interest on pensions	<b>50</b>	-
Interest on amounts owed by group undertakings	<b>800</b>	59
	<b>850</b>	59

**8. Interest payable and similar expenses**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Interest on lease liabilities	<b>335</b>	402
Interest on pensions	-	25
	<b>335</b>	427

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

9. Taxation

	2022 £000	2021 £000
<b>Corporation tax</b>		
UK corporation tax on profits for the period	7,460	7,000
Adjustments in respect of previous periods	455	(302)
	<u>7,915</u>	<u>6,698</u>
Double taxation relief	(347)	(319)
	<u>7,568</u>	<u>6,379</u>
<b>Foreign tax</b>		
Foreign tax on income for the year	435	399
	<u>435</u>	<u>399</u>
<b>Total current tax</b>	<u>8,003</u>	<u>6,778</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	643	458
Changes to tax rates	-	23
Adjustments in respect of previous periods	(233)	-
<b>Total deferred tax</b>	<u>410</u>	<u>481</u>
<b>Total tax charge for the year</b>	<u>8,413</u>	<u>7,259</u>



PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - *higher than*) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £000	2021 £000
Profit on ordinary activities before tax	38,885	34,565
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	7,388	6,567
Effects of:		
Expenses not deductible for tax purposes	561	1,058
Withholding tax	87	80
Adjustment in respect of prior years - current tax	455	(302)
Adjustments in respect of prior years - deferred tax	(233)	24
Deferred tax rate difference	155	(168)
Total tax charge for the year	8,413	7,259

Factors that may affect future tax charges

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.

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will impact the company's future current tax charges accordingly.

10. Dividends paid

	2022 £000	2021 £000
Dividends	30,000	70,000
	30,000	70,000

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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11. Intangible assets

	Computer software £000
<b>Cost</b>	
At 1 January 2022	12,437
At 31 December 2022	<u>12,437</u>
<b>Amortisation</b>	
At 1 January 2022	12,437
At 31 December 2022	<u>12,437</u>
<b>Net book value</b>	
At 31 December 2022	<u><u>-</u></u>
At 31 December 2021	<u><u>-</u></u>

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

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

12. Tangible fixed assets

	Plant and machinery £000	Fixtures and fittings £000	Assets under construction £000	Right of use assets £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2022	14,829	251	-	18,524	33,604
Additions	-	-	124	-	124
Transfers between classes	(7,513)	7,513	-	-	-
Revaluations	-	-	-	(148)	(148)
At 31 December 2022	7,316	7,764	124	18,376	33,580
<b>Depreciation</b>					
At 1 January 2022	8,239	96	-	4,010	12,345
Charge for the year on owned assets	108	765	-	1,814	2,687
Transfers between classes	(1,031)	1,031	-	-	-
At 31 December 2022	7,316	1,892	-	5,824	15,032
<b>Net book value</b>					
At 31 December 2022	-	5,872	124	12,552	18,548
At 31 December 2021	6,590	155	-	14,514	21,259

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

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13. Fixed asset investments

	Investments in subsidiary companies £000
<b>Cost or valuation</b>	
At 1 January 2022	30,762
At 31 December 2022	<u>30,762</u>
<b>Impairment</b>	
At 1 January 2022	21,014
Charge for the period	2,803
At 31 December 2022	<u>23,817</u>
<b>Net book value</b>	
At 31 December 2022	<u><u>6,945</u></u>
At 31 December 2021	<u><u>9,748</u></u>

The Company's subsidiaries are listed in note 25. 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.

The impairment charge of £2,803,000 relates to a decline in the recoverable amount of the Company's subsidiary undertakings Ladybird Books Limited and Ventura Publishing Limited of £1,774,000 and £1,029,000 respectively. The impairments are as a result of the expected downturn in the performance of the companies.

**PENGUIN BOOKS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022**

**14. Deferred tax assets and (liabilities)**

Movement in recognised deferred tax during the year:	1 January 2022 £000	Tax credit relating to OCI £000	Income statement movement £000	31 December 2022 £000
Property plant and equipment	972	-	(166)	806
Provisions	349	-	(119)	230
Pension scheme	(142)	(4,183)	(125)	(4,450)
	<u>1,179</u>	<u>(4,183)</u>	<u>(410)</u>	<u>(3,414)</u>

There are no unused tax losses or unused tax credits.

Movement in recognised deferred tax during the previous year:	1 January 2021 £000	Tax credit relating to OCI £000	Income statement movement £000	31 December 2021 £000
Property plant and equipment	904	-	68	972
Provisions	244	-	105	349
Pension scheme	954	(442)	(654)	(142)
	<u>2,102</u>	<u>(442)</u>	<u>(481)</u>	<u>1,179</u>

**15. Stocks**

	2022 £000	2021 £000
Raw materials and consumables	1,236	2,120
Work in progress	3,346	3,593
Finished goods and goods for resale	12,058	11,295
	<u>16,640</u>	<u>17,008</u>

There is no significant difference between the replacement cost of work in progress and finished goods and their carrying amounts.

Stocks are stated after provision for impairment of £4,260,000 (2021: £2,344,000). No inventories have been pledged as security for liabilities.

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**PENGUIN BOOKS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
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**16. Debtors**

	2022 £000	2021 £000
Trade debtors - sundry sales	3,482	2,947
Advance royalties	48,035	41,914
Amounts owed by group undertakings	154,978	170,952
Other debtors	2,737	3,546
Prepayments and accrued income	3,670	3,834
	<u>212,902</u>	<u>223,193</u>

Amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £33,384,000 (2021: £43,916,000) owed from Bertelsmann UK Limited in respect of cash pooling agreements. An average interest rate of 1.23% (2021: 0.05%) was received on cash pooling balances due to the company, and a rate of 4.15% (2021: 2.79%) was incurred on any balances payable by the company.

Included in amounts owed by group undertakings is £119,197,000 (2021: £124,243,000) owed by The Book Service Limited ("TBS"). These amounts include trade debtor balances which are held in TBS. As of 31 December 2022, amounts owed by TBS are stated after provision for impairment of £1,875,000 (2021: £2,611,000).

At 31 December 2022 the advance royalties balances were reviewed for impairment. The amount of the provision was £200,665,000 (2021: £195,240,000). Included in advance royalties is £23,557,138 (2021: £21,585,231) relating to manuscripts which will not be published for over a year and staged advances which are date linked over several years rather than to specific titles.

**17. Post employment benefits**

**Penguin Random House – Penguin Pension Plan**

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

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PENGUIN BOOKS LIMITED

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NOTES TO THE FINANCIAL STATEMENTS  
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The expected contributions by the employer for the next financial year under the Schedule of Contributions are £5,180,000. The following information shows the maturity analysis of the expected benefit payments:

Less than 1 year	£1,246,000
Less than 2 years	£824,000
Less than 3 years	£1,125,000
Less than 4 years	£942,000
Less than 5 years	£2,147,000
Less than 10 years	£16,795,000

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.

*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 Penguin Pension Plan, using the projected unit basis, was carried out at 30 June 2020 by Lane Clark & Peacock LLP, independent consulting actuaries.

Adjustments to the valuation at that date have been made based on the following assumptions:

	2022 %	2021 %
Discount rate	4.90	1.80
Rate of price inflation (CPI)	2.60	2.60
Rate of increase in salaries	2.60	2.60
Rate of increase of pensions in payment:		
- Final Pay Section	3.10	3.10
- Penguin Section	3.70	3.70
- Underpin of the Money Purchase Section	2.60	2.60
- Final Pay, Penguin Section & Underpin of the Money Purchase Section	1.90	2.00

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
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Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy as follows:

	2022 years	2021 years
Current age 65	88.45	88.60
Current age 45	89.80	89.95

	Fair value of plan assets £000	Present value of obligations £000	Total £000
At 1 January 2022	116,146	(116,541)	(395)
Current service cost	-	(3,672)	(3,672)
Interest income/ (expense)	2,125	(2,075)	50
	<u>118,271</u>	<u>(122,288)</u>	<u>(4,017)</u>
Remeasurements:			
Loss from change in demographic assumptions	-	143	143
Loss from change in financial assumptions	-	30,202	30,202
Loss from experience adjustments	-	5,002	5,002
Return on plan assets, excluding amounts included in interest expense	<u>(18,616)</u>	<u>-</u>	<u>(18,616)</u>
	<u>(18,616)</u>	<u>35,347</u>	<u>16,731</u>
Contributions:			
Employers	5,256	-	5,256
Plan participants	1,043	(1,043)	-
Payments from plan:			
Benefit payments	<u>(2,446)</u>	<u>2,446</u>	<u>-</u>
	<u>3,853</u>	<u>1,403</u>	<u>5,256</u>
<b>At 31 December 2022</b>	<u><u>103,508</u></u>	<u><u>(85,538)</u></u>	<u><u>17,970</u></u>

The net defined benefit asset of £17,970,000 is expected to be recovered in more than 12 months.



PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
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	Fair value of plan assets £000	Present value of obligations £000	Total £000
At 1 January 2021	97,504	(102,532)	(5,028)
Current service cost	-	(3,776)	(3,776)
Interest income / (expense)	1,396	(1,421)	(25)
	<u>98,900</u>	<u>(107,729)</u>	<u>(8,829)</u>
Remeasurements:			
Gain from change in demographic assumptions	-	(1,576)	(1,576)
Loss from change in financial assumptions	-	722	722
Gain from experience adjustments	-	(9,002)	(9,002)
Return on plan assets, excluding amounts included in interest expense	<u>12,799</u>	<u>-</u>	<u>12,799</u>
	<u>12,799</u>	<u>(9,856)</u>	<u>2,943</u>
Contributions:			
Employers	5,491	-	5,491
Plan participants	1,048	(1,048)	-
Payments from plan:			
Benefit payments	<u>(2,092)</u>	<u>2,092</u>	<u>-</u>
	<u>4,447</u>	<u>1,044</u>	<u>5,491</u>
<b>At 31 December 2021</b>	<u><u>116,146</u></u>	<u><u>(116,541)</u></u>	<u><u>(395)</u></u>

**PENGUIN BOOKS LIMITED**

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

Impact on defined benefit obligation	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	(2,307)	2,652
Salary growth rate	0.50%	1,499	(1,358)
Pension growth rate	0.50%	1,021	(805)
Life expectancy	+/- by 1 year	675	(684)

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:	2022 £000	2021 £000
Current service cost	(3,672)	(3,776)
Interest income/ (cost)	50	(25)
	<u>(3,622)</u>	<u>(3,801)</u>

The current service cost has been presented in administrative expenses and interest income in interest receivable and similar income (2021 - interest payable and similar expenses).

The fair value of plan assets was:

	2022 £000	2021 £000
Equity instruments	56,786	65,156
Bonds	18,883	21,376
Property	453	503
Cash and cash equivalents	884	617
Investment funds	26,502	28,494
	<u>103,508</u>	<u>116,146</u>

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
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The return on the plan assets was:

	2022 £000	2021 £000
Interest income	2,125	1,396
Re-measurements	18,616	(12,799)
	<u>20,741</u>	<u>(11,403)</u>

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:

	2022 £000	2021 £000
Current year contributions	1,043	1,048
	<u>1,043</u>	<u>1,048</u>

18. Creditors: Amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	3,769	10,293
Royalty creditors	31,566	34,359
Amounts owed to group undertakings	25,247	29,795
Corporation tax	7,112	6,719
Lease liabilities	2,105	2,045
Other creditors	4,750	4,529
Accruals and deferred income	18,190	17,332
	<u>92,739</u>	<u>105,072</u>

Amounts owed to group undertakings are unsecured and repayable on demand. Within amounts owed to group undertakings is £23,845,485 (2021: £28,302,661) owed to Random House Group Limited.

PENGUIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2022

19. Creditors: Amounts falling due after more than one year

	2022 £000	2021 £000
Lease liabilities	12,556	14,654
Royalty creditors	6,561	8,996
Pensions and similar obligations	-	395
	<u>19,117</u>	<u>24,045</u>

20. Provisions

	At 1 January 2022 £000	Additions to the income statement £000	Additions to right-of-use assets £000	Amount s utilise d £000	At 31 December 2022 £000
Discount provision	4,024	4,590	-	(4,024)	4,590
Returns provision	11,000	11,723	-	(11,000)	11,723
Onerous contract on advances provision	2,008	517	-	(469)	2,056
Dilapidations provision	775	25	(148)	-	652
Total	<u>17,807</u>	<u>16,855</u>	<u>(148)</u>	<u>(15,493)</u>	<u>19,021</u>

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

**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. These are utilised on various timescales based on manuscript delivery and performance. Management estimates the future recoverability based on performance within the contract.

**PENGUIN BOOKS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS  
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**21. Leases**

**Company as a lessee**

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.

Lease liabilities are due as follows:

	2022 £000	2021 £000
Current liabilities	2,105	2,045
Non-current liabilities	12,556	14,653
	<u>14,661</u>	<u>16,698</u>

Contractual undiscounted cash flows are due as follows:

	2022 £000	2021 £000
Not later than one year	2,362	2,362
Between one year and two years	2,362	2,362
Between two and three years	2,362	2,362
Between three and four years	2,362	2,362
Between four and five years	2,362	2,362
Later than five years	3,928	6,102
	<u>(1,077)</u>	<u>(1,214)</u>
Impact of finance	<u>14,661</u>	<u>16,698</u>

The total cash outflow for leases for 2022 was £2,362,104 (2021: £1,499,156)

The following amounts in respect of leases, where the Company is a lessee, have been recognised in profit or loss:

	2022 £000	2021 £000
Depreciation - buildings	1,803	1,857
Depreciation - cars	11	11
Interest expense (included in finance costs)	<u>335</u>	<u>333</u>

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**PENGUIN BOOKS LIMITED**

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**22. Share capital**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
<b>Allotted, called up and fully paid:</b>		
88,300,000 (2021 - 88,300,000) Ordinary Shares shares of £1 each	<b>88,300</b>	<b>88,300</b>

**23. Commitments**

There are commitments to authors for the payment of royalty advances amounting to £60,236,479 (2021: £39,302,000) at 31 December 2022. Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

**24. Related party transactions**

The Company's immediate parent company is Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann UK Limited 100%.

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 available under Financial Reporting Standard 101 from disclosing related party transactions with other wholly-owned subsidiaries of the group.

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

**Rights income**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Editora Schwacz S.A	-	17
	<u>-</u>	<u>17</u>

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**PENGUIN BOOKS LIMITED**

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**Other income**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Children's Character Books Limited	333	202
Woodlands Books Limited	24	25
	<u>357</u>	<u>227</u>

**Debtors**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Woodlands Books Limited	4	-
Editora Schwacz S.A	-	17
	<u>4</u>	<u>17</u>

**Creditors**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Children's Character Books Limited	181	149
Woodlands Books Limited	-	23
	<u>181</u>	<u>172</u>

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25. Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Allen Lane The Penguin Press Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Frederick Warne & Co Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Michael Joseph Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Hamish Hamilton Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Ventura Publishing Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Ladybird Books Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Snowman Enterprises Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	100%
Children's Character Books Limited	20 Vauxhall Bridge Road, London, SW1V 2SA	Ordinary	75%