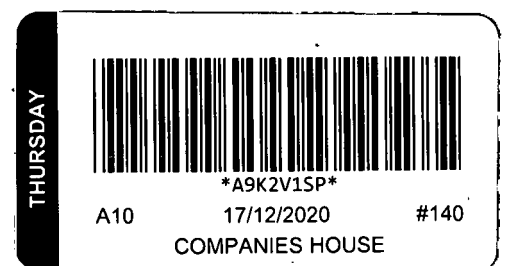


FREDERICK WARNE & CO LIMITED

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**



FREDERICK WARNE & CO LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their Strategic Report of Frederick Warne & Co Limited ("the company") for the year ended 31 December 2019.

Principal activities

The company is a subsidiary of Penguin Books 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 continues to be book publishing. The company also exploits its intellectual property through the granting of licences for the manufacture and sale of books and merchandise.

The company continues to sell the television, video and promotional rights of its television series based upon the original characters of Beatrix Potter.

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 in the year of £3,776,000 (2018: £6,691,000).

Key Performance Indicators ("KPIs")

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

- Turnover for the year was £7,627,000 (2018: £9,018,000); and
- Gross margin percentage for the year was 36.7% (2018: 48.1%).

Principal Risks and Uncertainties

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

COVID-19

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

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

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

FREDERICK WARNE & CO LIMITED

STRATEGIC REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

COVID-19 (continued)

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

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

Directors' section 172 statement

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

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

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

The directors fulfil these duties as follows:

Risk management

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

The interest of the company's employees

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

FREDERICK WARNE & CO LIMITED

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

Directors' section 172 statement (continued)

Business relationships with suppliers, customers and others

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

Community and environment

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

Shareholders

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

General

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

On behalf of the board



M GARDINER
Director

6 November 2020

FREDERICK WARNE & CO LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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

Future developments

Looking ahead, the market remains challenging and the economic backdrop remains similarly tough. The company will continue to produce high quality book publishing and the exploitation of intellectual property through the granting of licences for the manufacture and sale of books and merchandise. The directors do not anticipate any significant changes in the activities of the company. The directors of the Company do not see COVID-19 impacting their view that the Company will continue to operate as a going concern through 2020 and 2021 and the foreseeable future and expects 2021 to return to pre COVID-19 levels or better.

Results and dividends

Dividends of £8,000,000 were paid during 2019 (2018: £nil) and the company reported the profit for the financial year of £3,344,000 (2018: £5,436,000). The directors do not recommend any further dividends.

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 signing the financial statements are given below:

T Weldon
F Dow
M Gardiner

S Martin (Company Secretary)

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.

FREDERICK WARNE & CO LIMITED

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

Directors' confirmations

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

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

Engagement with customers, suppliers and other stakeholders

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

Employee engagement

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

FREDERICK WARNE & CO LIMITED

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

Independent auditors

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

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M. W. Gardiner', written in a cursive style.

M GARDINER
Director
6 November 2020

Independent auditors' report to the members of Frederick Warne Co Limited

Report on the audit of the financial statements

Opinion

In our opinion, Frederick Warne Co Limited's financial statements:

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

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Independent auditors' report to the members of Frederick Warne Co Limited (continued)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent auditors' report to the members of Frederick Warne Co Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

FREDERICK WARNE & CO LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Turnover	5	7,627	9,018
Cost of sales		(4,826)	(4,683)
Gross profit		<u>2,801</u>	<u>4,335</u>
Distribution costs		(344)	(357)
Administrative expenses		(2,250)	(2,329)
Other operating income		3,569	5,042
Operating profit	6	<u>3,776</u>	<u>6,691</u>
Interest receivable and similar income	8	52	26
Profit before taxation		<u>3,828</u>	<u>6,717</u>
Tax on profit	9	(557)	(1,281)
Profit for the financial year		<u>3,271</u>	<u>5,436</u>

The notes on pages 14 to 23 form part of these financial statements.

FREDERICK WARNE & CO LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 £'000	2018 £'000
Profit for the financial year	3,271	5,436
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	3,271	5,436

The notes on pages 14 to 23 form part of these financial statements.

FREDERICK WARNE & CO LIMITED

Company No. 00155455

BALANCE SHEET AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Tangible assets	11	55	59
		<hr/> 55	<hr/> 59
Current assets			
Stocks	12	922	680
Debtors	13	9,378	13,366
Cash at bank and in hand		437	417
		<hr/> 10,737	<hr/> 14,463
Creditors: amounts falling due within one year	14	(5,172)	(4,173)
		<hr/> 5,565	<hr/> 10,290
Net current assets			
Total assets less current liabilities		5,620	10,349
Provisions for liabilities	15	(67)	(67)
		<hr/> 5,553	<hr/> 10,282
Net assets			
Capital and Reserves			
Called up share capital	16	840	840
Retained Earnings		4,713	9,442
		<hr/> 5,553	<hr/> 10,282
Total equity			

The notes on pages 14 to 23 form part of these financial statements.

The financial statements on pages 10 to 23 were approved by the board of directors on 6 November 2020 and were signed on its behalf by:



M GARDINER
Director

FREDERICK WARNE & CO LIMITED

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

	Called up share capital £'000	Profit and loss account £'000	Total equity £'000
Balance as at 1 January 2018	840	4,006	4,846
Changes in equity			
Dividends	-	-	-
Profit for the financial year	-	5,436	5,436
Balance as at 31 December 2018	840	9,442	10,282
Changes in equity			
Profit for the financial year	-	3,271	3,271
Dividends Paid	-	(8,000)	(8,000)
Balance as at 31 December 2019	840	4,713	5,553

Called up share capital

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

Profit and loss account

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

FREDERICK WARNE & CO LIMITED

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

1 GENERAL INFORMATION

Frederick Warne & Co Limited ("the company") is a book publisher and exploits the intellectual property through the granting of licences for the manufacture and sale of books and merchandise. The company sells its books globally. The company is a private company limited by shares and is incorporated in the United Kingdom. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA.

2 STATEMENT OF COMPLIANCE

The individual financial statements of the 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 as applicable to companies using FRS 101.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. 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, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
 - paragraph 73(e) of IAS 16 'Property, plant & equipment'
 - paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
 - The following paragraphs of IAS1 'Presentation of financial statements':
 - 10(d) (statement of cash flows)
 - 38A (requirement for minimum of two primary statements, including cash flow statements)
 - 38B-D (additional comparative information)
 - 111 (cash flow statement information)
 - 134-136 (capital management disclosures)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

FREDERICK WARNE & CO LIMITED

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate in light of the company's 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

IFRS 16 is a new accounting standard that is effective for the year ended 31 December 2019, but has had no impact on the company's financial statements. There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the company's financial statements.

Foreign Currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity 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 risk and rewards of ownership have been transferred. 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. Merchandise income and TV/film income is recognised on an invoice basis if the brand is managed in house, if the brand is managed by an external agent the income is recognised monthly based upon reports from external agents.

Income from licencing and sub rights

Fees charged for the use of rights and licencing granted by the agreement and related services are recognised as the rights are used and the right to receive payment is established. The income is on a non-recurring basis and not part of the principal business activity of the company, which is a book publisher, hence the income is classified as other operating income on the Income Statement.

Taxation

The tax expense for the year comprises current tax.

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.

No temporary differences arise between the tax bases of assets and liabilities and their carrying amounts in the financial statements that give rise to deferred tax.

FREDERICK WARNE & CO LIMITED

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stocks

Stocks 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.

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 assets to its working conditions 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 principle annual rates used for this purpose are as follows:

Owned artwork	Over periods of between 3 and 20 years
---------------	--

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

Trade creditors and amounts owed to group undertakings

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

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) 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 14 for details of the returns provision value.

FREDERICK WARNE & CO LIMITED

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

(ii) Impairment of trade debtors

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade debtors, management considers factors including the credit rating of the debtor, the ageing profile of receivables and historical experience. See note 13 for the net carrying amount of the receivables and associated impairment provision.

(iii) Inventories provisioning

The Company publishes books and is subject to changing customer demands. As a result it is necessary to consider the recoverability of the cost of inventories. When calculating the inventories provision, management considers the ageing of the inventories as well as predicted future sales based on historical sales data by publishing imprint. See note 12 for the net carrying amount of the inventory and associated provision.

5 TURNOVER

	2019 £'000	2018 £'000
Analysis of turnover by geography:		
UK and The Republic of Ireland	2,729	3,226
Rest of World	4,898	5,792
	<hr/> 7,627	<hr/> 9,018

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.

Geographical analysis is based on the region in which the order is received. It would not be materially different if based on the country in which the customer is located.

6 OPERATING PROFIT

	2019 £'000	2018 £'000
Operating profit is stated after charging/(crediting):		
Provision for returns	67	79
Impairment/(reversal of impairment) of inventory	141	(255)
Depreciation	4	4
Stock recognised as an expense	3,835	4,579
Personnel costs:		
- Wages and salaries	217	220
- Social security costs	20	17
- Other pension costs	15	15
Auditors' remuneration:		
- Statutory audit	7	7

Auditors' remuneration for the statutory audit of the company was borne by The Random House Group Limited and recharged to Frederick Warne & Co Limited as part of a management recharge in 2019 and 2018. No other services were provided by the company's auditors in 2019 (2018: none).

FREDERICK WARNE & CO LIMITED

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

7 EMPLOYEES AND DIRECTORS

Employees

All employees (2018: all employees) are employed by Penguin Books Limited ("PBL") and therefore all staff costs are borne by them. PBL then recoups this through the management recharge.

Directors

Although the directors of the company have service contracts with Penguin Books Limited ("PBL") and The Random House Group Limited ("RHG"), the proportion of their time and efforts relating to the company, and therefore their emoluments, have been included in these financial statements.

The directors' emoluments were as follows:

	2019 £'000	2018 £'000
<i>Directors' remuneration:</i>		
Aggregate emoluments	46	46
Amounts receivable under long term incentives	6	5
Company pension contributions	4	3

Administration expenses include the above remuneration to directors of the company in respect of their services to the company.

The highest paid directors' emoluments were as follows:

	2019 £'000	2018 £'000
<i>Highest paid director:</i>		
Emoluments	26	27
Amounts receivable under long term incentives	5	4
Defined benefit pension scheme accrued	3	2

Two (2018: two) directors are paid by PBL and the other director is paid by RHG as follows:

Director	Paid by
T Weldon	Penguin Books Limited
F Dow	Penguin Books Limited
M Gardiner	The Random House Group Limited

8 INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £'000	2018 £'000
<i>Interest receivable and similar income:</i>		
Interest receivable on intercompany cash pooling	52	26
	<u>52</u>	<u>26</u>

FREDERICK WARNE & CO LIMITED

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

9 TAX ON PROFIT

	2019 £'000	2018 £'000
<i>Amount payable for group relief and UK corporation tax</i>		
UK corporation tax on profit for the year	667	1,276
Overseas tax	85	20
Double tax relief	(78)	(20)
Adjustments in respect of prior years	(117)	5
Tax charge on profit	557	1,281

The tax assessed for the year differs (2018: differs) from the standard effective rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit before taxation	3,828	6,717
Corporation tax at standard rate of 19.00% (2018: 19.00%)	727	1,276
Effects of:		
Expenses not deductible for tax purposes	25	-
Withholding tax not deductible	(78)	-
Adjustments in respect of prior years	(117)	5
Total tax charge for year	557	1,281

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

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly the company's profits/losses are taxed at an effective rate of 19% (2018: 19%).

10 DIVIDENDS

	2019 £'000	2018 £'000
<i>Dividends paid:</i>		
Penguin Books Limited	(8,000)	-
	(8,000)	-

FREDERICK WARNE & CO LIMITED

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

11 TANGIBLE ASSETS

	Owned Artwork £'000	Total £'000
Cost:		
At 1 January 2019	71	71
At 31 December 2019	71	71
Accumulated depreciation:		
At 1 January 2019	12	12
Charge for the year	4	4
At 31 December 2019	16	16
Net book amounts:		
At 31 December 2018	59	59
At 31 December 2019	55	55

The owned artwork relates to the Peter Rabbit series.

FREDERICK WARNE & CO LIMITED

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

12 STOCKS

	2019 £'000	2018 £'000
Prepublication costs	285	303
Finished goods	637	377
	<hr/>	<hr/>
	922	680

As of 31 December 2019 stocks were reviewed for impairment. The amount of the provision was £279,000 (2018: £138,000), and mainly relates to slow moving stock.

13 DEBTORS

	2019 £'000	2018 £'000
Trade debtors	-	1,588
Amounts owed by group undertakings	8,331	11,522
Other debtors	1,047	256
	<hr/>	<hr/>
	9,378	13,366

Included in amounts owed by group undertakings are trade debtor balances held within The Book Service Limited ("TBS"), with a corresponding balance included in amounts owed by group undertakings. At 31 December 2019 £4,190,000 (2018: £3,939,000) was owed by TBS.

The amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £3,198,000 (2018: £6,051,000) in respect of cash pooling agreements with PBL's parent entity, Penguin Random House Limited ("PRHL"). These amounts incur interest on a monthly basis; the average interest rate for the year was 0.69% (2018: 0.55%).

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £'000	2018 £'000
Trade creditors	2,812	1,077
Amounts owed to group undertakings	583	959
Corporation tax	663	1,256
Other creditors	234	727
Accruals and deferred income	880	154
	<hr/>	<hr/>
	5,172	4,173

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

FREDERICK WARNE & CO LIMITED

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

15 PROVISIONS FOR OTHER LIABILITIES

	Returns provision £'000	Total £'000
At 1 January 2019	67	67
Amount released/(increased) during the year	-	-
	<hr/>	<hr/>
At 31 December 2019	67	67
	<hr/>	<hr/>

Returns provision

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

16 CALLED UP SHARE CAPITAL

	2019 £'000	2018 £'000
Total share capital	840	840
	<hr/>	<hr/>
Deferred share £1 each	2019 £'000	2018 £'000
832,000 (2018: 832,000) Allotted and fully paid	832	832
	<hr/>	<hr/>
Ordinary share £0.01 each	2019 £'000	2018 £'000
832,000 (2018: 832,000) Allotted and fully paid	8	8
	<hr/>	<hr/>

FREDERICK WARNE & CO LIMITED

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

17 RELATED PARTY DISCLOSURE

The immediate parent undertaking is Penguin Books Limited ("PBL").

PBL is a wholly owned subsidiary of 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

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.

18 POST BALANCE SHEET EVENTS

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

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

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