

Company no: 00954009

**THE RANDOM HOUSE GROUP LIMITED**

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017



# THE RANDOM HOUSE GROUP LIMITED

## STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Strategic Report for the year ended 31 December 2017.

### Principal activities

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

### 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 £23,103,369 (2016: £21,949,772).

### Key Performance Indicators ('KPI's')

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

- Turnover was £204,182,868 (2016: £189,223,517).

### Principal Risks and Uncertainties

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

### General

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

On behalf of the Board



M GARDINER  
Director

26 September 2018

# **THE RANDOM HOUSE GROUP LIMITED**

## **DIRECTORS' REPORT** **FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their report and audited financial statements of the company for the year ended 31 December 2017.

### **Future developments**

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

### **Dividends**

Dividends of nil (2016: £nil) were paid during 2017. The company approved and paid a dividend of £54,000,000 in March 2018.

### **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	
M Symons	Resigned on 31 January 2017
T Weldon	
R Waddington	Appointed on 31 January 2017

### **Employees**

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

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

# THE RANDOM HOUSE GROUP LIMITED

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

(continued)

### Statement of directors' responsibilities

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

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

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

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

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

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

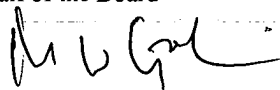
### Disclosure of information to auditors

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

### Independent auditors

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

On behalf of the Board



M GARDINER  
Director

26 September 2018

# THE RANDOM HOUSE GROUP LIMITED

## INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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##### **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 2017 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 2017; the Income Statement and Statement of Comprehensive Income for the year then ended and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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##### **Basis for opinion**

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

##### **Independence**

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

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

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

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

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

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##### **Reporting on other information**

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

## THE RANDOM HOUSE GROUP LIMITED

### INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

## ***Independent auditors' report to the members of Random House Group Limited (Continued)***

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

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

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

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

#### ***Strategic Report and Directors' Report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 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 the directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### ***Auditors' responsibilities for the audit of the financial statements***

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

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

#### ***Use of this report***

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

**THE RANDOM HOUSE GROUP LIMITED**

**INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

***Independent auditors' report to the members of Random House Group Limited (Continued)***

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**Other required reporting**

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**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



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

26 September 2018

# THE RANDOM HOUSE GROUP LIMITED

## INCOME STATEMENT for the year ended 31 December 2017

	Note	2017 £	2016 £
Turnover	5	204,182,868	189,223,517
Cost of sales		(38,651,565)	(36,057,166)
Gross profit		165,531,303	153,166,351
Administrative expenses		(189,273,653)	(177,596,322)
Other operating income		46,845,719	46,379,743
Operating profit	6	23,103,369	21,949,772
Income from shares in group undertakings	8	23,701,183	3,589,304
Income from other fixed asset investments		32,145	32,145
Interest receivable and similar income	9	107	366,293
Amounts (written off) / reversed back investments	14	(500,000)	15,142,500
Interest payable and similar charges	9	(3,989,667)	(3,892,528)
<b>Profit on ordinary activities before taxation</b>		42,347,137	37,187,486
Tax on profit on ordinary activities	10	(3,453,561)	(4,681,920)
<b>Profit for the financial year</b>		38,893,576	32,505,566

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



# **THE RANDOM HOUSE GROUP LIMITED**

## **STATEMENT OF COMPREHENSIVE INCOME** **for the year ended 31 December 2017**

	Note	2017 £	2016 £
Profit for the financial year		38,893,576	32,505,566
Other comprehensive income/(expense): items that will not be reclassified to profit or loss:			
Actuarial gains / (losses) on pension scheme	18	19,774,800	(19,335,000)
Movement on deferred tax relating to pension (surplus) / deficit	11	(4,548,133)	3,673,650
<b>Total comprehensive income for the year</b>		<b>54,120,243</b>	<b>16,844,216</b>

**THE RANDOM HOUSE GROUP LIMITED****BALANCE SHEET**  
**As at 31 December 2017**

	Note	2017 £	Restated 2016 £
<b>Fixed assets</b>			
Intangible assets	12	18,060,456	16,382,299
Tangible assets	13	31,415,322	32,109,366
Investments	14	<u>227,025,819</u>	<u>198,086,411</u>
		276,501,598	246,578,076
<b>Current assets</b>			
Stocks	15	10,013,164	9,240,824
Debtors	16	121,906,939	80,766,133
Advance royalties	17	36,057,531	45,170,085 *
Cash at bank and in hand		237,750	1,195,388
Pension surplus: amounts falling due more than one year	18	<u>20,064,543</u>	<u>9,861,660</u>
		188,279,927	146,234,090
<b>Creditors: amounts falling due within one year</b>	19	<u>(270,168,189)</u>	<u>(240,448,728) *</u>
<b>Net current liabilities</b>		(81,888,262)	(94,214,638)
<b>Total assets less current liabilities</b>		194,613,336	152,363,438
Pensions and similar obligations	18	-	(17,801,237)
Provisions for other liabilities	20	<u>(13,151,954)</u>	<u>(7,221,063) *</u>
<b>Net assets</b>		<u>181,461,382</u>	<u>127,341,138</u>
<b>Capital and Reserves</b>			
Called up share capital	21	81,956,072	81,956,072
Other reserves		66,409	66,409
Profit and loss account		<u>99,438,900</u>	<u>45,318,657</u>
<b>Total equity</b>		<u>181,461,382</u>	<u>127,341,138</u>

\*Prior year balances have been restated to present them in conformity with the current year treatment. See notes 17, 19 and 20 for the impact of the restatements.

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

These financial statements on pages 7 to 38 were authorised for issue by the board of directors on 26 September 2018 and were signed on its behalf.



M GARDINER  
Director  
The Random House Group Ltd

# THE RANDOM HOUSE GROUP LIMITED

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2017

	Called up share capital £	Share premium £	Other reserves £	Profit and loss account £	Total equity £
<b>Balance as at 1 January 2016</b>	81,956,072	77,000,000	66,409	(48,525,559)	110,496,922
<b>Changes in equity</b>					
Total comprehensive income for the year	-	-	-	16,844,216	16,844,216
Share Premium Reduction	-	(77,000,000)	-	77,000,000	-
<b>Balance as at 31 December 2016</b>	81,956,072	-	66,409	45,318,657	127,341,138
<b>Changes in equity</b>					
Total comprehensive income for the year	-	-	-	54,120,243	54,120,243
<b>Balance as at 31 December 2017</b>	81,956,072	-	66,409	99,438,900	181,461,382

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 1 GENERAL INFORMATION

The company is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA.

### 2 STATEMENT OF COMPLIANCE

The individual financial statements of 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 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)
- 101p8(j) & Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- 101p8(k) & The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 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. The directors believe this basis to be appropriate in light of the company's continued support of Penguin Random House Limited ("PRHL") and current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements.

#### New standards, amendments and IFRIC interpretations

No new accounting standards or amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2017 have had a material impact on the company.

#### Foreign currency translation

##### *Functional and presentation currency*

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

##### *Transactions and balances*

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

#### Turnover

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

#### Income from sub rights

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

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 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.

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.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

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

#### Taxation (Continued)

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

#### Investments

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

#### Impairment of non-financial assets

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

#### Intangible assets

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

#### *Computer Software*

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

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

#### Tangible assets

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

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

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

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

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

#### Leased assets

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

#### Stocks

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

#### Royalty advances

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

#### Financial Assets

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

#### Trade debtors and amounts owed by group undertakings

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

#### Trade creditors and amounts owed to group undertakings

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

#### 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.



# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 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 to authors are recognised once a contract is approved within the royalty system, less any provision required to adjust the advance to its net realisable value for unpublished titles. The 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 £30,704,700.

##### *(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 16 for details of the returns provision value.

##### *(iii) Defined benefit scheme*

The company has obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors including life expectancy, salary increases, asset valuations and the discount rate on corporation bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 18 for the disclosures of the defined benefit pension scheme.

##### *(iv) Impairment of Investments*

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

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

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

	2017	2016
	£	£
5 TURNOVER		
Analysis of turnover by geography:		
UK and The Republic of Ireland	148,089,361	140,744,076
Rest of the World	56,093,507	48,479,441
	<u>204,182,868</u>	<u>189,223,517</u>

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

## 6 OPERATING PROFIT

Operating profit is stated after charging:

	2017	2016
	£	£
Auditors' remuneration:		
Statutory audit	<u>173,170</u>	<u>171,568</u>
Operating lease expenses	188,741	240,191
Impairment/(reversal of impairment) of trade receivables	139,705	(870,379)
Personnel costs:		
Wages and salaries	49,148,108	50,005,241
Social security costs	5,668,253	5,694,453
Random House Group pension scheme costs	<u>4,820,902</u>	<u>5,298,736</u>

## 7 EMPLOYEES AND DIRECTORS

### Employees

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

	2017	2016
	Number	Number
Production	68	60
Selling	114	110
Administration	622	535
Editorial	265	270
	<u>1,069</u>	<u>975</u>

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 7 EMPLOYEES AND DIRECTORS (continued)

	2017	2016
	£	£
<u>Directors' remuneration:</u>		
Aggregate emoluments	824,996	913,694
Amounts receivable under long term incentives	34,065	164,891
Company pension contributions to money purchase schemes	63,478	43,986

Retirement benefits are accruing to 1 director (2016: 1) under defined benefit pension schemes and to 1 director (2016: 1) under a money purchase scheme.

	2017	2016
	£	£
Highest paid director:		
Emoluments	529,303	533,588
Defined benefit pension scheme accrued at the end of the year	14,708	4,297

Two directors were paid by the Random House Group and three directors are paid by other companies:

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

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

8 INCOME FROM SHARES IN GROUP UNDERTAKINGS	2017	2016
	£	£
Dividends received:		
Penguin Random House South Africa (Pty) Ltd	1,280,803	3,273,574
Penguin Random House Canada Ltd	17,701,094	-
Penguin Random House New Zealand Ltd	4,209,286	-
Woodlands Books Limited	510,000	-
Mainstream Publishing Company (Edinburgh) Limited	-	315,730
	<u>23,701,183</u>	<u>3,589,304</u>

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

9	INTEREST RECEIVABLE AND PAYABLE	2017	2016
		£	£
	Interest receivable and similar income:		
	Interest on pensions	-	(366,000)
	Other	(107)	(293)
		(107)	(366,293)
	Interest payable and similar charges:		
	On borrowings from group undertakings	3,862,425	3,892,528
	Interest on pensions	127,000	-
	Other	242	-
		3,989,667	3,892,528

10	TAX ON PROFIT ON ORDINARY ACTIVITIES:	2017	2016
		£	£
(a)	Analysis of tax charge for the year		
	Amount payable for group relief and UK Corporation Tax		
	-current year	1,824,653	2,758,588
	-overseas tax	1,264,137	186,727
	-double tax relief	(283,537)	(194,277)
	-adjustments in respect of prior years	534,471	849,681
	Deferred tax, origination and reversal of timing differences		
	-current year	624,316	1,092,261
	-adjustments in respect of prior years	(510,479)	(11,060)
		3,453,561	4,681,920

The tax assessment for the year is lower (2016: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2017 of 19.25% (2016: 20%). The differences are explained below:

	2017	2016
	£	£
(b)	Factors affecting the tax charge for the year	
	Profit on ordinary activities before taxation	42,347,137
	Corporation tax at standard rate of 19.25% (2016: 20%)	8,151,824
	Effects of:	
	Expenses not deductible for tax purposes	308,000
	Income not taxable	(4,562,474)
	Withholding tax	980,600
	Adjustments in respect of prior years - current tax	534,471
	Adjustments in respect of prior years - deferred tax	(510,478)
	Deferred tax rate differences	(1,448,381)
	Total tax charge for year	3,453,562

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 10 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

#### Current tax

The standard rate of corporation tax in the United Kingdom changed from 20% to 19% with effect from 1 April 2017. Accordingly the company's profits are taxed at an effective rate of 19.25% (2016: 20%).

### 11 DEFERRED TAX ASSETS AND LIABILITIES

Movement in recognised deferred tax during the year	1 January 2017 £	Tax credit relating to OCI £	Income statement movement £	31 December 2017 £
Property plant and equipment	(711,529)	-	136,727	(574,802)
Rolled over gain	(1,887,043)	-	198,636	(1,688,407)
Other temporary differences	902,854	-	(77,797)	825,057
Pension scheme	1,508,565	(4,548,133)	(371,403)	(3,410,971)
Total deferred tax	<u>(187,153)</u>	<u>(4,548,133)</u>	<u>(113,837)</u>	<u>(4,849,123)</u>

Movement in recognised deferred tax during the prior year	1 January 2016 £	Tax credit relating to OCI £	Income statement movement £	31 December 2016 £
Property plant and equipment	(432,726)	-	(278,803)	(711,529)
Rolled over gain	(1,887,043)	-	-	(1,887,043)
Other temporary differences	461,322	-	441,532	902,854
Pension scheme	(921,155)	3,673,650	(1,243,930)	1,508,565
Total deferred tax	<u>(2,779,602)</u>	<u>3,673,650</u>	<u>(1,081,201)</u>	<u>(187,153)</u>

#### Deferred tax

The tax rate reduced to 19% with effect from 1 April 2017 and will fall to 17% with effect from 1 April 2020. Accordingly deferred tax has been provided at 17%.

There are no unused tax losses or unused tax credits.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 12 INTANGIBLE ASSETS

	Goodwill £	Software £	Assets Under Construction £	Total £
Cost:				
at 1 January 2017	1,915,682	15,202,650	9,874,552	26,992,884
Additions	-	-	6,516,636	6,516,636
Transfers	-	15,550,368	(15,550,368)	-
at 31 December 2017	1,915,682	30,753,018	840,820	33,509,520
Accumulated amortisation:				
at 1 January 2017	(1,915,682)	(8,694,903)	-	(10,610,585)
Amortisation in the year	-	(4,838,479)	-	(4,838,479)
at 31 December 2017	(1,915,682)	(13,533,382)	-	(15,449,064)
Net book amounts:				
at 31 December 2017	-	17,219,636	840,820	18,060,456
at 31 December 2016	-	6,507,747	9,874,552	16,382,298

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 (2016: 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 2019.

### 13 TANGIBLE ASSETS

	Freehold property £	Long leasehold property £	Plant and equipment £	Assets under construction £	Total £
Cost:					
at 1 January 2017	39,947,751	439,159	34,022,153	190,027	74,599,090
Additions	-	-	-	1,578,456	1,578,456
Transfers	-	-	1,420,890	(1,420,890)	-
at 31 December 2017	39,947,751	439,159	35,443,043	347,593	76,177,546
Accumulated depreciation:					
at 1 January 2017	(14,178,835)	(301,554)	(28,009,335)	-	(42,489,724)
Charge for the year	-	-	(2,272,500)	-	(2,272,500)
at 31 December 2017	(14,178,835)	(301,554)	(30,281,835)	-	(44,762,224)
Net book amounts:					
at 31 December 2017	25,768,916	137,605	5,161,208	347,593	31,415,322
at 31 December 2016	25,768,916	137,605	6,012,818	190,027	32,109,366

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

14	INVESTMENTS	Shares in subsidiaries £	Listed equity investments £	Unlisted equity investments £	Total £
	Cost:				
	at 1 January 2017	266,031,655	1,343	6,000	266,038,998
	Additions	30,962,602	-	-	30,962,602
	Transfers	(1,523,194)	-	-	(1,523,194)
	at 31 December 2017	295,471,063	1,343	6,000	295,478,406
	Accumulated impairment:				
	at 1 January 2017	(67,952,587)	-	-	(67,952,587)
	Charge for year	(500,000)	-	-	(500,000)
	at 31 December 2017	(68,452,587)	-	-	(68,452,587)
	Net book amounts:				
	at 31 December 2017	227,018,476	1,343	6,000	227,025,819
	at 31 December 2016	198,079,068	1,343	6,000	198,086,411

### Subsidiaries

The company's subsidiaries are listed in note 25. The addition to shares in subsidiaries is in relation to an increased investment in Penguin Random House Grupo Editorial SAU. The transfer is in relation to 46.53% of the cost of the investment in Penguin Random House South Africa (Pty) Limited which is held by the company's parent company Penguin Random House Limited. The company holds the remaining 53.47% in the investment.

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 assets fair value less costs of disposal and value in use.

### Listed equity investments

These investments had a market value at 31 December 2017 of £4,500 (2016: £4,067).

### 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.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

15	STOCKS	2017	2016
		£	£
	Raw materials and consumables	300,227	509,696
	Work in progress	1,991,123	2,121,443
	Finished books	7,721,814	6,609,685
		<hr/>	<hr/>
		10,013,164	9,240,824

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 £3,781,976 (2016: £4,501,892).

16	DEBTORS	2017	2016
		£	£
	Trade debtors	2,707,041	3,584,591
	Amounts owed by group undertakings	101,436,466	70,655,851
	Other debtors	12,338,698	3,100,982
	Prepayments and accrued income	5,424,734	3,424,709
		<hr/>	<hr/>
		121,906,939	80,766,133

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

Included in other debtors is £1,951,894 owed in relation to Value Added Tax (VAT) reimbursements (2016: £2,761,555). Also included in other debtors is a VAT repayment of £10,171,560 (2016: £nil) due from The South African Revenue Service (SARS).

Amounts owed by group undertakings are stated after provisions for impairment of £1,773,821 (2016: £1,634,116), returns provisions of £17,395,589 (2016: £15,971,786) and incentive discounts of £7,659,037 (2016: £6,312,402).

## 17 ADVANCE ROYALTIES

		* Restated
	2017	2016
	£	£
Advance royalties	<hr/> 36,057,531	<hr/> 45,170,085

\*Certain prior year balances have been restated to present them in conformity with the current year treatment. The impact is to increase 2016 advance royalties and provision for onerous contracts by £4,965,183.

Included in advance royalties is £10,102,723 (2016: £15,225,252) 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.



## THE RANDOM HOUSE GROUP LIMITED

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

#### 18 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  $1/60^{\text{th}}$  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.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

### 18 POST EMPLOYMENT BENEFITS (continued)

#### Defined pension schemes (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 2017 by Capita plc, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2017	2016
	%	%
Discount rate	2.50	2.60
Rate of price inflation (RPI)	3.40	3.50
Rate of increase in salaries	2.90	3.00
Rate of increase of pensions in payment:		
3% floor & 5% cap	3.40	3.80
5% cap	3.15	3.25
2.5% cap	2.10	2.10
Revaluation of pensions in deferment	2.40	2.50
Mortality table in retirement	S1PxA(b=yob)	S1PxA(b=yob)
	CMI 2016 core with	CMI 2011 with
	1.5% long term rate	1.5% long term rate

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

### 18 POST EMPLOYMENT BENEFITS (continued)

#### Defined pension schemes (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:

	2017 Years	2016 Years
Retiring at the end of the reporting year:		
- Male	22.20	22.40
- Female	24.10	24.50
Retiring 20 years after the end of the reporting year:		
- Male	23.90	24.60
- Female	25.90	26.80

#### Reconciliation of schemes movements during the year:

	Fair value of plan assets £'000	Present value of obligation £'000	Total £'000
At 1 January 2017	294,501	(302,440)	(7,939)
Current service cost	-	(3,284)	(3,284)
Past service gain	-	3,050	3,050
Interest income / (expense)	7,633	(7,760)	(127)
	<u>302,134</u>	<u>(310,434)</u>	<u>(8,300)</u>
Remeasurements:			
Gain from change in demographic assumptions	-	7,144	7,144
Loss from change in financial assumptions	-	(1,758)	(1,758)
Gain from experience adjustments	-	(1,844)	(1,844)
Return on plan assets, excluding amounts included in interest expense	16,233	-	16,233
	<u>16,233</u>	<u>3,542</u>	<u>19,775</u>
Contributions:			
- Employers	8,590	-	8,590
- Plan participants	488	(488)	-
Payments from plan:			
- Benefit payments	(7,966)	7,966	-
At 31 December 2017	<u>319,479</u>	<u>(299,414)</u>	<u>20,065</u>

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

### 18 POST EMPLOYMENT BENEFITS (continued)

#### Defined pension schemes (continued)

	Fair value of plan assets £'000	Present value of obligation £'000	Total £'000
At 1 January 2016	249,450	(244,602)	4,848
Current service cost	-	(2,480)	(2,480)
Interest income / (expense)	9,692	(9,326)	366
	<hr/>	<hr/>	<hr/>
	259,142	(256,408)	2,734
Remeasurements:			
Gain from change in demographic assumptions	-	5,893	5,893
Loss from change in financial assumptions	-	(68,463)	(68,463)
Gain from experience adjustments	-	6,195	6,195
Return on plan assets, excluding amounts included in interest expense	37,040	-	37,040
	<hr/>	<hr/>	<hr/>
	37,040	(56,375)	(19,335)
Contributions:			
- Employers	8,662	-	8,662
- Plan participants	486	(486)	-
Payments from plan:			
- Benefit payments	(10,829)	10,829	-
	<hr/>	<hr/>	<hr/>
<b>At 31 December 2016</b>	<b>294,501</b>	<b>(302,440)</b>	<b>(7,939)</b>

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

### 18 POST EMPLOYMENT BENEFITS (continued)

#### Defined pension schemes (continued)

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:

	Change in Assumption	Impact on defined benefit obligation	
		Increase in Assumption	Decrease in Assumption
Discount rate	0.50%	Decrease by 9.4%	Increase by 10.9%
Salary growth rate	0.50%	Increase by 1.6%	Decrease by 1.6%
Pension growth rate	0.50%	Increase by 4.3%	Decrease by 3.8%
Life expectancy - Increase or decrease by 1 year		Increase by 4.1%	Decrease by 4.1%

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:

	2017 £'000	2016 £'000
Equities & property	105,094	132,109
Corporate bonds	73,894	65,684
Gilts	128,376	88,158
Secured annuities	2,817	2,992
Cash	9,298	5,558
Total fair value of assets	319,479	294,501

The company, together with its subsidiary, expects to contribute approximately £6.2m to its defined benefit plans in 2018.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

### 18 POST EMPLOYMENT BENEFITS (continued)

#### **Defined pension schemes (continued)**

##### **Defined contribution scheme**

Following the closure of the defined benefit scheme to new entrants, the company provided a defined contribution scheme for its employees, administered by Capita. The defined contribution scheme was replaced in March 2016 by a money purchase scheme administered by Aviva.

The amount recognised as an expense for the defined contribution & money purchase schemes was:

##### Defined contribution scheme

	2017	2016
	£	£
Current year contributions	-	421,169
	<hr/>	<hr/>

##### Money Purchase scheme

	2017	2016
	£	£
Current year contributions	2,204,256	1,593,609
	<hr/>	<hr/>

## 8.

## for the year ended 31 December 2017

\*Restated

\* Certain prior year balances have been restated to present them in conformity with the current year treatment. The impact is to increase 2016 other provisions by £1,263,218 and reduce 2016 accruals and deferred income by £1,263,218.

On 20 September 2018 PRHL signed an addendum to the cash pooling agreement dated 2/8 July 2013 with the commitment not to call for £120,000,000 of the balance owed to them by The Random House Group Limited. The addendum is provided for at least the next twelve months from the date of the audit report and shall automatically terminate and lapse after the expiry of such period of time, but at the latest on 30 September 2019.

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 20 PROVISIONS FOR LIABILITIES

The company had the following provisions during the year:

	Deferred tax provision £	Onerous contracts provision £	Other provisions £	Total £
At 1 January 2017 (restated)	187,153	4,965,183	2,068,727	7,221,063
Additions to the statement of other comprehensive income	4,548,133	-	-	4,548,133
Additions to the income statement	113,837	2,623,780	881,273	3,618,890
Amount utilised during the year	-	(2,236,132)	-	(2,236,132)
At 31 December 2017	4,849,123	5,352,831	2,950,000	13,151,954

\* Certain prior year balances have been restated to present them in conformity with the current year treatment. The impact is to reduce 2016 accruals and deferred income by £1,263,218, increase other provisions by £1,263,218, increase advance royalties by £4,965,183 and increase onerous contracts provision by £4,965,183.

### 21 CALLED UP SHARE CAPITAL

2017

2016

£

£

Authorised, allotted, called up and fully paid:

819,560,718 (2016: 819,560,718) Ordinary shares of 10p each

81,956,072

81,956,072



# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017 (continued)

### 22 COMMITMENTS

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

	2017 £	2016 £
Plant and machinery:		
not later than one year	11,011	72,741
later than one year and not later than five years	-	13,377
Premises:		
not later than one year	116,000	116,000
later than one year and not later than five years	464,000	464,000
later than five years	222,333	338,333
	<hr/>	<hr/>
	813,344	1,004,451

There are commitments to authors for the payment of royalty advances amounting to £52.4m at 31 December 2017 (2016: £60.7m). Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

There were no contracted capital commitments outstanding at 31 December 2017 (2016: nil).

### 23 CONTINGENT LIABILITIES

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

### 24 RELATED PARTIES

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

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

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.

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

# THE RANDOM HOUSE GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

(continued)

### 24 RELATED PARTIES (continued)

	2017	2016
	£	£
Sales of books:		
Penguin Random House LLC	99,483	95,711
Other operating income:		
arvato Limited	20,609	66,191
Bertelsmann UK Limited	173,381	332,808
Children's Character Books Limited	2,335,349	2,425,462
Penguin Random House LLC	118,107	99,720
Woodlands Books Limited	3,075,383	2,205,553
Inventories of finished goods:		
GGP Media GmbH	805,018	541,843
Mohn Media Mohndruck GmbH	224,878	452,461
Other external charges:		
arvato Limited	175,699	106,468
arvato Systems GmbH	205,508	186,645
Bertelsmann Business Support S a r l	241,513	628,218
Bertelsmann Accounting Services GbmH	229,970	-
Bertelsmann UK Limited	57,826	-
Penguin (Beijing) Culture Development Co Ltd	264,143	-
Random House LLC	24	52,194
RTL Group Support Services Limited	158,100	22,000
Debtors:		
Bertelsmann UK Limited	376,703	39,440
Childrens Character Books	236,613	212,511
Penguin Random House LLC	106,723	42,926
Woodlands Books Limited	1,194,455	517,857
Creditors:		
arvato Limited	77,763	25,574
arvato Systems GmbH	85,449	48,569
Bertelsmann Accounting Services GbmH	465,494	-
GGP Media GmbH	101,648	25,148
Penguin Random House LLC	130,462	442,884
Woodlands Books Limited	6,947,999	6,599,724

## **THE RANDOM HOUSE GROUP LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended 31 December 2017**

(continued)

#### **25 INVESTMENTS IN GROUP UNDERTAKINGS**

Refer to the following table for the company's investments at 31 December 2017.

**THE RANDOM HOUSE GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017  
(continued)

Company no: 00954009

25 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
<b><u>Subsidiary undertakings</u></b>				
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
Jonathan Cape Limited	Dormant Entity	100	Ordinary	20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA

**THE RANDOM HOUSE GROUP LIMITED**

Company no: 00954009

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2017

(continued)

25 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
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 c/o EUGENE F. COLLINS Solicitors, Temple Chambers, 3 Burlington Road, Dublin, Ireland, 4
Penguin Random House Ireland Limited	Editorial services	100	Ordinary	
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
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 RANDOM HOUSE GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017  
(continued)

Company no: 00954009

25 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
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
<b><u>Indirect subsidiary undertakings</u></b>				
Aguilar, Altea, Taurus, Alfaguara S.A. de Ediciones	Book Publishing	100	Ordinary	Avenida Leandro N. Alem 720, Buenos Aires, Argentina, C1053CABA
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 Uruguay 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
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

**THE RANDOM HOUSE GROUP LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017  
(continued)

Company no: 00954009

25 INVESTMENTS IN GROUP UNDERTAKINGS (continued)

Name	Principal Activity	Holding	Class of shares	Registered Address
Penguin Random House Grupo Editorial, S.A. de C.V.	Book Publishing	100	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, 8º 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	50	Ordinary	Av. Paseo Colón 221, 6th Floor, Buenos Aires, Argentina, C1063ACC
<b><u>Indirect investments</u></b>				
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	45	Common	Rua Djalma Dutra, no. 192, Luz, Sao Paulo, Brazil, 01103-010
Penguin Random House India Private Limited	Book Publishing	2.5	Ordinary	7th Floor, Infinity Tower C, DLF Cyber City, Gurgaon, India, 122 002, Haryana