REGISTERED NUMBER: 00954009

THE RANDOM HOUSE GROUP LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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THE RANDOM HOUSE GROUP LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Principal activities
The company is a subsidiary of Penguin Random House Limited ("PRHL"), a company registered in the United Kingdom. The company is UK domiciled and registered in the United Kingdom. The principal activity of the company continues to be book publishing.

Review of the business
The results and financial position of the company are set out in the attached financial statements. The company made an operating profit for the year of £26,394,021 (2018: £29,496,994).

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

- Turnover was £211,433,240 (2018: £200,811,701).
- Gross profit margin was 81.51% (2018: 82.18%).

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

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

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

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

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

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

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

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

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

The directors fulfil these duties as follows:

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

The interest of the company's employees
The board recognises that employees are central to the long-term success of the company. The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its prosperity. The Company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the Company's progress. The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or sexual orientation.

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

Directors' section 172 statement (continued)

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

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

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

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

On behalf of the Board

M. W. Gardiner

M GARDINER
Director

24 September 2020

THE RANDOM HOUSE GROUP LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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

Future developments
Looking ahead, the market remains challenging and the economic backdrop remains similarly tough. Nonetheless the Company will continue to seek suitable publishing opportunities to ensure growth. The directors do not anticipate any significant changes in the activities of the company. The directors of the Company do not see COVID-19 impacting their view that the Company will continue to operate as a going concern through 2020 and 2021 and the foreseeable future and expects 2021 to return to pre COVID-19 levels or better.

Going concern
The financial statements are prepared on a going concern basis notwithstanding the net current liabilities in the balance sheet at the year end. Bertelsmann UK Limited has provided a letter of support for the company which states their intention to provide financial support to the company until 30 September 2021. As a result, and based on current trading performance, the directors believe this going concern basis to be appropriate. This has been considered for at least the next twelve months from the date of approval of these financial statements.

Dividends
Dividends of £45,000,000 (2018: £54,000,000) were paid during 2019. The directors do not recommend any further dividend payments.

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

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

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

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework"(FRS 101), and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' confirmations

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

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

Engagement with customers, suppliers and other stakeholders

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

Employee engagement

The board recognises that employees are central to the long-term success of the company. The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its prosperity. The Company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the Company's progress. The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or sexual orientation.

THE RANDOM HOUSE GROUP LIMITED

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

Disclosure of information to auditors
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

On behalf of the Board

M. W. Gardiner

M GARDINER
Director
24 September 2020

Independent auditors' report to the members of The Random House Group Limited

Report on the audit of the financial statements

Opinion

In our opinion, The Random House Group Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the period then ended 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

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

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

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

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

Independent auditors' report to the members of The Random House Group Limited (continued)

Reporting on other information (continued)

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent auditors' report to the members of The Random House Group Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Philip Stokes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 September 2020

THE RANDOM HOUSE GROUP LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	Restated 2018 £	
Turnover	5	211,433,240	200,811,701	*
Cost of sales		(39,086,338)	(35,781,239)	
Gross profit		172,346,902	165,030,462	
Administrative expenses		(192,062,123)	(179,908,168)	*
Other operating income		46,109,242	44,374,700	*
Operating profit	6	26,394,021	29,496,994	
Income from shares in group undertakings	8	18,086,689	14,620,579	
Income from other fixed asset investments		74,606	32,144	
Amounts written off investments	15	(1,018,159)	(5,492,000)	
Interest receivable and similar income	9	1,277,210	600,089	
Interest payable and similar expenses	9	(5,333,793)	(4,898,181)	
Profit before taxation		39,480,574	34,359,625	
Tax on profit	10	(5,068,197)	(5,504,582)	
Profit for the financial year		34,412,377	28,855,043	

*Prior year balances have been restated to present them in conformity with the current year treatment.

The notes on pages 14 to 49 are an integral part of these financial statements.

THE RANDOM HOUSE GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Profit for the financial year		34,412,377	28,855,043
Other comprehensive (expense)/income: items that will not be reclassified to profit or loss:			
Actuarial (losses)/gains on pension scheme	19	(17,125,300)	17,066,500
Movement on deferred tax relating to pension surplus	11	2,911,301	(2,901,305)
Total comprehensive income for the year		20,198,378	43,020,238

THE RANDOM HOUSE GROUP LIMITED

Registered no: 00954009

BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note		2019		Restated 2018
			£		£
Fixed assets					
Intangible assets	12		10,410,796		12,926,590
Tangible assets	13		34,202,995		31,880,063
Right-of-use assets	14		14,530,778		-
Investments	15		220,515,660		221,533,819
			279,660,229		266,340,472
Current assets					
Stocks	16	12,386,403		10,288,195	
Debtors	17	131,399,253		121,407,491	
Advance royalties	18	34,786,043		39,061,230	
Cash at bank and in hand		158,852		2,460,025	
Pension surplus: amounts falling due more than one year	19	28,524,343		40,859,925	
		207,254,894		214,076,866	
Creditors: amounts falling due within one year	20	(288,000,299)		(267,940,641)	*
Net current liabilities			(80,745,405)		(53,863,775)
Total assets less current liabilities			198,914,824		212,476,697
Creditors - amounts falling due after more than one year	21		(20,905,714)		(7,534,664) *
Provisions for liabilities	22		(32,485,503)		(34,483,725)
Net assets			145,523,607		170,458,308
Capital and Reserves					
Called up share capital	23		81,956,072		81,956,072
Other reserves			66,409		66,409
Profit and loss account			63,501,126		88,435,827
Total equity			145,523,607		170,458,308

*Prior year balances have been restated to present them in conformity with the current year treatment. See notes 20 and 21 for the impact of the restatements.

The notes on pages 14 to 49 are an integral part of these financial statements.

The financial statements on pages 10 to 49 were authorised for issue by the board of directors on 24 September 2020 and were signed on its behalf by:

M W. Gardiner

M GARDINER
Director

THE RANDOM HOUSE GROUP LIMITED

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

	Note	Called up share capital £	Other reserves £	Profit and loss account £	Total equity £
Balance as at 1 January 2018		81,956,072	66,409	99,415,589	181,438,070
Changes in equity					
Total comprehensive income for the year		-	-	43,020,238	43,020,238
Dividends	24	-	-	(54,000,000)	(54,000,000)
Balance as at 31 December 2018		81,956,072	66,409	88,435,827	170,458,308
Effect of Adoption of IFRS 16: Leases	27	-	-	(133,079)	(133,079)
Adjusted balance as at 1 January 2019		81,956,072	66,409	88,302,748	170,325,229
Changes in equity					
Total comprehensive income for the year		-	-	20,198,378	20,198,378
Dividends	24	-	-	(45,000,000)	(45,000,000)
Balance as at 31 December 2019		81,956,072	66,409	63,501,126	145,523,607

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

Other Reserves
This relates to Capital redemption reserve, a statutory, non-distributable reserve into which amounts are transferred following the redemption or purchase of a company's own shares.

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

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

1 GENERAL INFORMATION
The company is a private company limited by shares and is incorporated in the United Kingdom. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA.

2 STATEMENT OF COMPLIANCE
The individual financial statements of The Random House Group Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

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

Basis of preparation of financial statements
These financial statements are prepared on a going concern basis, under the historical cost convention. Certain prior year balances have been restated to present them in conformity with the current year treatment. The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101

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

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

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
    - paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
    - paragraph 73(e) of IAS 16 'Property, plant & equipment'
    - paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS1 'Presentation of financial statements':
    - 10(d) (statement of cash flows)
    - 38A (requirement for minimum of two primary statements, including cash flow statements)
    - 38B-D (additional comparative information)
    - 111 (cash flow statement information)
    - 134-136 (capital management disclosures)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Going concern
The financial statements are prepared on a going concern basis notwithstanding the net current liabilities in the balance sheet at the year end. Bertelsmann UK Limited has provided a letter of support for the company which states their intention to provide financial support to the company until 30 September 2021. As a result, and based on current trading performance, the directors believe this going concern basis to be appropriate. This has been considered for at least the next twelve months from the date of approval of these financial statements.

New standards, amendments and IFRIC interpretations
IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019 and has had a material effect on the company's financial statements. See Note 27 for details of this change. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

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

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

Turnover
Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax, rebates, trade marketing costs and discounts. Turnover from the sale of books is recognised when title passes. A provision for anticipated returns is made based primarily on historical return rates. If these estimates do not reflect actual returns in future periods then turnover could be understated or overstated for a particular period. On certain contracts, where the company acts as agent, turnover is recognised inclusive of any commissions and fees receivable for services rendered. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are included in turnover with a corresponding expense recognised in administrative expenses in the income statement.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension obligations

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

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

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

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

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

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

Taxation

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Investments
Investments are stated at cost and a provision is made for impairment. At the year-end management reviewed the investments in order to determine whether there was any objective evidence present that in accordance with IAS 36 would lead to an impairment.

Impairment of non-financial assets
Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date, if there have been favourable events or changes in circumstances, since the impairment loss was recognised that would indicate that the impairment loss no longer exists or might have decreased.

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. At the effective date of adopting FRS 101 the balance of goodwill was nil.

Tangible assets

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

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

Freehold property	Over periods of 40 or 50 years
Long leasehold property	Over period of lease
Plant and equipment	Over periods of between 3 and 20 years

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

Leases

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

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

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

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

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cost

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. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company

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.

As explained in this note and note 27, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 27. Prior to this change, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in creditors: amounts falling due within 12 months and the long-term component was included in creditors: amounts falling due after more than one year. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the company would obtain ownership at the end of the lease term.

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

Stocks

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Royalty advances
Advances of royalties paid to authors are recognised once a contract is approved within the royalty system, provided it is a signature advance or has had a manuscript accepted on the work, less any provision required to adjust the advance to its net realisable value. Once a manuscript is marked as accepted in the future, contracted advances are recognised as payable. For unpublished titles, the contracts are assessed twice a year, to determine whether the value of a title is diminished from its original acquisition value. These titles are reassessed each year until publication occurs. For published titles, the company assesses the difference between the gross advance paid and the royalty earnings and sub rights income at the point of review. All titles are reassessed twice a year following the publication. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned.

Financial Assets
The company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

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

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

Trade debtors and amounts owed by group undertakings
Trade debtors and amounts owed by group undertakings are stated at amortised cost after provision for bad and doubtful debts. From 1 January 2018 provisions for anticipated future sales returns and incentive discounts are no longer stated against trade debtors, but instead shown separately in provisions for other liabilities.

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

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

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

Key accounting estimates and assumptions

(i) Advances

Advances of royalties paid to authors are recognised once a contract is approved within the royalty system, provided it is a signature advance or has had a manuscript accepted on the work, less any provision required to adjust the advance to its net realisable value for unpublished titles. The realisable value of royalty advances relies on a degree of management judgement in determining the profitability of individual author contracts. If the estimated realisable value of author contracts is overstated then this will have an adverse effect on operating profits as these excess amounts will be written off. The recoverability of royalty advances is assessed twice a year and is based upon a detailed management review of the age of the advance, the future sales projections for new authors and prior sales history of repeat authors. The realisable value will then be adjusted on a title by title basis to reflect the result of this analysis. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned. The carrying amount of royalty advances is £34,786,043 (2018: £39,061,230).

(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 22 for details of the returns provision value.

(iii) Defined benefit scheme

The company has obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors including life expectancy, salary increases, asset valuations and the discount rate on corporation bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the disclosures of the defined benefit pension scheme.

(iv) Impairment of Investments

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

The company uses budgeted profits, projected cash flows and weighted average cost of capital in order to determine whether any impairment is required. See note 14 for the carrying amount of investments and associated provision.

(v) Lease accounting

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

(v) Lease accounting – (continued)
The following factors are normally the most relevant:

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. See note 14 for the net carrying amount of the lease liability and right-of-use asset.

5 TURNOVER

	2019	Restated 2018
	£	£
Analysis of turnover by geography:		
UK and The Republic of Ireland	130,636,682	144,728,114 *
Rest of the World	80,796,558	56,083,587
	211,433,240	200,811,701

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.

*Prior year balances have been restated to present them in conformity with the current year treatment. The impact of the restatement is to increase turnover by £1,992,508, reduce administrative expenses by £2,275,565 and reduce other operating income by £4,268,073.

6 OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2019	2018
	£	£
Audit fees payable to the company's auditor	168,585	168,147
Operating lease expenses	-	228,509
Depreciation charges on property, plant and equipment	2,801,011	2,354,912
Depreciation of right-of-use assets	534,489	-
Loss on disposal of fixed assets	-	447,212
Inventories recognised as an expense	38,504,233	35,891,714
Amortisation charge on intangible assets	5,064,149	6,316,163
Impairment/(reversal of impairment) of trade receivables	498,415	(411,320)
Personnel costs:		
Wages and salaries	51,604,327	49,638,807
Social security costs	6,058,210	6,180,194
Other pension costs	4,662,682	4,773,173

Costs incurred in 2019 of £49,710,000 were recharged back to associate group companies as a management charge (2018: £46,900,000).

Impairments of trade receivables, and any subsequent reversals, are included in the income statement within administrative expenses.

The loss on disposal of fixed assets in 2018 has been included within administrative expenses in the income statement.

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

7 EMPLOYEES AND DIRECTORS

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

	2019	2018
	Number	Number
Production	39	41
Selling	118	130
Administration	611	599
Editorial	295	305
	1,063	1,075

	2019	2018
	£	£
Directors' remuneration:		
Aggregate emoluments	937,526	859,504
Amounts receivable under long term incentives	36,993	101,181
Company pension contributions to money purchase schemes	64,752	60,032

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

	2019	2018
	£	£
Highest paid director:		
Emoluments	546,789	520,888
Defined benefit pension scheme accrued at the end of the year	18,948	15,499

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

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

Penguin Books Limited (PBL) is reimbursed by the company on a monthly basis for the directors paid by PBL. A percentage of the director's costs are then recharged from the company to other Penguin Random House UK group entities.

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

8 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2019	2018
	£	£
Dividends received:		
Penguin Random House Australia Pty Limited	5,201,993	5,755,098
Penguin Random House South Africa Proprietary Limited	453,436	-
Penguin Random House Canada Limited	10,437,689	6,694,747
Penguin Random House New Zealand Limited	1,993,571	1,575,734
Woodlands Books Limited	-	595,000
	18,086,689	14,620,579

9 INTEREST RECEIVABLE AND PAYABLE

	2019	2018
	£	£
Interest receivable and similar income:		
Interest on pensions	1,277,000	599,997
Other	210	92
	1,277,210	600,089
Interest payable and similar expenses:		
On borrowings from group undertakings	5,266,923	4,897,672
Interest on building leases	56,851	-
Interest on equipment leases	5,992	-
Interest on car leases	2,929	-
Other	1,098	509
	5,333,793	4,898,181

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

10 TAX ON PROFIT

Analysis of tax charge for the year:

	2019	2018
	£	£
Amount payable for group relief and UK corporation tax		
Current year	3,693,083	4,415,720
Overseas tax	934,649	759,986
Double tax relief	(351,084)	(382,724)
Adjustments in respect of prior years	447,101	812,413
Total current tax	4,723,749	5,605,395
Deferred tax, origination and reversal of timing differences		
Current year	724,318	542,370
Adjustments in respect of prior years	(379,870)	(643,183)
Total deferred tax	344,448	(100,813)
Total tax charge for year	5,068,197	5,504,582

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

Factors affecting the tax charge for the year:

	2019	2018
	£	£
Profit before taxation	39,480,574	34,359,625
Corporation tax at standard rate of 19.00% (2018: 19.00%)	7,501,309	6,528,329
Effects of:		
Expenses not deductible for tax purposes	437,777	1,271,479
Income not taxable	(3,436,471)	(2,777,910)
Withholding tax not deductible	583,565	377,262
Adjustments in respect of prior years - current tax	447,101	812,413
Adjustments in respect of prior years - deferred tax	(379,870)	(643,183)
Deferred tax rate differences	(85,214)	(63,808)
Total tax charge for year	5,068,197	5,504,582

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

The standard rate of corporation tax in the UK changed from 20.00% to 19.00% with effect from 1 April 2017. Accordingly the company's profits/losses are taxed at an effective rate of 19.00% (2018: 19.00%).

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

11 DEFERRED TAX ASSETS AND LIABILITIES

Movement in recognised deferred tax during the year	1 January 2019	Restatement for IFRS 16	Tax credit relating to OCI	Income statement movement	31 December 2019
	£	£	£	£	£
Property plant and equipment	146,271	27,257	-	400,925	574,453
Rolled over gain	(1,688,407)	-	-	-	(1,688,407)
Other temporary differences	838,706	-	-	68,866	907,572
Pension scheme	(6,946,187)	-	2,911,301	(814,239)	(4,849,125)
Total deferred tax	(7,649,617)	27,257	2,911,301	(344,448)	(5,055,507)

Movement in recognised deferred tax during the prior year	1 January 2018	Tax credit relating to OCI	Income statement movement	31 December 2018
	£	£	£	£
Property plant and equipment	(574,802)	-	721,073	146,271
Rolled over gain	(1,688,407)	-	-	(1,688,407)
Other temporary differences	825,057	-	13,649	838,706
Pension scheme	(3,410,971)	(2,901,305)	(633,911)	(6,946,187)
Total deferred tax	(4,849,123)	(2,901,305)	100,811	(7,649,617)

Deferred tax
The deferred tax liability has been calculated at 17.00%. Following the 2020 Budget, the tax rate will no longer fall to 17.00% on 1 April 2020. A tax rate of 19.00% has been substantively enacted from 1 April 2020. If the tax rate of 19.00% had been enacted at the Balance Sheet date, the recognised deferred tax liability would have been £5,453,127.

There are no unused tax losses or unused tax credits.

THE RANDOM HOUSE GROUP LIMITED

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

12 INTANGIBLE ASSETS

	Goodwill	Software	Assets under construction	Total
	£	£	£	£
Cost:				
At 1 January 2019	1,915,682	29,901,699	548,208	32,365,589
Additions	-	-	2,548,355	2,548,355
Transfers	-	748,753	(748,753)	-
at 31 December 2019	1,915,682	30,650,452	2,347,810	34,913,944
Accumulated amortisation:				
At 1 January 2019	(1,915,682)	(17,523,317)	-	(19,438,999)
Amortisation in the year	-	(5,064,149)	-	(5,064,149)
at 31 December 2019	(1,915,682)	(22,587,466)	-	(24,503,148)
Net book amounts:				
At 31 December 2019	-	8,062,986	2,347,810	10,410,796
At 31 December 2018	-	12,378,382	548,208	12,926,590

The software intangible assets include the company's 'SAP finance and procurement' system which was created by an external development from the company's specific requirements. Those assets are amortised over 4 years (2018: 4 years) on a straight line basis. Intangible assets amortisation is recorded in administrative expenses in the Income Statement. Assets under construction include software implementation projects due to commence amortisation in 2020.

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

THE RANDOM HOUSE GROUP LIMITED

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

13 TANGIBLE ASSETS

	Freehold property	Long leasehold property	Plant and equipment	Assets under construction	Total
	£	£	£	£	£
Cost:					
At 1 January 2019	39,947,751	637,007	36,305,753	2,106,687	78,997,198
Additions	-	-	-	5,123,943	5,123,943
Transfers	-	-	2,004,093	(2,004,093)	-
At 31 December 2019	39,947,751	637,007	38,309,846	5,226,537	84,121,141
Accumulated depreciation:					
At 1 January 2019	(14,928,751)	(327,140)	(31,861,244)	-	(47,117,135)
Charge for the year	(746,392)	(49,650)	(2,004,969)	-	(2,801,011)
At 31 December 2019	(15,675,143)	(376,790)	(33,866,213)	-	(49,918,146)
Net book amounts:					
At 31 December 2019	24,272,608	260,217	4,443,633	5,226,537	34,202,995
At 31 December 2018	25,019,000	309,867	4,444,509	2,106,687	31,880,063

Assets under construction at the year end principally relate to plant and equipment expenditure on projects yet to be completed and delivered at the balance sheet date. On completion the costs are transferred from assets under construction to the appropriate asset group, and depreciated over their useful economic life in accordance with the company's accounting policies from this point. Also included in assets under construction are the fit-out costs incurred on the new leased offices ahead of occupation in quarter two of 2020.

THE RANDOM HOUSE GROUP LIMITED

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

14 LEASES

The company has lease contracts for various offices and equipment used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	31 December 2019	1 January 2019
Right-of-use assets		
Buildings	14,282,971	498,218
Vehicles	92,330	146,538
Equipment	155,477	296,835
	14,530,778	941,591
Lease liabilities		
Current	(410,318)	(375,282)
Non-current	(14,233,195)	(697,968)
	(14,643,513)	(1,073,250)

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 28.

Additions to the right-of-use assets during the 2019 financial year were £14,165,080.

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2019	2018
Depreciation charge of right-of-use assets		
Buildings	(318,944)	-
Vehicles	(74,186)	-
Equipment	(141,359)	-
	(534,489)	-
Interest expense (included in finance cost)	(68,762)	-

(iii) Future minimum lease payments as at 31 December 2019 are as follows:

Not later than one year	(430,371)	-
Later than one year and not later than five years	(7,625,515)	-
Later than five years	(8,604,470)	-
Total gross payments	(16,660,356)	-
Impact of finance expenses	2,016,843	-
Carrying amount of liability	(14,643,513)	-

The total cash outflow for leases in 2019 was £342,456.

THE RANDOM HOUSE GROUP LIMITED

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

15 INVESTMENTS

	Shares in subsidiaries	Listed equity investments	Unlisted equity investments	Total
	£	£	£	£
Cost:				
At 1 January 2019	295,471,063	1,343	6,000	295,478,406
At 31 December 2019	295,471,063	1,343	6,000	295,478,406
Accumulated impairment:				
At 1 January 2019	(73,944,587)	-	-	(73,944,587)
Charge for year	(1,018,159)	-	-	(1,018,159)
At 31 December 2019	(74,962,746)	-	-	(74,962,746)
Net book amounts:				
At 31 December 2019	220,508,317	1,343	6,000	220,515,660
At 31 December 2018	221,526,476	1,343	6,000	221,533,819

Subsidiaries
The company's subsidiaries are listed in note 29. 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 have been compared to ascertain if impairment is necessary. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. An impairment charge was recorded in the year in respect of the investment in Random House Struik Proprietary Limited of £1,018,159 (2018: £1,039,000)

Listed equity investments
These investments had a fair value at 31 December 2019 of £4,413 (2018: £4,413).

Unlisted equity investments
This is comprised of 20% of the ordinary shares of Andersen Press Limited which is registered in England. The directors do not consider this investment to be a participating investment since they do not exercise a significant influence over the affairs of the company.

16 STOCKS

	2019	2018
	£	£
Raw materials and consumables	1,236,911	81,782
Work in progress	2,994,528	2,329,047
Finished books	8,154,964	7,877,366
	12,386,403	10,288,195

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

Stocks are stated after provisions for impairment of £3,201,190 (2018: £3,201,668). No inventories have been pledged as security for liabilities.

17 DEBTORS

	2019	2018
	£	£
Trade debtors	3,820,234	3,533,260
Amounts owed by group undertakings	117,018,912	104,787,986
Other debtors	3,528,064	2,629,879
Prepayments and accrued income	7,032,043	10,456,366
	131,399,253	121,407,491

Amounts owed by group undertakings are unsecured, repayable on demand and interest free. Included in this balance is £92,162,140 (2018: £80,667,251) owed from The Book Service Limited ("TBS"), representing trade debtors receivable in TBS on behalf of the company. The balance is stated after provision for impairment of £1,860,916 (2018: £1,362,501). Trade debtors represents amounts owed to the company on the sundry sales ledger and is stated after provision for impairment of £51,347 (2018: £56,972).

Included in other debtors is £3,107,347 owed in relation to Value Added Tax (VAT) reimbursements (2018: £2,373,539).

18 ADVANCE ROYALTIES

	2019	2018
	£	£
Advance royalties	34,786,043	39,061,230

Included in advance royalties is £12,808,709 (2018: £17,397,236) 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.

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

19 POST EMPLOYMENT BENEFITS

Defined pension schemes
The company, together with its subsidiary, The Book Service Limited, operates two pension schemes of the defined benefit type. The assets of the scheme are for the scheme as a whole and are not allocated to the employees, or ex-employees, of a particular company. Employees can move freely between the sponsoring companies and so it is not considered practicable to attempt to split the liabilities between the companies, therefore the pension is accounted for in the financial statements of The Random House Group Limited, who's management is responsible for making decisions concerning the plan and negotiating with the trustees. One scheme was closed to new members from 1 July 2002, since when the other scheme has operated on a defined contribution basis for new employees.

The benefits the members of the schemes obtain upon retirement depend on when they joined the scheme but the majority of members receive a pension based on 1/60th of pensionable service multiplied by the final pensionable salary.

The scheme pensions are updated in line with the retail price index.

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 trustees of the funds.

The risks of the scheme are as follows:

(a) Asset volatility
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

As the plans mature, the company intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The first stage of this process was completed in 2015 with the sale of a number of equity holdings and purchase of a mixture of government and corporate bonds. The government bonds represent investments in UK government securities only. The corporate bonds are securities with an emphasis on the UK.

However, the company believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the company's long-term strategy to manage the plans efficiently.

(b) Changes in bond yields
A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

(c) Longevity risk
The liabilities are very sensitive to unexpected changes in future mortality. If longevity increases at a faster pace than assumed then the liabilities will increase at future calculations. The longevity risk can be mitigated by securing benefits for members with insurance companies. There is also a growing market in longevity solutions which may enable this risk to be managed to some degree in the future.

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

19 POST EMPLOYMENT BENEFITS (continued)

(d) Investment/interest rate risk

The Schemes' invested assets are allocated heavily to equities, while IAS19 stipulates a discount rate related to corporate bond yields. Therefore the liabilities and assets may react differently to changes in market conditions.

(e) Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 31 December 2019 by Capita plc, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2019	2018
	%	%
Discount rate	2.1	2.9
Rate of price inflation (RPI)	3	3.25
Rate of increase in salaries	2.5	2.75
Rate of increase of pensions in payment:		
- 3% floor & 5% cap	3.0	3.25
- 5% cap	2.85	3.05
- 2.5% cap	1.95	2.05
Revaluation of pensions in deferment	2	2.25
Mortality table in retirement	S3 series of tables (table used dependent upon estimated pension amount)	S2PxA(b=yob)
	CMI 2018 core with initial adjustment to mortality of 0.5% and 1.5% long term rate	CMI 2017 core with 1.5% long term rate

THE RANDOM HOUSE GROUP LIMITED

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

19 POST EMPLOYMENT BENEFITS (continued)

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and expectancy in years for a pensioner retiring at age 65:

	2019 Years	2018 Years
Retiring at the end of the reporting year:		
- Male (from age 65)	21.7 – 24.2	22
- Female (from age 65)	24.0 – 25.5	23.9
Retiring 20 years after the end of the reporting year:		
- Male (from age 65)	23.4 – 25.7	23.7
- Female (from age 65)	25.8 – 27.1	25.8

Reconciliation of schemes movements during the year: *(all amounts shown to nearest £'000)*

	Fair value of plan assets £	Present value of obligation £	Total £
At 1 January 2019	314,838,000	(273,978,000)	40,860,000
Current service cost	-	(2,534,000)	(2,534,000)
Interest income / (expense)	9,101,000	(7,825,000)	1,276,000
	323,939,000	(284,337,000)	39,602,000
Remeasurements:			
Loss from change in demographic assumptions	-	(8,213,000)	(8,213,000)
Loss from change in financial assumptions	-	(36,723,000)	(36,723,000)
Gain from experience adjustments	-	3,660,000	3,660,000
Return on plan assets, excluding amounts included in interest expense	24,151,000	-	24,151,000
	24,151,000	(41,276,000)	(17,125,000)
Contributions:			
Employers	6,047,000	-	6,047,000
Plan participants	421,000	(421,000)	-
Payments from plan:			
Benefit payments	(8,344,000)	8,344,000	-
	(1,876,000)	7,923,000	6,047,000
At 31 December 2019	**346,214,000**	**(317,690,000)**	**28,524,000**

19 POST EMPLOYMENT BENEFITS (continued)

	Fair value of plan assets	Present value of obligation	Total
	£	£	£
At 1 January 2018	319,479,000	(299,414,000)	20,065,000
Current service cost	-	(3,042,000)	(3,042,000)
Past service gain	-	-	-
Interest income / (expense)	7,979,000	(7,379,000)	600,000
	327,458,000	(309,835,000)	17,623,000
Remeasurements:			
Gain from change in demographic assumptions	-	1,527,000	1,527,000
Gain from change in financial assumptions	-	26,201,000	26,201,000
Loss from experience adjustments	-	(6,000)	(6,000)
Return on plan assets, excluding amounts included in interest expen:	(10,656,000)	-	(10,656,000)
	(10,656,000)	27,722,000	17,066,000
Contributions:			
Employers	6,171,000	-	6,171,000
Plan participants	444,000	(444,000)	-
Payments from plan:			
Benefit payments	(8,579,000)	8,579,000	-
	(1,964,000)	8,135,000	6,171,000
At 31 December 2018	**314,838,000**	**(273,978,000)**	**40,860,000**

As the schemes are now closed as defined benefit schemes, the current service cost, as calculated under the projected unit method, will increase as members approach retirement.

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

		Impact on defined benefit obligation	
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	0.50%	Decrease by 8.8%	Increase by 10.1%
Salary growth rate	0.50%	Increase by 1.5%	Decrease by 1.4%
Pension growth rate	0.50%	Increase by 2.8%	Decrease by 2.6%
Life expectancy	Increase or decrease by 1 year	Decrease by 3.6%	Increase by 4.2%

19 POST EMPLOYMENT BENEFITS (continued)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the 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 year) 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.

The fair value of the plan assets was: *(all amounts shown to nearest £'000)*

	2019	2018
	£	£
Quoted		
Equities & property	85,773,000	88,308,000
Corporate bonds	79,181,000	71,749,000
Gilts	172,936,000	148,901,000
Cash	5,102,000	3,282,000
Unquoted		
Secured annuities	3,222,000	2,598,000
Total fair value of assets	346,214,000	314,838,000

The company, together with its subsidiary, expects to contribute approximately £5,822,000 (2018: £6,022,000) to its defined benefit plans in 2020.

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: *(all amounts shown to nearest £'000)*

	2019	2018
	£	£
Money Purchase scheme	2,615,000	2,547,000
	2,615,000	2,547,000

20 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	Restated 2018	
	£	£	
Trade creditors	55,376,085	53,627,200	*
Amounts owed to group undertakings	198,710,429	184,871,076	
Lease liabilities	410,318	-	
Taxation	3,341,999	4,126,356	
Social security	3,216,482	3,042,221	
Other creditors	456,953	275,577	*
Accruals and deferred income	26,488,033	21,998,211	*
	288,000,299	267,940,641	

Amounts owed to group undertakings are unsecured and repayable on demand. Included within this is £185,409,882 (2018: £172,131,264) in respect of the cash pooling agreements with the company's parent entity, Penguin Random House Limited ("PRHL"), and subsidiary, Woodlands Books Limited. These amounts incur interest on a monthly basis; the average interest rate for the year was 3.32% (2018: 3.17%).

*Prior year balances have been restated to present them in conformity with the current year treatment. The impact of the restatement is to decrease trade creditors falling due within one year by £7,534,664, decrease other creditors by £949,297 and increase accruals and deferred income by £949,297. The overall impact within 'Creditors: amounts falling due within one year' as a result of the restatement is a decrease of £7,534,665.

21 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019	Restated 2018	
	£	£	
Trade creditors	6,672,519	7,534,664	*
Lease liabilities	14,233,195	-	
	20,905,714	7,534,664	

*Prior year balances have been restated to present them in conformity with the current year treatment. The overall impact within 'Creditors: amounts falling due after more than one year' as a result of the restatement is an increase of £7,534,664 to trade creditors.

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

22 PROVISIONS FOR LIABILITIES

The company had the following provisions during the year:

	Deferred tax provision	Discounts provision	Returns provision	Onerous contract provision on advances	Dilapidations provision	Onerous lease provision (non-rent)	LTIP provision	Total
	£	£	£	£	£	£	£	£
At 1 January 2019	7,649,617	6,751,880	12,020,913	4,661,315	-	-	3,400,000	34,483,725
Restatement for IFRS 16	(27,257)	-	-	-	-	-	-	(27,257)
Additions to the income statement	344,448	6,340,806	12,378,713	2,988,030	66,300	286,846	-	22,405,143
Additions to right-of-use assets	-	-	-	-	39,224	-	-	39,224
Amount utilised during the year	(2,911,301)	(6,751,880)	(11,696,274)	(3,005,877)	-	-	(50,000)	(24,415,332)
At 31 December 2019	5,055,507	6,340,806	12,703,352	4,643,468	105,524	286,846	3,350,000	32,485,503

Deferred tax provision
The amounts of income taxes payable in future periods in respect of taxable temporary differences.

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

Returns provision
The Company has agreements in place to allow customers to return books. As a result the Company makes an estimate of future returns based on historic data, the ageing of sales and business experience. The provision is expected to be utilised within 12 months from the balance sheet date.

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

Dilapidations provision
A provision in anticipation of the cost of future repairs and renovations that will need to be made in line with the lease obligations at Embassy Gardens.

Onerous lease provision (non-rent)
An onerous lease provision has been recognised for the non-rent double running costs on the leased offices at Embassy Gardens prior to the company occupying the premises in 2020.

LTIP provision
A provision for the company long-term incentive plan that rewards employees for reaching specific goals that lead to increased shareholder value once various conditions have been met.

23 CALLED UP SHARE CAPITAL

	2019	2018
	£	£
Authorised, allotted, called up and fully paid:		
819,560,718 (2018: 819,560,718) Ordinary shares of 10p each	81,956,072	81,956,072

24 DIVIDENDS PAID

	2019	2018
Equity - Dividend	£	£
Interim: 5.49p (2018: 6.59p) per share	45,000,000	54,000,000
	45,000,000	54,000,000

25 COMMITMENTS

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods under IAS 17. From 1 January 2019 the company has adopted IFRS 16: Leases, see note 14 for details of the future minimum lease payments as at 31 December 2019.

	2019	2018
	£	£
Plant and machinery:		
Not later than one year	-	228,070
Later than one year and not later than five years	-	264,790
Premises:		
Not later than one year	-	116,000
Later than one year and not later than five years	-	464,000
Later than five years	-	106,333
	-	1,179,193

There are commitments to authors for the payment of royalty advances amounting to £44,685,868 at 31 December 2019 (2018: £54,164,835). Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

Based on the square footage of levels 0-2 at Embassy Gardens, the company had a contractual obligation of £3,376,022 for the fit out costs, including technology, at 31 December 2019 (2018: nil).

26 RELATED PARTIES

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

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

As the company is a wholly owned subsidiary of PRHL the company is exempt from the requirement, under International Accounting Standard 24 'Related party disclosures', to disclose transactions with entities that are wholly owned by this company. The company has taken advantage of this exemption.

THE RANDOM HOUSE GROUP LIMITED

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

26 RELATED PARTIES (continued)

During the year the company entered into the following material transactions with related parties not wholly owned by Penguin Random House Limited:

	2019	2018
	£	£
Sales of books:		
Penguin Random House LLC	96,757	32,053
Other operating income:		
Arvato Limited	86,260	21,023
Bertelsmann UK Limited	188,562	173,781
Children's Character Books Limited	-	-
Penguin Random House LLC	365,355	93,749
Woodlands Books Limited	2,553,177	3,106,381
Inventories of finished goods:		
GGP Media GmbH	700,184	728,957
Mohn Media Mohndruck GmbH	490,013	617,065
Penguin Random House LLC	-	58,365
Other external charges:		
Arvato Limited	162,388	209,783
Arvato Systems GmbH	202,487	199,047
Bertelsmann Business Support S a r l	202,996	280,581
Bertelsmann Accounting Services GbmH	499,734	567,759
Bertelsmann UK Limited	58,697	56,406
Penguin (Beijing) Culture Development Co Ltd	337,391	204,944
Random House LLC	123,385	112,268
Debtors:		
Bertelsmann UK Limited	35,288	29,914
Children's Character Books Limited	28,282	35,513
Penguin Random House LLC	143,838	89,050
Woodlands Books Limited	1,698,644	934,611
Creditors:		
Arvato Limited	18,878	53,186
Arvato Systems GmbH	98,139	51,592
Bertelsmann Accounting Services GbmH	434,310	27,161
Bertelsmann SE & Co. KGaA	22,019	104,658
GGP Media GmbH	4,144	73,645
Penguin Random House LLC	419,412	325,183
Woodlands Books Limited	7,067,196	6,052,528

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

27 CHANGES IN ACCOUNTING POLICIES

As indicated in notes 3 and 14, the company has adopted IFRS 16 Leases retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 3.

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

(i) Practical expedients applied

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

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

(ii) Measurement of lease liabilities

ii. Measurement of lease liabilities

	£
Operating lease commitments disclosed as at 31 December 2018	1,179,193
Discounted using the lessee's incremental borrowing rate of at the date of initial applicatior	1,073,250
(Less): short-term leases not recognised as a liability	-
(Less): low-value leases not recognised as a liability	-
Lease Liability recognised as at 1 January 2019	1,073,250

27 CHANGES IN ACCOUNTING POLICIES (continued)

***(iii)* Measurement of right-of-use assets**

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

***(iv)* Adjustments recognised in the statement of financial position on 1 January 2019**

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- Right-of-use assets – increase by £941,591
- Prepayments – decrease by £28,677
- Lease liabilities – increase by £1,073,250
- Deferred tax liabilities – decrease by £27,257

The net impact on retained earnings on 1 January 2019 was a decrease of £133,079.

28 POST BALANCE SHEET EVENTS

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

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

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

29 INVESTMENTS IN GROUP UNDERTAKINGS

Refer to the following table for the company's investments at 31 December 2019.

29 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
Subsidiary undertakings				
Arrow Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Bantam Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Barrie & Jenkins Limited	Dormant Entity	98	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Bartlett Bliss Productions Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Bellew & Higton Publishers Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Business Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Carousel Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Century Benham Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Century Hutchinson Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Century Hutchinson Publishing Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Century Publishing Co. Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Chatto and Windus Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Corgi Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Hammond, Hammond and Company, Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Herbert Jenkins Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Hurst & Blackett Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Hutchinson & Co. (Publishers) Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Hutchinson Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Hutchinson Childrens Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Jackdaw Publications Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA

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

29 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
Jonathan Cape Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Mainstream Publishing Company (Edinburgh) Limited	Book Publishing	100	Ordinary	54-66 Frederick Street, Edinburgh, United Kingdom, EH2 1LS
Martin Secker and Warburg Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Penguin Random House Australia Pty Limited	Book Publishing	100	Ordinary	707 Collins Street, Melbourne, Australia, VIC 3008
Penguin Random House Canada Limited	Book Publishing	100	Ordinary	1 Toronto Street, Suite 300, Toronto, Canada, M5C2V6
Penguin Random House Grupo Editorial, S.A.	Book Distribution	100	Ordinary	Calle Travessera de Gracia, 47-49, Barcelona, Spain, 08021
Penguin Random House Ireland Limited	Editorial services	100	Ordinary	c/o EUGENE F. COLLINS Solicitors, Temple Chambers, 3 Burlington Road, Dublin, Ireland, 4
Penguin Random House New Zealand Limited	Book Publishing	100	Ordinary	67 Apollo Drive, Rosedale, Auckland, New Zealand, 0632
Penguin Random House South Africa Proprietary Limited	Book Publishing	53.47	Ordinary	The Estuaries No 4, Oxbow Crescent, Century Avenue, Century City, Cape Town, South Africa, 8000
Plane Tree Publishers Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Random House Properties Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Random House Publishing Group Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Random House Struik Proprietary Limited	Dormant Entity	100	Ordinary	The Estuaries No 4, Oxbow Crescent, Century Avenue, Century City, Cape Town, South Africa, 8000
Random House UK Ventures Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
RHA Holdings Pty Limited	Dormant Entity	100	Ordinary	16 Dalmore Drive, Scoresby (Melbourne), Victoria 3179, Australia, 3179
Sinclair - Stevenson Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA

29 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
Stanley Paul & Company Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
T. Werner Laurie, Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Tamarind Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
The Bodley Head Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
The Book Service Limited	Distribution and Support Services	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
The Cresset Press Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
The Harvill Press Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
The Hogarth Press Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Transworld Publishers Limited	Book Publishing	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Virgin Books Limited	Book Publishing	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Woodlands Books Limited	Book Publishing	85	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA

Indirect subsidiary undertakings

Direct Group Grandes Obras, S.L.	Holding Company	100	Ordinary	Calle Travessera de Gracia, 47-49, Barcelona, Spain, 08021
Distribuidora Penguin Random House S.A.S.	Distribution Services	100	Nominal	Aut. Medellin KM 1.7 Terrapuerto Industrial el Dorado BG 4, Cota (Cundinamarca), Columbia
Editorial Sudamericana Uruguaya S.A.	Book Publishing	100	Ordinary	Yaguaron 1568, Montevideo, Uruguay
Grantham Book Services Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Penguin Random House Grupo Editorial S.A.	Book Publishing	100	Ordinary	Calle Humberto Primo 545, Buenos Aires, Argentina, C1103ACK

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

29 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
Penguin Random House Grupo Editorial S.A.	Book Publishing	100	Ordinary	Av. Ricardo Palma 341, Of. 601, Miraflores, Lima, Peru
Penguin Random House Grupo Editorial S.A.S.	Book Publishing	100	Ordinary	Terrapuerto Industrial El Dorado Bodega No. 4, Autopista Medellin Km 1.7 Entrada Parque La Florida, Cota (Cundinamarca), Columbia
Penguin Random House Grupo Editorial, S.A.	Book Distribution	100	Ordinary	Merced 280, 6th Floor, Santiago de Chile, Chile, 8320128
Penguin Random House Grupo Editorial, S.A.	Book Distribution	100	Ordinary	Av. Venezuela, Edificio Atrium, piso 3, oficina única. Urb. El Rosal, Caracas, Venezuela, 1060
Penguin Random House Grupo Editorial, S.A. de C.V.	Book Publishing	99.82	Ordinary	Miguel de Cervantes Saavedra 301, piso 1, col. Granada, del. Miguel Hidalgo, Mexiko-Stadt, Mexico, 11520
Penguin Random House Grupo Editorial, Unipessoal Lda.	Book Publishing	100	Ordinary	Praca Marques de Pombal, numero 1, 8° planta, Lissabon, Portugal, 1250-160
WH Allen General Books Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA
Distribuidora Digital de Libros, S.A.	Ebook Distribution	53.32	Ordinary	Via Augusta, 48-50, Barcelona, Spain, 08006
Market Self S.A.	Distribution Services	85	Ordinary	Av. Paseo Colón 221, 6th Floor, Buenos Aires, Argentina, C1063ACC
Indirect investments				
Bounce! Sales & Marketing Limited	Book Sales and Marketing	30	Ordinary	Hathaway House, Popes Drive, London, N3 1QF
Centro de Exportacion de Libros Espanoles, S.A.	Distribution Services	6.56	Ordinary	Calle Moratines, 11, 1B, Madrid, Spain, 28005
Editora Schwarcz S.A.	Book Publishing	70	Common	Rua Djalma Dutra, no. 192, Luz, Sao Paulo, Brazil, 01103-010

THE RANDOM HOUSE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)
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29 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
Penguin Random House India Private Limited	Book Publishing	2.51	Ordinary	7th Floor, Infinity Tower C, DLF Cyber City, Gurgaon, India, 122 002, Haryana