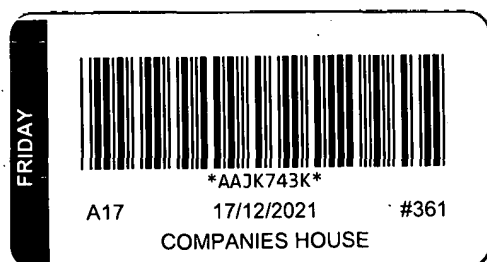


FLANAME 2 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020.



FLANAME 2 LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their Strategic Report of Flaname 2 Limited ("the company") for the year ended 31 December 2020.

Principal activities

The company is a subsidiary of Penguin Random House Limited, a company registered in the United Kingdom. The company is UK domiciled and registered in the United Kingdom. The principal activity of the company is to act as a co-tenant under an underlease entered into on 25 November 2019 relating to the 2nd floor of Building A02, Phase 3 Embassy Gardens, Nine Elms, London. On the same date the company granted a licence to occupy the premises to a group company.

Review of the business

The results and financial position of the company are set out in the attached financial statements. During the year the company's turnover was £nil (2019 £nil).

Key Performance Indicators ("KPIs")

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

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. Given the straightforward nature of the business, no significant risks or uncertainties have been identified.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The directors have considered the operating nature of the entity as leasing one and expectations for future that sub-lessee intends to remain in occupation for period of 12 months from the date of approval of these financial statements. It indicates that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA to realise its assets and settle its liabilities in the ordinary course of business for that period.

This is dependent upon Bertelsmann SE & Co. KGaA providing the required funding through this period through the cash pooling arrangement. Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the company. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Given the dependency on the Ultimate Parent the directors have also considered the work carried out by Group management in relation to the Group's going concern assessment focussing on cash flow, liquidity position and the ability of the Group to meet known and potential liabilities and concluded that having analysed the impact of COVID 19, the Group has sufficient headroom and will be able to provide support to the company.

Further, based on these factors and the company has leasing operations (i.e. non trading entity), therefore directors of the Company do not see Covid-19 impacting their view that the company will continue to operate as a going concern through 2021 and 2022 and the foreseeable future.

FLANAME 2 LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

Covid-19

The company, like all companies globally on different timescales, has been impacted by the global Covid-19 pandemic outbreak since February 2020, albeit to a limited extent due to the nature of the company's activities. The fit out of the leased premises at Embassy Gardens was completed in 2020, and occupation by the sub-lessee commenced in a phased approach throughout the final quarter of the year. The company has received written confirmation from the sub-lessee that it intends to remain in occupation for a period of at least 12 months from the date of signing these financial statements, and meet any rent obligations payable to the company during that period.

All cash funding required to operate the business continues to be supported by the Group's global cash pooling structures that have always been in place.

Based on these factors, the directors of the Company do not see Covid-19 impacting their view that the company will continue to operate as a going concern through 2020 and 2021 and the foreseeable future.

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

13th May 2021

FLANAME 2 LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their annual report and audited financial statements of the company for the year ended 31 December 2020.

Results and dividends

No dividends were proposed or paid during 2020 (2019: £nil).

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 period and up to the date of signing the financial statements are given below:

Thomas Weldon
Robert Waddington
Mark Gardiner

Sinead Martin (Company Secretary)

Directors' section 172 statement

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

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

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

The directors fulfil these duties as follows:

Risk management

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

FLANAME 2 LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

Business relationships with suppliers, customers and others

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

Community and environment

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

Shareholders

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

FLANAME 2 LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

FLANAME 2 LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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

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

Independent auditors

On 9th December 2020, the former auditors PricewaterhouseCoopers LLC resigned, and the shareholders in general meeting appointed KPMG LLP as the auditor of the company on the same day.

On behalf of the Board



M GARDINER
Director
13th May 2021

20 Vauxhall Bridge Road
London
United Kingdom
SW1V 2SA

FLANAME 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLANAME 2 LIMITED

Opinion

We have audited the financial statements of Flaname 2 Limited ("the company") for the year ended 31st December 2020 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2020 and of its result for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included enquiring of directors and inspection of policy documentation as to the Penguin Random House Limited's ("PRHL") policies and procedures to prevent and detect fraud that apply to this group company as well as enquiring whether the directors have knowledge of any actual, suspected or alleged fraud.

FLANAME 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLANAME 2 LIMITED

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are no revenue transactions. We did not identify any additional fraud risks.

We performed procedures including agreeing all accounting entries in the period to supporting documentation.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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

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

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

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

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

FLANAME 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLANAME 2 LIMITED

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 2, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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



Sabira Datto (Senior Statutory Auditor) (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

13 May, 2021

FLANAME 2 LIMITED

PROFIT AND LOSS ACCOUNT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £	2019 £
Turnover		-	-
Cost of sales		-	-
Gross result		-	-
Administrative expenses		-	-
Operating result	5	-	-
Interest receivable and similar income	6	118,251	16,017
Interest payable and similar expenses	7	(118,251)	(16,017)
Result before taxation		-	-
Tax on result		-	-
Result for the financial year		-	-

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the current year or previous year.

The notes form part of these financial statements.

FLANAME 2 LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	£	£
Result for the financial year	-	-
Other comprehensive income for the year, net of tax	-	-
Profit for the financial year and total comprehensive income	-	-

FLANAME 2 LIMITED

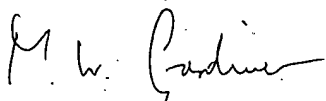
Company No. 11070046

**BALANCE SHEET
AS AT 31 DECEMBER 2020**

	Note	2020 £	2019 £
Current assets			
Debtors - due within one year	10	486,164	262,183
Debtors - due after one year	10	5,229,488	5,577,022
		5,715,652	5,839,205
Creditors: amounts falling due within one year	11	(486,163)	(262,182)
Net current assets/(liabilities)		5,229,489	5,577,023
Total assets less current liabilities		5,229,489	5,577,023
Creditors: amounts falling due after more than one year	12	(5,229,488)	(5,577,022)
Net assets		1	1
Capital and Reserves			
Called up share capital	13	1	1
Total equity		1	1

The notes form part of these financial statements.

The financial statements were approved by the board of directors on 13th May 2021 and were signed on its behalf by:



M GARDINER
Director

FLANAME 2 LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Called up share capital £	Retained earnings £	Total equity £
Balance as at 1 January 2019	1	-	1
Changes in equity			
Profit for the financial year and total comprehensive income	-	-	-
Balance as at 31 December 2019	1	-	1
Changes in equity			
Profit for the financial year and total comprehensive income	-	-	-
Balance as at 31 December 2020	1	-	1

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1 GENERAL INFORMATION

Flaname 2 Limited ("the company") is a private company limited by shares and is incorporated in the United Kingdom. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA. The company entered into a lease dated 25 November 2019 for the occupation of the 2nd floor at Embassy Gardens, London. On the same date, the company granted The Random House Group Ltd the right to occupy the premises as licencees.

2 STATEMENT OF COMPLIANCE

The individual financial statements of the company 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 in accordance with the UK Companies Act 2006.

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

The preparation of financial statements in 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. Management has not involved a higher degree of judgement or complexity, or agrees whole assumptions and estimates are significant to the financial statements.

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, change in accounting estimates and errors' (requirement for the disclosure of information when entity has not applied a new IFRS that has been issued but is not yet effective)
- The following paragraphs of IAS 1 '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)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The requirements of paragraph 93 of IFRS 16 Leases.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate. The directors have considered the operating nature of the entity as leasing one and expectations for future that sub-lessee intends to remain in occupation for period of 12 months from the date of approval of these financial statements. It indicates that, taking account of reasonably possible downsides, the company will have sufficient funds through funding from its ultimate parent Bertelsmann SE & Co. KGaA to realise its assets and settle its liabilities in the ordinary course of business for that period.

This is dependent upon Bertelsmann SE & Co. KGaA providing the required funding through this period through the cash pooling arrangement. Bertelsmann SE & Co. KGaA has indicated its intention to continue to make available such funds as are needed by the company. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Given the dependency on the Ultimate Parent the directors have also considered the work carried out by Group management in relation to the Group's going concern assessment focussing on cash flow, liquidity position and the ability of the Group to meet known and potential liabilities and concluded that having analysed the impact of COVID 19, the Group has sufficient headroom and will be able to provide support to the company.

Further, based on these factors and the company has leasing operations (i.e. non trading entity), therefore directors of the Company do not see Covid-19 impacting their view that the company will continue to operate as a going concern through 2021 and 2022 and the foreseeable future.

New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2020 that have had a material impact on the company's financial statements.

Foreign Currency translation

Functional and presentation currency

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

Leases

The company leases various offices. Rental contracts are typically made for fixed periods of 10 years but may have extension options.

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

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

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

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

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

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

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

Amounts owed by group undertakings

Amounts owed by group undertakings are stated at amortised cost. No impairment provision is made on amounts owed by group undertakings on the grounds that they are repayable on demand.

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts owed to group undertakings

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates 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 under the circumstances.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Lease accounting

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

Critical accounting judgements in applying the entity's accounting policies

Lease accounting

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

The following factors are normally the most relevant:

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

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

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

5 OPERATING RESULT

Auditors' remuneration of £5,000 (2019: £5,000) for the statutory audit of the company was borne by The Random House Group Limited. No other services were provided by the company's auditors in 2020 (2019: none).

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £	2019 £
Finance income		
Interest receivable	118,251	16,017
Total finance income	118,251	16,017

7 INTEREST PAYABLE AND SIMILAR EXPENSES

	2020 £	2019 £
Finance expense		
Interest on lease - buildings	118,251	16,017
Total finance expense	118,251	16,017

8 EMPLOYEES AND DIRECTORS

Employees

The company had no employees during 2020 (2019: nil).

Directors

The directors are employed and paid by the Random House Group Limited. Directors' services to the 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, there are no emoluments in respect of the directors (2019: nil).

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

9 LEASES

The company has entered into lease contracts for office space which will be occupied by The Random House Group Limited ("RHG"), a fellow subsidiary company of Penguin Random House Limited, under a licence agreement granted to them by the company. As detailed in note 3, and in accordance with the provisions of 'IFRS 16: Leases', the company does not recognise a right-of-use asset for the leased premises when it has granted occupation under licence to another group company. The right-of-use asset is recognised by RHG in this scenario and the company instead recognises the net present value of the rent due to them from RHG as a lease receivable. The lease receivable is discounted using the interest rate implicit in the lease. The company recognises a lease liability for the net present value of future rent payments due to the landlord under the head lease, discounted using the interest rate implicit in the lease. Interest income is recognised on the lease receivable due to the licence to occupy agreement constituting a finance lease under IFRS 16. The amounts recognised in the financial statements in relation to the lease are as follows:

(i) Amounts recognised in the statement of financial position

The balance sheet shows the following amounts relating to leases:

	2020 £	2019 £
Lease receivable		
Current	486,163	-
Non-current	5,229,488	5,577,022
	<u>5,715,651</u>	<u>5,577,022</u>
Lease liabilities		
Current	(486,163)	-
Non-current	(5,229,488)	(5,577,022)
	<u>(5,715,651)</u>	<u>(5,577,022)</u>

(ii) Amounts recognised in the profit and loss account

The profit and loss account shows the following amounts relating to leases:

	2020 £	2019 £
Interest income	118,251	16,017
Interest expense (included in finance cost)	(118,251)	(16,017)

FLANAME 2 LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

9 LEASES (continued)

Future minimum lease payments as at 31 December 2020 are as follows:

	2020 £	2019 £
Less than one year	486,163	-
Between one and two years	757,656	505,104
Between two and three years	757,656	757,656
Between three and four years	757,656	757,656
Between four and five years	757,656	757,656
More than five years	2,775,135	3,472,590
Total gross payments	6,291,922	6,250,662
Impact of finance expenses	(576,271)	(673,640)
Carrying amount of liability	5,715,651	5,577,022

There is a rent free period - no rent payment due until August 2021.

(iii) Maturity analysis table of lease receivable balances

	2020 £	2019 £
Less than one year	486,163	-
Between one and two years	757,656	505,104
Between two and three years	757,656	757,656
Between three and four years	757,656	757,656
Between four and five years	757,656	757,656
More than five years	2,775,135	3,472,590
Total gross receipts	6,291,922	6,250,662
Impact of finance income	(576,271)	(673,640)
Carrying amount of lease receivable	5,715,651	5,577,022

10 DEBTORS

	2020 £	2019 £
Lease receivable	5,715,651	5,577,022
Amounts owed from group undertakings	-	262,182
Other debtors	1	1
	5,715,652	5,839,205

Lease receivable represents future rent due to the company from The Random House Group Limited for occupation of the leased premises. The balance includes £5,229,488 (2019: £5,577,022) of amounts falling due after more than one year.

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

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £	2019 £
Amounts owed to group undertakings	-	262,182
Lease liability and accrued lease interest	486,163	-
	<u>486,163</u>	<u>262,182</u>

Amounts owed to group undertakings are unsecured and interest free. Amounts owed to group undertakings was £nil in 2020 (2019: £77,692 to Flaname 0 and £184,490 to Flaname 1)

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020 £	2019 £
Lease liability and accrued lease interest	5,229,488	5,577,022
	<u>5,229,488</u>	<u>5,577,022</u>

13 CALLED UP SHARE CAPITAL

	2020 £	2019 £
Called up share capital		
Total share capital	<u>1</u>	<u>1</u>

	2020 No.	2020 £	2019 No.	2019 £
Ordinary share £1 each				
Issued during the period	-	-	1	1
Allotted and fully paid at 31 December	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

FLANAME 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (continued)

14 RELATED PARTY DISCLOSURE

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

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

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