

Company no: 3185285

BERTELSMANN UK LIMITED

ANNUAL REPORT

31 DECEMBER 2013

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BERTELSMANN UK LIMITED

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 December 2013.

Principal Activities

The company is a subsidiary of Bertelsmann SE & Co KGaA, a company registered in Germany. The company acts as the intermediate holding company for some of the UK based subsidiaries of Bertelsmann SE & Co KGaA.

Results and Dividends

The results and financial position of the company are set out in the attached financial statements and in the Report of the Directors.

Key Performance Indicators ("KPI's")

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using Key Performance Indicators is not necessary for an understanding of the development, performance or position of the business.

Principal Risks and Uncertainties

By nature of its business the company is exposed to few business risks. The company's only significant risk is that the results of its subsidiaries might deteriorate with the consequent need for the company to impair its investments. There is a similar risk with the company's loans to group undertakings.

On Behalf of the Board



M GARDINER
Director

30 September 2014

BERTELSMANN UK LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report and audited financial statements for the year ended 31 December 2013.

Business review

The results of the company for the year are set out in the attached financial statements.

The most significant event of the year was the merger of the Random House and Penguin book publishing businesses on 1 July 2013 to form Penguin Random House. The company contributed its Random House business and Pearson plc its Penguin business. The company owns 53% of the combined business and Pearson plc own the remaining 47%. Professional fees incurred have been expensed which have adversely impacted the operating loss.

A final valuation of the net assets contributed by both Bertelsmann and Pearson gave rise to a settlement payment in February 2014. This payment was in US dollars and the gain on derivative and loss on exchange relate to it.

The other major event during the year was the purchase of BMG Rights Management (UK) Limited ("BMG") from the company's parent company for £89m in cash.

As set out in note 4 the directors decided that an impairment of the company's investment in Sonopress (UK) Limited is required.

Despite the expenses and impairment referred to above, as a result of dividends received the company made a profit in the year.

Due to the investments in BMG and Arvato Limited, the financing through cash pooling of other group companies and the removal of Random House from the cash pool, the company has been financed by its parent company.

In February 2014 the company entered into a new facility and cash pooling agreement with its parent company whereby the company's borrowing under the agreement are not repayable until 2017.

Since the year end the company has raised £150m through an issue of shares and the proceeds have been used to provide finance to the company's BMG subsidiary.

Dividend

No dividend was paid during the year (2012: £nil). No final dividend is proposed (2012: £nil).

Directors

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

M Beisheim
M Gardiner
R Grant

BERTELSMANN UK LIMITED

REPORT OF THE DIRECTORS (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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.

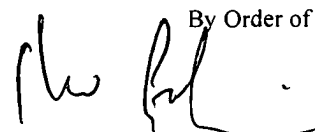
In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 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 its 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 of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By Order of the Board


M GARDINER
Director

One Fleet Place
LONDON
EC4M 7WS

30 September 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

BERTLESMANN UK LIMITED

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Bertlesmann UK Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account and statement of total recognised gains and losses for the year then ended;
- the reconciliation of movements in shareholders' funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.



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

30 September 2014

BERTELSMANN UK LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2013

	Notes	2013 £	2012 £
Sundry operating income		-	70,000
Administrative expenses		(4,565,906)	(2,736,341)
Operating loss		(4,565,906)	(2,666,341)
Amounts written off investments		(6,169,250)	(2,382,973)
Operating loss after amounts written off investments		(10,735,156)	(5,049,314)
Income from shares in group undertakings		13,106,272	33,337,216
Interest receivable and similar income	2	1,709,124	765,030
Interest payable and similar charges	2	(2,617,842)	(438,971)
Profit on ordinary activities before tax	2	1,462,398	28,613,961
Tax on profit on ordinary activities	3	191,447	276,321
Profit for the financial year	9	1,653,845	28,890,282

The results above are all derived from continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical costs equivalents.

BERTELSMANN UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2013

	2013 £	2012 £
Profit for the financial year	1,653,845	28,890,282
Profit on disposal of investment	-	316,578,500
Tax on profit on disposal of investment	-	-
Total recognised gains and losses for the year	<u>1,653,845</u>	<u>345,468,782</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS for the year ended 31 December 2013

Shareholders' funds at beginning of year	497,142,911	151,674,129
Share issue	77,000,000	-
Profit for the financial year	1,653,845	28,890,282
Profit on disposal of investment, net of tax	-	316,578,500
Shareholders' funds at end of year	<u>575,796,756</u>	<u>497,142,911</u>

BERTELSMANN UK LIMITED

Company no: 3185285

BALANCE SHEET As at 31 December 2013

	Notes	2013 £	2012 £
Fixed Assets			
Investments	4	643,656,360	30,562,832
Current assets			
Debtors	5	83,397,793	626,873,568
Cash at bank		-	-
		<u>83,397,793</u>	<u>626,873,568</u>
Creditors: amounts falling due within one year	6	<u>(151,257,397)</u>	<u>(160,293,489)</u>
Net current (liabilities)/assets		<u>(67,859,604)</u>	<u>466,580,079</u>
Total assets less current liabilities		<u><u>575,796,756</u></u>	<u><u>497,142,911</u></u>
Equity capital and reserves			
Called up share capital	7	180,000,003	180,000,002
Share premium account	8	77,654,527	654,528
Profit and loss account	9	318,142,226	316,488,381
Total shareholders' funds		<u><u>575,796,756</u></u>	<u><u>497,142,911</u></u>

These financial statements on pages 6 to 15 were approved by the board of directors on 30 September 2014 and were signed on its behalf by



M GARDINER
Director

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

1 ACCOUNTING POLICIES

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare group financial statements. 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. The company has a borrowing facility from its parent company. In February 2014 the company entered into a new facility and cash pooling agreement with its parent company for £400m. The company's parent company has indicated its intention continue to support the company to enable it to meet all its financial obligations for a period of not less than 12 months from the date of approval of these financial statements. Accordingly, the directors believe the going concern basis to be appropriate.

Cash flow statement

The company has taken advantage of the provisions of FRS1 not to publish a cash flow statement as its ultimate parent company, Bertelsmann SE & Co KGaA, has prepared consolidated financial statements which are publicly available and include a consolidated cash flow statement.

Investments

Investments are stated at cost. Provision is made for impairment.

Investments are tested for impairments annually or on a triggering event and reflect changes in circumstances that indicate the carrying value may not be recoverable.

Deferred taxation

Deferred Tax assets and liabilities are recognised in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

	2013 £	2012 £
2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		
The profit on ordinary activities before tax is stated after crediting or charging:		
Auditors' remuneration:		
audit of these financial statements	7,524	7,913
Interest receivable: and similar income		
on loans to group undertakings	739,560	732,648
other	267,768	32,382
Unrealised gain on derivative	701,796	-
	<u>1,709,124</u>	<u>765,030</u>
Interest payable and similar charges:		
on bank loans and overdrafts	-	4,480
on loans from group undertakings	657,089	434,491
Unrealised loss on exchange	1,960,753	-
	<u>2,617,842</u>	<u>438,971</u>

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX - continued

The company had no employees during either 2012 or 2013.

Directors' remuneration

The emoluments of the Directors are paid by other group companies. Directors' services to this company are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the company that employs them. Accordingly, the schedule above includes no emoluments in respect of the Directors.

	2013 £	2012 £
3 TAX ON PROFIT ON ORDINARY ACTIVITIES		
(a) Analysis of tax (credit) for the year		
Group relief receivable in respect of UK corporation tax losses surrendered	(256,944)	(276,321)
Adjustments in respect of prior years	65,497	-
	<u>(191,447)</u>	<u>(276,321)</u>

The effective tax rate for the current year is lower (2012: lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

(b) Factors affecting the tax credit for the year		
Profit on ordinary activities before tax	1,462,398	28,613,961
Corporation tax at standard rate of 23.25% (2012- 24.5%)	340,008	7,010,420
Effects of:		
Expenses not deductible for tax purposes	2,450,256	880,877
Income not taxable	(3,047,208)	(8,167,618)
Adjustments in respect of prior years	65,497	-
Current tax credit for year	<u>(191,447)</u>	<u>(276,321)</u>

Current tax

The standard rate of Corporation Tax in the United Kingdom changed from 24% to 23% with effect from 1 April 2013. Accordingly the company's profits/(losses) are taxed at an effective rate of 23.25%.

Deferred tax

During the year changes to the UK main corporation tax rate were enacted. The tax rate has fallen to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015.

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

4	INVESTMENTS	Shares in group undertakings £
	Cost:	
	at 1 January 2013	30,562,832
	additions	696,362,778
	disposals	(77,100,000)
		649,825,610
	at 31 December 2013	
	Provision for impairment:	
	at 1 January 2013	-
	additions	6,169,250
		6,169,250
	at 31 December 2013	
	Net book value:	
	at 31 December 2013	643,656,360
	at 31 December 2012	30,562,832

The company's investments in group undertakings are listed in note 12 on page 15.

The directors consider the value of the investments to be not less than that stated in the balance sheet of the company.

Following the receipt of all necessary clearances the company combined its investments in the Random House group of companies with those of the Penguin group, previously wholly owned by Pearson plc, in order to form the Penguin Random House venture on 1 July 2013. On that day the company exchanged its investments in the shares and loan notes of Random House Holdings Ltd for new shares issued by Penguin Random House Ltd (previously The Penguin Publishing Company Ltd) representing 53% of the entire issued share capital of that company. The company also subsequently received an adjustment note of \$38.6m (£25.2m) issued by Penguin Random House Ltd following a review of the net assets contributed by each party to the venture.

Other additions were the acquisition from other group companies of BMG Rights Management (UK) Ltd (£89m) and Random House of Canada Ltd (£77m) together with the subscription for additional shares in Arvato Ltd (£9m).

The other disposal was of Random House of Canada Ltd, which was sold to Random House Holdings Ltd.

When considering the carrying value of the company's investments the directors noted an expected decline in profitability of the Sonopress (UK) Limited business. Accordingly, the value of the investment has been impaired.

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

(continued)

	2013 £	2012 £
5 DEBTORS		
Amounts owed by group undertakings	75,208,786	613,394,750
Corporation tax recoverable	624,342	221,450
Group relief receivable	6,856,789	13,257,368
Other debtors	707,876	-
	<hr/> 83,397,793	<hr/> 626,873,568

Included in amounts owed by group undertakings are loan notes of £nil (2012: £515m) and adjustment notes (see note 4) of £23.3m (2012: nil).

6 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Amounts owed to group undertakings	144,512,573	147,376,303
Corporation tax payable	31,850	2,993,598
Group relief payable	6,528,397	7,387,449
Accruals	184,577	2,536,139
	<hr/> 151,257,397	<hr/> 160,293,489

7 CALLED UP SHARE CAPITAL

Authorised, allotted, called up and fully paid Ordinary shares of £1 each	<hr/> 180,000,003	<hr/> 180,000,002
Allotted, called up and fully paid: Ordinary shares of £1 each	<hr/> 180,000,003	<hr/> 180,000,002

As referred to in note 4 the company issued 1 share for the purchase of Random House of Canada Ltd from the company's parent company.

Since the year end the company issued 150,000,000 shares for cash at £1 each.

8 SHARE PREMIUM ACCOUNT	£
Balance at 1 January 2013	654,528
Increase in the year	76,999,999
	<hr/> 77,654,527
Balance at 31 December 2013	

As referred to in note 7 the company issued 1 share for the purchase of Random House of Canada Ltd at a valuation of £77m.

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

9	PROFIT AND LOSS ACCOUNT	£
	Balance at 1 January 2013	316,488,381
	Profit for the financial year	1,653,845
	Balance at 31 December 2013	<u>318,142,226</u>

10 RELATED PARTIES

The company's parent company, and ultimate parent company, is Bertelsmann SE & Co KGaA, which is incorporated in Germany, copies of whose 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 Bertelsmann SE & Co KGaA the company is exempt from the requirement, under Financial Reporting Standard 8, to disclose transactions with entities that are wholly owned by the group. The company has taken advantage of this exemption.

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (continued)

10 RELATED PARTIES - continued

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

	2013 £	2012 £
Administrative expenses:		
RTL Group Support Services Limited	131,300	82,800
The Random House Group Limited	1,338,990	74,484
Interest income:		
Arvato Government Services Limited	157,214	151,926
Arvato Public Sector Services Limited	198,329	305,921
Penguin Random House Limited	267,200	-
Random House Holdings Limited	77,804	-
Interest expense:		
The Random House Group Limited	139,829	252,396
Random House Holdings Limited	77,804	-
Woodlands Books Limited	15,741	32,636
Dividend received:		
Penguin Random House Limited	11,036,273	-
Debtors:		
Arvato Government Services Limited	3,485,000	2,835,000
Arvato Public Sector Services Limited	4,340,050	3,610,050
Penguin Random House Limited	23,587,949	-
Creditors:		
RTL Group Support Services Limited	27,000	38,000
The Random House Group Limited	947,310	-
Woodlands Books Limited	-	4,722,368

11. POST BALANCE SHEET DATE EVENTS

On 14 February 2014 the company issued 150m shares at £1 each for cash. The cash received has been used to finance the company's BMG subsidiary.

On 16 May 2014 the company acquired the entire share capital of STOK UK Limited. The purchase price, including the deferred consideration, is not expected to exceed £5m.

BERTELSMANN UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

(continued)

12 INVESTMENTS IN GROUP UNDERTAKINGS

The company's investments in group undertakings, all of which are incorporated in England, at 31 December 2013 comprised:

	<u>Principal activity</u>	<u>% held</u>
Arvato Limited	distribution & support services	100
Arvato Systems UK & Ireland Limited	software services	100
BMG Rights Management (UK) Limited	management of music publishing rights	100
Penguin Random House Limited	book publishing	53
Sonopress (UK) Limited	packaging and distribution of electronic media.	100