Penguin Books Limited
Registered Number 00861590

Annual Report and Financial Statements
For the Year Ended 31 December 2012

Penguin Books Limited

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Penguin Books Limited (the "company") for the year ended 31 December 2012

Principal activities
The principal activity of the company and its subsidiaries continues to be book publishing, and the warehousing and distribution of books

Business review
Penguin Books Limited turnover increased by £7 7m in 2012 compared to 2011 This was driven by exceptionally high sales of titles by Jamie Oliver, Sylvia Day and Jeff Kinney Digital sales accounted for 10 4% of our turnover (2011 4 3%) We expect digital sales to continue to rise over the next few years but to largely be a substitute for physical sales The gross profit percentage rose 2% to 45%, (a rise of £5 9m) mainly driven by the increase in digital sales Distribution costs decreased very slightly, reflecting some savings in that area due to digital distribution Administrative expenses rose by 8 7% this rise in part reflects inflationary pressure on underlying costs but is mostly caused by the non-recurance of large exchange upsides in 2011 Other operating income (£2 2m) decreased by 28% compared to 2012 and income from fixed asset investments returned to the 2010 level of £1 3m after a rise to £2 0m in 2011 As a result of all of the above factors, profit before tax and interest for 2012 was £6 9m compared to the previous year's profit of £7 4m

Key performance indicators
Penguin monitors progress and performance during the year and historical trend data is set out in the following key performance indicators
- Turnover increased 5% year-on-year (2011 decrease 5%),
- Gross margin for the year is 45% (2011 43%), and
- Titles in Bookscan full year Top 50 sellers were 12 (2011 13 titles)

Future Outlook and Development
Going forward we expect a continuation of the shift in sales from physical books to ebooks, but that overall our turnover will perform consistently with the market, which has shown significant volatility Predicting market trends is difficult in the current economic climate However sustained focus on acquisition decisions, costs, and inventory management should continue to provide positive benefits Apart from generally difficult market conditions no key operating risks have been identified by the directors Penguin Books Limited continued to attract and retain key talent, with the significant additions, amongst others, of John Green, Jennifer Saunders and Jack Whitehall No major authors left during the course of the year In October 2012, Pearson and Bertelsmann announced an agreement to create a new consumer publishing business, named Penguin Random House, by combining Penguin and Random House

Principal risks and uncertainties and financial risk management
From the perspective of the company, the principal risks and uncertainties and financial risk management are integrated with the principal risks of the consolidated financial statements of Pearson plc (the "group") and are not managed separately The principal risks and uncertainties of Pearson plc, which include those of the company, are discussed on pages 31 to 33 of Pearson plc's annual report, which does not form part of this report

Results and dividends
An interim dividend of £4,450,000 was paid in 2011 (2011 £3,453,000) The directors recommend that no final dividend be paid (2011 £nil), and the profit of £5,052,000 (2011 £6,118,000) be added to the reserves

Directors
The directors who held office during the year and up to the date of signing the financial statements are given below
Suzanne Brennan
John Makinson
Michael Symons
Peter Field (resigned 14 January 2013)
Thomas Weldon

Penguin Books Limited

DIRECTORS' REPORT (continued)

Qualifying third party indemnity provisions
As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006 The indemnity was in force throughout the last financial year and is currently in force The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors

Employees
Disabled Persons - The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status The group 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 group If members of staff become disabled the group continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary
Employee involvement - The group 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 group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the group plays a major role in maintaining its prosperity The group encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the company's progress

Policy and practice on payment of creditors
Trade creditors at the year-end represented 51 days (2011 43 days) of purchases It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and services and to adhere to those payment terms

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 the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Penguin Books Limited

DIRECTORS' REPORT (continued)

Disclosure of information to auditors

In the case of each of the persons who are directors at the time when the report is approved the following applies

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- he / she has taken all the steps that he / she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the board

Suzanne Brennan
Director

14 June 2013

Company registered number
00861590

Penguin Books Limited

Independent auditors' report to the members of :
Penguin Books Limited

We have audited the financial statements of the company for the year ended 31 December 2012 which comprise the profit and loss account, the balance sheet and the related notes 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)

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' responsibilities 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 International Standards on Auditing (UK and 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

Scope of the audit of the financial statements
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 Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements
- give a true and fair view of the state of the company's affairs as at 31 December 2012 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

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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
- 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

Sam Tomlinson

Sam Tomlinson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 June 2013

Penguin Books Limited

PROFIT AND LOSS ACCOUNT
For the year ended :
31 December 2012

Continuing operations	Note	2012 £'000	2011 £'000
Turnover	3	**166,714**	158,977
Cost of sales		**(92,326)**	(90,510)
Gross profit		**74,388**	68,467
Distribution costs		**(6,424)**	(6,694)
Administrative expenses		**(64,582)**	(59,414)
Other operating income		**2,161**	2,997
Operating profit	4	**5,543**	5,356
Income from fixed asset investments	7	**1,341**	2,077
Profit on ordinary activities before interest and taxation		**6,884**	7,433
Interest receivable and similar income	8	**415**	373
Interest payable and similar charges	8	**(11)**	(6)
Profit on ordinary activities before taxation		**7,288**	7,800
Tax charge on profit on ordinary activities	9	**(2,236)**	(1,682)
Profit for the financial year	18	**5,052**	6,118

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents

The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented

Penguin Books Limited

BALANCE SHEET
As at
31 December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible assets	11	**7,370**	9,906
Investments	12	**26,284**	25,373
		33,654	35,279
Current assets			
Stocks	13	**7,178**	6,615
Debtors	14	**119,663**	122,713
Cash at bank and in hand		**76,812**	62,233
		203,653	191,561
Creditors - amounts falling due within one year	15	**(111,822)**	(103,267)
Net current assets		**91,831**	88,294
Total assets less current liabilities		**125,485**	123,573
Net assets		**125,485**	123,573
Capital and reserves			
Called up share capital	17	**88,300**	88,300
Share premium account	18	**1,139**	1,139
Other reserves	18	**2,061**	1,622
Profit and loss reserve	18	**33,985**	32,512
Total shareholders' funds	19	**125,485**	123,573

The financial statements on page 6 to 35 were approved by the board of directors on 14 June 2013

S Brennan

Suzanne Brennan
Director

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended
31 December 2012

1
Accounting policies

Basis of accounting
The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently, are set out below

Basis of consolidation
The company is a wholly-owned subsidiary of Pearson plc and is included in the consolidated financial statements of Pearson plc which are publicly available Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

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

Foreign currencies
Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet

Tangible fixed assets
Tangible fixed assets are stated at historic purchase cost less accumulated depreciation Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis

- Freehold buildings 2% straight line,
- Plant and machinery 10-33 3% straight line,
- Fixtures and fittings 10-25% straight line,
- Freehold land is not depreciated, and
- Leasehold buildings are depreciated over the period of the lease

Fixed asset investments
Fixed asset investments are stated at cost less any provision for permanent diminution in value Investments are tested for impairment when an event that might affect asset values has occurred An impairment loss is recognised to the extent that the carrying amount cannot be recovered either by selling the asset or by the discounted future cash flows from the investment

Stocks
Finished goods, work-in-progress and materials have been valued at the lower of cost and net realisable value Cost comprises direct costs including related production overheads, which, in the case of first impressions of books, includes initial publishing expenditure Provision is made for obsolete, slow moving and defective stocks

Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is deemed recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

Pensions
The company participates in the Pearson Group Pension Scheme, which is a hybrid with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities The company is unable to identify its share of the underlying assets and liabilities of the Pearson Group Pension Scheme owing to information regarding non-active members and changes to the group structure including acquisitions and disposals Accordingly, the company accounts for its participation in the scheme as defined contribution under the multi-employer rules of FRS 17 "Retirement Benefits" The sponsoring entity to this scheme is Pearson Services Limited, a fellow subsidiary entity

Share-based payments
Options and shares are awarded to the company's employees under Pearson share and option plans The fair value of the options granted is recognised as an employee expense after taking account of the company's best estimate of the number of awards expected to vest Fair value is measured at the date of grant and is spread over the vesting period of the option or share The fair value of the options granted is measured using an option model that is most appropriate to the award The fair value of the shares awarded is measured using the share price at the date of grant unless another method is more appropriate

Operating leases
Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

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

Author advances
Advances of royalties to authors are recognised within other debtors once the advance is paid, less any provision required to adjust the advance to its net realisable value The realisable value of royalty advances relies on a degree of management judgement in determining the profitability of individual author contracts If the estimated realisable value of author contracts is overstated then this will have an adverse effect on operating profits as these excess amounts will be written off The recoverability of royalty advances is based upon an annual detailed management review of the age of the advance, the future sales projections for new authors and prior sales history of repeat authors The royalty advance is expensed at the contracted or effective royalty rate as the related revenues are earned

2
Cash flow statement and related party disclosure

The company is a wholly-owned subsidiary of Pearson plc and is included in the consolidated financial statements of Pearson plc, which are publicly available Consequently, the company has taken exemption from preparing a cash flow statement under the terms of FRS 1 "Cash flow statements (Revised 1996)" The company is also exempt under the terms of FRS 8 "Related Party Disclosures" from disclosing related party transactions with Pearson plc and its wholly owned subsidiaries

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

3
Turnover

Segment reporting - geographical markets supplied by destination	2012 £'000	2011 £'000
United Kingdom	**118,416**	113,390
Rest of Europe	**11,874**	10,541
Asia and Middle East	**6,316**	6,442
Africa	**3,378**	3,639
North and South America	**7,442**	8,095
Australasia	**19,288**	16,870
	166,714	158,977

The company's activities consist of one class of business namely book publishing

4
Operating profit

	2012	2011
	£'000	£'000
Operating profit is stated after charging / (crediting)		
Staff costs	**51,722**	48,707
Depreciation of tangible fixed assets		
- Owned assets	**2,741**	2,598
Operating lease charges		
- Plant and machinery	**128**	105
- Other	**19**	28
Provisions against investments	**2,749**	4,598
Foreign exchange loss / (gain)	**1,360**	(1,568)
Services provided by the company's auditor		
- Fees payable for the audit	**140**	125

Fees paid to the company's auditor, PricewaterhouseCoopers LLP, and its associates for services other than the statutory audit of the company are not disclosed in the company's accounts since the consolidated accounts of the company's ultimate parent company, Pearson plc, are required to disclose non-audit fees on a consolidated basis Auditors' remuneration for the year 2012 was £140,000 (2011 £125,000)

Auditors' remuneration is in respect of Penguin Books Limited, the immediate parent undertaking, the fellow Pearson plc subsidiary undertakings of the Dorling Kindersley group of companies and certain Penguin group subsidiary undertakings

As the primary operating company in the Penguin Group (UK), the company incurs administrative, distribution and other operating expenses on behalf of the following Pearson Group companies Dorling Kindersley Limited, Frederick Warne & Co Limited, Ladybird Limited, Funfax Limited, and The Rough Guides Limited Costs incurred in 2012 of £60,363,545 were recharged back to the associate group companies as a management charge (2011 £56,731,076)

Other operating income includes income from the sale of rights to other publishers

5
Directors' emoluments

	2012	2011
	£'000	£'000
Aggregate emoluments	1,233	1,178
	1,233	1,178

Staff costs include the above remuneration to directors of the company in respect of their services to the company All directors participate in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met

	2012	2011
	Number directors	Number directors
Directors accruing benefits under defined benefit scheme	3	3
Directors who exercised share options	3	5
Directors entitled to shares under long-term incentive schemes	3	5

	2012	2011
Highest paid director	£'000	£'000
Aggregate emoluments	638	620
Defined benefit pension scheme - accrued pension at end of year	34	32
Share options exercised under long-term incentive scheme (number)	7,000	5,000
Shares received under long-term incentive scheme (number)	10,000	10,000

The highest paid director participated in a long term incentive scheme, whereby shares are receivable in the ultimate parent undertaking if certain performance conditions are met

6
Employee information

Staff costs	2012 £'000	2011 £'000
Wages and salaries	**35,151**	33,268
Social security costs	**3,682**	3,367
Other pension costs	**11,146**	10,993
Share-based payment costs	**1,310**	1,079
Severance	**433**	0
	51,722	48,707

Staff costs include remuneration to directors of Michael Joseph Limited, Acacia Interactive Limited, Dorling Kindersley Limited and DK Vision Limited who are not remunerated as directors of Penguin Books Limited Their remuneration is disclosed in the accounts of this company

Average monthly number of persons (including directors) employed by the company during the year	2012 Number	2011 Number
Production	**99**	91
Selling and distribution	**106**	105
Administration	**223**	232
Editorial	**390**	394
	818	822

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

7
Income from fixed asset investments

	2012	2011
	£'000	£'000
Income from shares in group undertakings	1,341	2,077
	1,341	2,077

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

8
Net interest

	2012	2011
	£'000	£'000
Third party interest payable/paid	(11)	(6)
Interest payable and similar charges	**(11)**	(6)
Bank interest receivable	415	373
Interest receivable and similar income	**415**	373
Net interest receivable / (payable)	**404**	367

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

9
Tax charge on profit on ordinary activities

	2012	2011
	£'000	£'000
Current tax		
UK corporation tax on profits for the year	3,075	2,748
Adjustments in respect of prior years	(331)	(1,490)
	2,744	1,258
Double tax relief	(26)	(71)
	2,718	1,187
Overseas taxation	30	79
Total current tax	2,748	1,266
Deferred tax		
Origination and reversal of timing differences	(544)	179
Deferred tax on share-based payments	(73)	(88)
Adjustments in respect of prior years	105	325
Total deferred tax	(512)	416
Tax charge on profit on ordinary activities	2,236	1,682
UK standard effective rate of corporation tax (%)	24.5	26 5

The tax assessed for the period differs from the standard effective rate of corporation tax in the UK as explained below	2012	2011
	£'000	£'000
Profit on ordinary activities before taxation	7,288	7,800
Profit on ordinary activities before taxation multiplied by UK standard effective rate	1,786	2,067
Effects of		
Excess of capital allowances over depreciation for the year	336	(8)
Other expenses not deductible for tax purposes	931	1,410
Other timing differences	434	0
Adjustments in respect of prior years	(331)	(1,490)
Double tax relief	(26)	(71)
Share-based payments	(106)	(198)
Overseas witholding tax suffered	30	79
Notional interest for UK transfer pricing purposes	23	27
Tax Free Income	(328)	(550)
Current tax charge for the year	2,748	1,266

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1 April 2012 and from 24% to 23% with effect from 1 April 2013 These announcements were made in the Finance Act 2012 Accordingly, the company's taxable profits for this accounting period are taxed at an effective rate of 24 5% and deferred tax is recognised at 23 25% since this has been substantively enacted at the balance sheet date Further changes are proposed to reduce the tax rate by 1 % per annum to 21% by 1 April 2014 and 20% by 1 April 2015

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended .
31 December 2012

10
Dividends

	2012	2011	**2012**	2011
	pence	pence	**£'000**	£'000
Equity - Ordinary				
Dividends paid in the year	**5 040**	3 911	**4,450**	3,453
			4,450	3,453

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

11
Tangible assets

	Plant and machinery	Fixtures and fittings	Total
	£'000	£'000	£'000
Cost or valuation :			
At 1 January 2012	27,066	7,212	34,278
Additions	564	0	564
Disposals	(931)	0	(931)
At 31 December 2012	**26,699**	**7,212**	**33,911**
Accumulated depreciation :			
At 1 January 2012	22,016	2,356	24,372
Charge for the year	2,231	510	2,741
Disposals	(572)	0	(572)
At 31 December 2012	**23,675**	**2,866**	**26,541**
Net book value .			
At 31 December 2011	5,050	4,856	9,906
At 31 December 2012	**3,024**	**4,346**	**7,370**

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

12
Investments

	2012	2011
	£'000	£'000
Subsidiary undertakings	24,897	24,546
Associated undertakings	1,387	827
	26,284	25,373

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2012

12a
Fixed asset investments - subsidiary undertakings

	Total
	£'000
Cost	
At 1 January 2012	30,600
Additions	3,100
Disposals	0
At 31 December 2012	**33,700**
Provision	
At 1 January 2012	6,054
Charge for the year	2,749
At 31 December 2012	**8,803**
Net book value	
At 31 December 2011	24,546
At 31 December 2012	**24,897**

A provision for impairment of £2,749,000 has been made in 2012 (2011 £4,598,000) and is recognised in administrative expenses

Details of subsidiary undertakings

Subsidiary	Principal activity	Class of shares held	Country of incorporation	2012 % owned	2011 % owned
Allen Lane The Penguin Press Ltd	Dormant	Ordinary	UK	100%	100%
Frederick Warne & Co Ltd, owning	Publishing & Distribution	Ordinary	UK	100%	100%
Michael Joseph Limited, owning	Dormant	Ordinary	UK	100%	100%
Pelham Books Limited	Dormant	Ordinary	UK	100%	100%
Hamish Hamilton Limited, owning	Dormant	Ordinary	UK	100%	100%
Hamish Hamilton Children's Books Limited & also owning	Dormant	Ordinary	UK	100%	100%
Elm Tree Books Limited	Dormant	Ordinary	UK	100%	100%
Penguin Italia Srl	Publishing & Distribution	Ordinary	Italy	95%	95%
Penguin Books Deutschland GmbH	Publishing & Distribution	Ordinary	Germany	100%	100%
Penguin Books SA (Spain)	Publishing & Distribution	Ordinary	Spain	96%	96%
The Rough Guides Limited (The)	Publishing & Distribution	Ordinary	UK	100%	100%
Ventura Publishing Ltd, owning	Merchandising	Ordinary	UK	100%	100%
Salspot Limited	Publishing & Distribution	Ordinary	UK	100%	100%
Penguin Books Japan Limited	Publishing & Distribution	Ordinary	Japan	99 5%	99 5%
Ladybird Books Limited	Publishing & Distribution	Ordinary	UK	100%	100%
Penguin Books Deutschland GmbH	Marketing	Ordinary	Germany	100%	100%
Penguin Books Netherlands BV	Publishing & Distribution	Ordinary	Netherlands	5%	5%
Snowman Enterprise Ltd	Publishing & Distribution	Ordinary	UK	100%	0%
Children's Character Books Ltd	Publishing & Distribution	Ordinary	UK	75%	75%

In the opinion of the directors, the value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

12b
Fixed asset investments - associated undertakings and joint ventures

	Total
	£'000
Cost ·	
At 1 January 2012	827
Additions	560
At 31 December 2012	**1,387**
Provision	
At 1 January 2012	0
At 31 December 2012	**0**
Net book value ·	
At 31 December 2011	827
At 31 December 2012	**1,387**

In 2012 Penguin Books Limited made contributions to a joint venture for the sum of £560,000 as set up costs The joint venture has not begun to trade yet

Joint venture	Principal activity	Country of incorp-oration	% owned
Joint venture	Publishing & Distribution	UK	14 9%

In the opinion of the directors, the value of the investments in associated undertakings and joint ventures is not less than the amount at which they are stated in the balance sheet

13
Stocks

	2012	2011
	£'000	£'000
Raw materials and consumables	**450**	822
Work in progress	**1,836**	578
Finished goods and goods for resale	**4,892**	5,215
	7,178	6,615

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2012

14
Debtors

	2012	2011
Amounts falling due within one year :	**£'000**	£'000
Trade debtors	**32,240**	36,982
Amounts owed by group undertakings	**64,747**	56,883
Deferred taxation	**2,897**	2,457
Other debtors	**18,722**	23,770
Prepayments and accrued income	**620**	2,257
Deferred taxation on share based payments	**437**	364
	119,663	122,713

Balances owed by group undertakings are unsecured, interest free and repayable on demand
Other debtors includes author advances

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Creditors

	2012	2011
Amounts falling due within one year :	**£'000**	£'000
Trade creditors	**(30,164)**	(29,904)
Amounts owed to group undertakings	**(49,285)**	(43,473)
Corporation tax	**(1,326)**	(4,686)
Other creditors	**(10,728)**	(7,784)
Accruals and deferred income	**(20,319)**	(17,420)
	(111,822)	(103,267)

Balances owed to group undertakings are unsecured, interest free and repayable on demand
Other creditors includes £2,100,000 owed for Snowman Enterprise Ltd investment The remainder of the balance mainly consists of royalty accrual and freight costs

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Deferred taxation

	Other timing differences	Share Based Payments	Accelerated Capital Allowances	Total
Asset	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2012	490	364	1,967	2,821
Amounts released to the profit and loss	0	0	(135)	(135)
Amounts charged to the profit and loss	575	73	0	648
At 31 December 2012	**1,065**	**437**	**1,832**	**3,334**

	2012	2011
	£'000	£'000
Total deferred taxation	**3,334**	2,821

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Called up share capital

	2012	2011
	£'000	£'000
Total share capital	**88,300**	88,300

	2012	2011	**2012**	2011
Ordinary share £1 each	**No '000s**	No '000s	**£'000**	£'000
Allotted and fully paid	**88,300**	88,300	**88,300**	88,300

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Reserves

	Share premium	Profit and loss	Other reserves	Total
	£'000	£'000	£'000	£'000
At 1 January 2012	1,139	32,512	1,622	35,273
Profit for the financial year	0	5,052	0	5,052
Share-based payments	0	0	1,310	1,310
Dividend paid	0	(4,450)	0	(4,450)
Shares vested in year	0	871	(871)	0
At 31 December 2012	**1,139**	**33,985**	**2,061**	**37,185**

Other reserves relates to the accumulated charge for the parent company's share-based payment plans

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Reconciliation of movements in shareholders' funds

	2012	2011
	£'000	£'000
Profit for the financial year	**5,052**	6,118
Dividends paid	**(4,450)**	(3,453)
Share-based payments	**1,310**	1,079
Opening shareholders' funds	**123,573**	119,829
Closing shareholders' funds	**125,485**	123,573

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NOTES TO THE FINANCIAL STATEMENTS continued
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Share-based payments

The company's employees are entitled to shares and options under the following equity-settled employee option and share plans

Save-for-Shares Plans
Under these plans, employees can save a portion of their monthly salary over periods of three, five or seven years At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equivalent to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan Options that are not exercised within six months of the third, fifth or seventh anniversary after grant lapse unconditionally

Long-Term Incentive Plan
This plan was introduced in 2001, renewed in 2006 and again in 2011 The plan consists of restricted shares The vesting of restricted shares is normally dependent on continuing service and/or upon the satisfaction of corporate performance targets over a three-year period These targets may be based on market and/or non-market performance criteria Restricted shares awarded to senior management in 2011 and 2012 vest dependent on relative shareholder return, return on invested capital and a combination of earnings per share growth The award was split equally across all three measures Other restricted shares awarded in 2011 and 2012 vest depending on continuing service over a three-year period

Annual bonus share matching
This plan permits executive directors and senior executives to invest up to 50% of any after tax annual bonus in Pearson shares If these shares are held and the group meets the earnings per share growth target, the company will match them on a gross basis of up to one share for every one held

The movement and weighted average exercise prices of share options granted under the group's schemes are as follows

	2012 Number of share options 000s	**2012 Weighted average exercise price £**	2011 Number of share options 000s	2011 Weighted average exercise price £
Outstanding at beginning of year	**190**	**6 98**	340	8 62
Granted during the year	**53**	**9 09**	48	8 93
Exercised during the year	**(52)**	**5 68**	(93)	6 21
Forfeited during the year	**(19)**	**8.15**	(10)	7 16
Expired during the year	**(3)**	**5 66**	(98)	15 09
Transferred in during the year	**5**	**8 58**	12	14 21
Transferred out during the year	**(2)**	**5 47**	(9)	8 61
Outstanding at end of year	**172**	**7 98**	**190**	**6 98**
Options exercisable at end of year	**10**	**5 47**	**5**	**5 35**
Weighted average share price during the year of options exercised		**7 98**		**6 98**

Options were exercised regularly during the year Early exercises are treated as an acceleration of vesting and the Company therefore recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the original vesting period in the profit and loss account

The options outstanding at the end of the year have weighted average remaining contractual lives and exercise prices as follows

Range of exercise prices £	2012 Number of share options 000s	2012 Weighted average contract life Years	2011 Number of share options 000s	2011 Weighted average contract life Years
0-5	**0**	**0 00**	0	0 00
5-10	**172**	**2 18**	190	2 24
10-15	**0**	**0 00**	0	0 00
15-20	**0**	**0 00**	0	0 00
20-25	**0**	**0 00**	0	0 00
>25	**0**	**0 00**	0	0 00
	172	**2 18**	190	2 24

In 2012 and 2011 options were granted under the Worldwide Save for Shares Plan The weighted average estimated fair value for the options granted was calculated using a Black-Scholes option pricing model

The weighted average estimated fair values and the inputs to the Black-Scholes model are as follows

	2012 Weighted average	2011 Weighted average
Fair value	**2 35**	2 96
Weighted average share price	**11.51**	11 48
Weighted average exercise price	**9.09**	8 93
Expected volatility	**23 37%**	27 68%
Expected life	**3 7**	3 8
Risk-free rate	**0 71%**	1 85%
Forfeiture rate	**3 17%**	3 30%
Expected dividend yield	**3 65%**	3 37%

The expected volatility is based on the historic volatility of the Company's share price over the previous 3 to 7 years depending on the vesting term of the options

During the year, the following shares were granted under restricted share arrangements

	2012 Number of shares 000s	2012 Weighted average fair value £	2011 Number of shares 000s	2011 Weighted average fair value £
Annual Bonus Share Matching Plan	**8**	**11 52**	2	11 27
Long-term Incentive Plan	**135**	**12 30**	143	10 63

Restricted shares granted under the Annual Bonus Share Matching Plan are valued using the share price at the date of grant From 2008 shares granted include the entitlement to dividends during the vesting period and therefore the share price is not discounted

Participants of the Long-Term Incentive Plan are entitled to dividends during the vesting period The fair value of shares granted under the Long-Term Incentive Plan that vest unconditionally was determined using the share price at the date of grant The number of shares to vest was adjusted based on historical experience to account for any potential forfeitures Restricted shares with a market performance condition were valued by an independent actuary using a Monte Carlo model Restricted shares with a non-market performance condition were fair valued based on the share price at the date of grant Non-market performance conditions were considered by adjusting the number of shares expected to vest based on the most likely outcome of the relevant performance criteria

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Operating lease commitments

	2012 Plant & Machinery £'000	2011 Plant & Machinery £'000
Expiring		
Within one year	**0**	23
Between two and five years	**66**	60
	66	83

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Contingent liabilities

Bank guarantees
The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 34 of its subsidiaries, 'the guarantors', are combined, with cleared debit and credit balances being offset for interest calculation purposes In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants Under this arrangement, the net overdraft position at 31 December 2012 was £155,614 (2011 (net cash position £1,748,651) The maximum amount of this guarantee is limited to a net overdraft of £50,000,000

Potential liability arising from these guarantee arrangements ·	**2012 £'000**	2011 £'000
Parent undertaking and fellow subsidiary undertakings	**50,000**	50,000
Subsidiary undertakings of the company	**0**	0

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Pension commitments

	2012	2011
	£'000	£'000
Profit and loss charge for the company in respect of its participation in the scheme representing regular contributions paid	**4,404**	4,251

Pearson Group Pension Scheme .		
(determined by an actuarial valuation using the projected unit method)		
Total market value of assets	**2,162,200**	2,007,700
Value of liabilities (calculated in accordance with FRS 17)	**(2,168,200)**	(1,969,500)

The company participates in the Pearson Group Pension Scheme

This is a hybrid with both defined benefit contribution sections but, predominantly, consisting of defined benefit liabilities

The company is unable to identify its share of the underlying assets and liabilities of the Pearson Group Pension Scheme owing to information regarding non-active members and changes to the group structure including acquisitions and disposals Accordingly, the company accounts for its participation in the scheme as defined contribution under the multi-employer rules of FRS 17 The sponsoring entity to this scheme is Pearson Services Limited

The company will be required to make incremental contributions as part of the group's obligations to fund the scheme and any deficit arising and contributions are expected to remain at similar levels to the current year in 2013

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Ultimate parent undertaking

The immediate parent undertaking is The Penguin Publishing Company Ltd

The ultimate parent undertaking and controlling party is Pearson plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements Copies of Pearson plc's consolidated financial statements can be obtained from the Company Secretary at Pearson plc, 80 Strand, London WC2R 0RL