

Penguin Books Limited

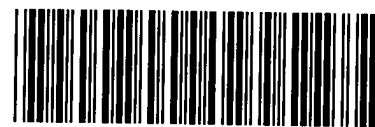
Registered Number:

00861590

Annual Report and Financial Statements
For the Year Ended:

31 December 2014

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STRATEGIC REPORT

The directors present their Strategic Report of Penguin Books Limited ("the Company") for the year ended 31 December 2014.

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

The results and financial position of the Company are set out in the attached financial statements. Penguin Books Limited is a book publishing business and a subsidiary of Penguin Random House Limited, owned 53% by Bertelsmann SE & Co KGaA and 47% by Pearson plc. Upon its acquisition in 2013, the Company's accounting policies and techniques were aligned with that of Bertelsmann SE & Co KGaA. The impact of this alignment was £5,041,000. The Company has consistently applied these policies during 2014. Profit before interest and taxation for 2014 was £32,810,000 compared to the previous year's loss of £581,000. The increase in profit has predominately been driven by integration savings as a result of a number of services and IT applications being transferred from Pearson plc to Penguin Random House Limited, one off harmonisation and pension costs incurred in 2013 and a lower depreciation charge for the year.

Key performance indicators ("KPIs")

The Company monitors progress and performance during the year and historical trend data is set out in the following key performance indicators:

Turnover was £157,707,000 (2013: £163,376,000);

Gross margin for the year was 46% (2013: 44%);

The number of titles in the Bookscan full year Top 50 sellers listing was 8 (2013:12 titles).

Principal risks and uncertainties

The principal risks and uncertainties of the Company are reported in the Directors' Report on page 2.

By Order of the Board



Mark Gardiner
Director

9 October 2015

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Penguin Books Limited ("the Company") for the year ended 31 December 2014.

Principal risks and uncertainties

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 the board on a regular basis. The changing book market, particularly the transition to digital and the shift to the agency model, is creating both challenges and opportunities for the Company, notably in terms of pricing structures. 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.

Financial risk management

It is the Company's policy to implement financial risk management objectives and policies for each major type of forecasted transaction. The directors consider the entity's exposure to price risk, credit risk and liquidity risk.

Future outlook and development

Going forward we expect a continuation of the shift in sales from physical books to eBooks, specifically at a slowing pace, 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. The Company continued to attract and retain key talent, with the significant additions amongst others, of Zoe Sugg, Jane Shemilt and Brian O'Driscoll. No major authors left during the course of the year.

Results and dividends

An interim dividend of £7,500,000 was paid in 2014 (2013: £4,800,000). The directors recommend that no final dividend be paid (2013: £nil), and the profit for the financial year of £27,071,000 (2013: loss of £3,655,000) be transferred to 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 (resigned 31 March 2014)

John Makinson

Michael Symons

Thomas Weldon

Mark Gardiner (appointed 31 March 2014)

Employees

Disabled persons

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 material status. 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 group. 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.

Employee involvement

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 group 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.

DIRECTORS' REPORT (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 (see Note 1 for further details).

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.

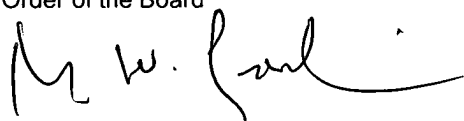
The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

In accordance with Section 418, Directors' Reports shall include a statement, in the case of each director in office at the date the Directors' Report is approved, that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By Order of the Board



Mark Gardiner
Director

10 October 2015

Penguin Books Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PENGUIN BOOKS LIMITED

Report on the financial statements

Our opinion

In our opinion, Penguin Books Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit and cash flows 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.
-

What we have audited

Penguin Books Limited's financial statements comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss Account and Statement of Recognised Gains and Losses for the year then ended;
- the Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

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

What an audit of financial statements involves


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

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

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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



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

9 October 2015

Penguin Books Limited

PROFIT AND LOSS ACCOUNT

For the year ended:

31 December 2014

	Note	2014 £'000	2013 *Restated £'000
Turnover	2	157,707	163,376
Cost of sales		(85,419)	(92,243)
Gross profit		72,288	71,133
Distribution costs		(6,696)	(6,591)
Administrative expenses		(44,629)	(70,249)
Other operating income		3,809	3,743
Operating profit/(loss)	3	24,772	(1,964)
Income from other fixed asset investments	6	7,900	200
Gain on sale of investment	11	138	1,183
Profit/(loss) on ordinary activities before interest and taxation		32,810	(581)
Interest receivable and similar income	7	180	277
Interest payable and similar charges	7	(54)	(56)
Other finance expense	21	(899)	(692)
Profit/(loss) on ordinary activities before taxation		32,037	(1,052)
Tax charge on profit/(loss) on ordinary activities	8	(4,966)	(2,603)
Profit/(loss) for the financial year	17	27,071	(3,655)

*See note 1 for details

The results above are all derived from continuing activities.

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

The notes on pages 10 to 29 form part of these financial statements.

Penguin Books Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended:

31 December 2014

		2014	2013
	Note	£'000	*Restated £'000
Profit/(loss) for the financial year		27,071	(3,655)
Deferred tax on actuarial loss	17	710	61
Actuarial loss on defined benefit pensions	21	(188)	(306)
Total recognised gains and losses relating to the year		27,593	(3,900)

*See note 1 for details

The notes on pages 10 to 29 form part of these financial statements.

Penguin Books Limited

BALANCE SHEET

As at:


31 December 2014

Company registered number:
00861590

	Note	2014 £'000	2013 *Restated £'000
Fixed assets			
Tangible assets	10	7,499	11,518
Investments	11	25,461	25,461
		32,960	36,979
Current assets			
Stocks	12	7,661	7,241
Debtors	13	194,315	172,313
Cash at bank and in hand		13,392	3,234
		215,368	182,788
Creditors: amounts falling due within one year	14	(107,740)	(97,779)
Net current assets		107,628	85,009
Total assets less current liabilities		140,588	121,988
Pension deficit	21	(2,619)	(4,112)
Net assets		137,969	117,876
Capital and reserves			
Called up share capital	16	88,300	88,300
Share premium account	17	1,139	1,139
Profit and loss account	17	48,530	28,437
Total shareholders' funds	18	137,969	117,876

*See note 1 for details

The financial statements on pages 6 to 29 were approved by the board of directors on 09 October 2015 and were signed on its behalf by :



Mark Gardiner
Director

Penguin Books Limited

CASH FLOW STATEMENT

For the year ended:

31 December 2014

	Note	2014 £'000	2013 £'000
Net cash inflow/(outflow) from operating activities	19	10,553	(54,654)
Returns on investments and servicing of finance			
Interest received	7	180	277
Interest paid	7	(54)	(56)
Dividends received	6	-	200
Net cash inflow from returns on investments and servicing of finance		126	421
Taxation	8	135	(2,484)
Capital expenditure and financial investment			
Purchases of property, plant and equipment	10	(794)	(14,067)
Net cash outflow from capital expenditure and financial investment		(794)	(14,067)
Acquisitions			
Proceeds from sale of investments		138	2,186
Purchase of subsidiary undertakings		-	(180)
Net cash inflow for acquisitions		138	2,006
Dividends paid	17	-	(4,800)
Net cash inflow/(outflow) before use of liquid resources and financing		138	(2,794)
Increase/(decrease) in net cash		10,158	(73,578)
Reconciliation to net cash			
Net cash 1 January		3,234	76,812
Increase/(decrease) in net cash		10,158	(73,578)
Net cash at 31 December		13,392	3,234

The notes on pages 10 to 29 form part of these financial statements.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended:

31 December 2014

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 Penguin Random House Limited and is included in the consolidated financial statements of Bertelsmann SE & Co KGaA 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.

Prior year representation

In the current year Pearson plc and Bertelsmann SE & Co KGaA agreed the basis on which a top-up liability would be calculated for employees that had been members of the Pearson Group Pension Plan. The liability arose on the acquisition of the Company by Bertelsmann effective 1 July 2013 but at the time there was uncertainty as to the basis for calculating the amount. The top-up liability relates to the past service of employees of the Company when it was under the control of Pearson plan and the amount of £3,362,000 has been recorded in the 2013 comparative as a past service cost under FRS 17. This is in line with the Company's current accounting policy.

Additionally the interest expense of £692,000 relating to the defined benefit scheme has been reclassified to other finance expense from administrative expenses.

The tax charge for the year remains unchanged after the restatement. The impact on the tax reconciliation has been reflected in note 8 to the financial statements.

The impact of the prior year reclassification on the comparative figures is summarised in the table below:

	As Previously presented £'000	Reclassification £'000	As reported £'000
Administrative expenses	(67,579)	(2,670)	(70,249)
Pension deficit	(750)	(3,362)	(4,112)
Other finance expense	-	(692)	(692)

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 sale of books is recognised when title passes. A provision for anticipated returns is made based primarily on historical return rates. If these estimates do not reflect actual returns in future periods then turnover could be understated or overstated for a particular period. On certain contracts, where the Company acts as agent, only commissions and fees receivable for services rendered are recognised as turnover. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in turnover. Income from recharges of freight and other activities which are incidental to the normal turnover generating activities is included in other operating income.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

1

Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at historical 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.

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.

Stocks

Finished goods, work-in-progress and materials have been valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. 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 and slow moving stocks.

Pensions

In accordance with FRS 17 "Retirement Benefits", the operating and financing costs of pensions are charged to the profit and loss account in the period in which they arise and are recognised separately. The costs of past service enhancements, settlements and curtailments are also recognised in the period in which they arise. The differences between actual and expected returns on assets during the year, including changes in actuarial assumptions, are recognised in the Statement of Total Recognised Gains and Losses. Pension costs are assessed in accordance with the advice of qualified actuaries.

The costs of the Company's contributions to the Company's defined contribution pension scheme are charged to the profit and loss account in the period in which they arise.

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.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

1

Accounting policies (continued)

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 a contract is approved within the royalty system, 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 turnover is earned.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

2

Turnover

	2014	2013
	£'000	£'000
Segment reporting – geographical markets supplied by origin		
United Kingdom	109,671	114,774
Rest of Europe	14,070	13,764
Asia and Middle East	6,944	6,956
Africa	4,589	3,857
North and South America	7,735	5,460
Australasia	14,698	18,565
	157,707	163,376

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

3

Operating profit/(loss)

	2014	2013
	£'000	£'000
Operating profit is stated after charging:		
Staff costs	55,854	53,553
Depreciation of tangible fixed assets:		
- Owned assets	3,524	9,919
Operating lease charges:		
- Plant and machinery	92	165
- Other	293	42
Impairment charge of joint venture	-	534
Foreign exchange loss	626	2,563
Services provided by the Company's auditor:		
- Fees payable for the audit	155	150
- Audit related fees from opening balance sheet audit	-	80

Auditors' remuneration for the statutory audit of the Company amounted to £155,000 (2013: £150,000). Auditors' remuneration for the opening balance sheet audit of the Company amounted to £nil (2013: £80,000).

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

3

Operating profit/(loss) (continued)

As the primary operating Company in the Penguin and Dorling Kindersley Group of companies (UK), the Company incurs administrative, distribution and other operating expenses on behalf of the following:

Penguin Random House Limited companies

Dorling Kindersley Limited

Frederick Warne & Co Limited

Ladybird Books Limited

Salspot Limited

Ventura Publishing Limited

Children's Character Books Limited

The Rough Guides Limited

Snowman Enterprises Limited

Snowdog Enterprises Limited

Costs incurred in 2014 of £57,514,468 were recharged back to the associate group companies as a management charge (2013: £61,240,376).

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

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

4

Directors' emoluments

	2014	2013
	£'000	£'000
Aggregate emoluments	1,433	1,597
	1,433	1,597

Staff costs include the above remuneration to directors of the Company in respect of their services to the Company.

	2014	2013
	Number of Directors	Number of Directors
Directors accruing benefits under defined benefit scheme	2	3
Directors who exercised share options	-	3
Directors entitled to shares under long-term incentive schemes	-	3

	2014	2013
Highest paid director	£'000	£'000
Aggregate emoluments	1,049	888
Defined benefit pension scheme – accrued pension at end of year	4	38
Share options in Pearson plc exercised under long-term incentive scheme (number)	-	18,661

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

5

Employee information

	2014	2013
	£'000	£'000
Staff costs		
Wages and salaries	43,363	39,160
Social security costs	4,078	4,137
Other pension costs	8,413	8,659
Share-based payment costs	-	1,091
Severance	-	506
	55,854	53,553

	2014	2013
	Number	Number
Average monthly number of persons (including directors) employed by the Company during the year		
Production	113	102
Selling and distribution	119	108
Administration	206	217
Editorial	385	381
	823	808

6

Income from other fixed asset investments

	2014	2013
	£'000	£'000
Dividend from shares in group undertakings	7,900	200

In 2014 the Company received dividends of £4,400,000 from Ladybird Books Limited, £2,000,000 from Ventura Publishing Limited and £1,500,000 from Frederick Warne & Co Limited. Dividends received are settled through intercompany. In 2013 the Company received dividends of £128,689 from Penguin Books Benelux BV and £71,619 from Penguin Books (SA) Pty.

7

Net interest

	2014	2013
	£'000	£'000
Interest payable and similar charges	(54)	(56)
Bank interest receivable	180	277
Interest receivable and similar income	180	277
Net interest receivable	126	221

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

8

Tax on profit/(loss) on ordinary activities

	2014 £'000	2013 £'000
Current tax :		
UK corporation tax on profits for the year	5,281	1,884
Adjustments in respect of prior years	(436)	(128)
Double tax relief	-	(266)
	4,845	1,490
Overseas taxation	140	355
Total current tax	4,985	1,845
Deferred tax :		
Origination and reversal of timing differences	(19)	200
Deferred tax on share-based payments	-	437
Adjustments in respect of prior years	-	121
Total deferred tax	(19)	758
Tax charge on profit/(loss) on ordinary activities	4,966	2,603
UK standard effective rate of corporation tax (%)	21.50%	23.25%

The tax assessed for the year differs (2013: differs) from the standard effective rate of corporation tax in the UK as explained below :

	2014 £'000	2013 *Restated £'000
Profit/(loss) on ordinary activities before taxation	32,037	(1,052)
Profit on ordinary activities before taxation multiplied by UK standard effective rate 21.5% (2013: 23.25%)	6,888	(245)
Effects of:		
Excess of capital allowances over depreciation for the year	97	1,119
Other expenses not deductible for tax purposes	136	793
Other timing differences	150	(520)
Adjustments in respect of prior years	(436)	(128)
Double tax relief	-	(266)
Pensions	(261)	929
Share-based payments	-	254
Overseas withholding tax suffered	140	355
Tax Free Income	(1,729)	(446)
Current tax charge for the year	4,985	1,845

*See note 1 for details

The standard rate of corporation tax in the United Kingdom changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Company's profits are taxed at an effective rate of 21.5%. As a result of changes to the UK main corporation tax rate that were enacted during the year, the relevant deferred tax balances have been re-measured. The tax rate has fallen to 20% with effect from 1 April 2015.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

9

Dividends

	2014	2013	2014	2013
	pence	pence	£'000	£'000
Equity – Ordinary				
Dividends paid in the year	8,494	5,436	7,500	4,800

Dividends paid are settled through intercompany.

10

Tangible assets

	Land & Buildings	Plant & Machinery	Fixtures & Fittings	Total
	£'000	£'000	£'000	£'000
Cost or valuation :				
At 1 January 2014	219	31,005	16,754	47,978
Additions	-	794	-	794
Transfers	-	(1,289)	-	(1,289)
At 31 December 2014	219	30,510	16,754	47,483
Accumulated depreciation :				
At 1 January 2014	7	25,196	11,257	36,460
Charge for the year	14	2,753	757	3,524
At 31 December 2014	21	27,949	12,014	39,984
Net book value :				
At 31 December 2013	212	5,809	5,497	11,518
At 31 December 2014	198	2,561	4,740	7,499

11

Investments

		2014	2013
	Note	£'000	£'000
Subsidiary undertakings	11(a)	25,461	25,461
Associated undertakings	11(b)	-	-
		25,461	25,461

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

11(a)

Investments – subsidiary undertakings

	Total
	£'000
Cost :	
At 1 January 2014	33,231
Disposals	-
At 31 December 2014	33,231
Provision	
At 1 January 2014	7,770
Charge for the year	-
At 31 December 2014	7,770
Net book value :	
At 31 December 2013	25,461
At 31 December 2014	25,461

Details of subsidiary undertakings :

				2014	2013
Subsidiary	Principal activity	Class of shares held	Country of incorporation	% owned	% owned
Allen Lane The Penguin Press Limited	Dormant	Ordinary	UK	100	100
Frederick Warne & Co Limited; 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	Dormant	Ordinary	UK	100	100
Penguin Books Deutschland GmbH	Publishing & Distribution	Ordinary	Germany	100	100
The Rough Guides Limited	Publishing & Distribution	Ordinary	UK	100	100
Ventura Publishing Limited; owning	Merchandising	Ordinary	UK	100	100
Salspot Limited	Publishing & Distribution	Ordinary	UK	100	100
Ladybird Books Limited	Publishing & Distribution	Ordinary	UK	100	100
Snowman Enterprises Limited; owning	Publishing & Distribution	Ordinary	UK	100	100
Snowdog Enterprises Limited	Publishing & Distribution	Ordinary	UK	100	100
Children's Character Books Limited	Publishing & Distribution	Ordinary	UK	75	75
Penguin Books Hellas Limited	Publishing & Distribution	Ordinary	Greece	100	100

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 2014

11(b)

Investments – associated undertakings and joint ventures

	Total
	£'000
Cost :	
At 1 January 2014	1,567
Disposals	(1,567)
At 31 December 2014	-
Provision	
At 1 January 2014	1,567
Disposal	(1,567)
At 31 December 2014	-
Net book value :	
At 31 December 2013	-
At 31 December 2014	-

During the year, the company disposed of its 12% joint venture investment in Anobii Limited for £137,500.

12

Stocks

	2014	2013
	£'000	£'000
Raw materials and consumables	726	446
Work in progress	1,781	1,560
Finished goods and goods for resale	5,154	5,235
	7,661	7,241

13

Debtors

	2014	2013
	£'000	£'000
Amounts falling due within one year :		
Trade debtors	42,810	34,438
Amounts owed by group undertakings	138,282	112,756
Deferred taxation	3,148	3,074
Other debtors	9,225	17,089
Prepayments and accrued income	850	4,956
	194,315	172,313

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

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

14

Creditors

	2014	2013
	£'000	£'000
Amounts falling due within one year :		
Trade creditors	(46,936)	(47,935)
Amounts owed to group undertakings	(9,229)	(11,575)
Corporation tax	(5,791)	(1,123)
Other creditors	(12,127)	(13,150)
Accruals and deferred income	(33,657)	(23,996)
	(107,740)	(97,779)

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

Other creditors includes £1,260,000 (2013: £1,680,000) owed to T.V. Cartoons Limited for The Snowman Enterprises Limited investment. The remainder of the balance mainly consists of royalty accrual and freight costs.

15

Deferred taxation asset

	Other Timing Differences	Accelerated Capital Allowances	Total in Debtors (Note 13)	Pensions (Note 21)	Total
Asset	£'000	£'000	£'000	£'000	£'000
At 1 January 2014	483	2,591	3,074	188	3,262
Amounts charged to the profit & loss	(48)	122	74	(243)	(169)
Amounts charged to the STRGL	-	-	-	710	710
At 31 December 2014	435	2,713	3,148	655	3,803
				2014	2013
				£'000	£'000
Total deferred taxation asset				3,803	3,262

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

16

Called up share capital

	2014	2013
	£'000	£'000
Total share capital	88,300	88,300

	2014	2013	2014	2013
	No '000s	No '000s	£'000	£'000
Ordinary share £1 each				
Allotted and fully paid	88,300	88,300	88,300	88,300

17

Reserves

	Share premium account £'000	Profit & loss account £'000	Total £'000
At 1 January 2014 (*Restated)	1,139	28,437	29,576
Profit for the financial year	-	27,071	27,071
Deferred tax on actuarial loss	-	710	710
Dividend paid	-	(7,500)	(7,500)
Actuarial loss on pension scheme (note 21)	-	(188)	(188)
At 31 December 2014	1,139	48,530	49,669

*See note 1 for details

18

Reconciliation of movements in shareholders' funds

	2014	2013
	£'000	*Restated £'000
Profit/(loss) for the financial year	27,071	(3,655)
Dividends paid	(7,500)	(4,800)
Share-based payments	-	1,091
Deferred tax on actuarial loss	710	61
Actuarial loss on defined benefit pensions	(188)	(306)
	20,093	(7,609)
Opening shareholders' funds	117,876	125,485
Closing shareholders' funds	137,969	117,876

*See note 1 for details

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

19

Cash flow from operating activities

	2014	2013
	£'000	*Restated £'000
Operating profit	24,772	(1,964)
Depreciation charge	3,524	9,919
Pension (credit)/charge	(2,113)	3,114
Share-based payments charge	-	1,091
Increase in stocks	(420)	(63)
Increase in debtors	(20,503)	(52,911)
Increase/(decrease) in creditors	5,293	(13,840)
Net cash inflow/(outflow) from operating activities	10,553	(54,654)

*See note 1 for details

20

Operating lease commitments

	2014 Land & Buildings £'000s	2013 Land & Buildings £'000s	2014 Plant & Machinery £'000s	2013 Plant & Machinery £'000s
Expiring:				
Within one year	-	-	11	18
Between two and five years	2,892	-	16	71
In over five years	6,767	9,129	-	-
	9,659	9,129	27	89

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

21

Pension commitments

Penguin Random House – Penguin Pension Plan

The Penguin Pension Plan is a funded pension plan, with assets held in a separate trustee administered fund. It provides final salary benefits through the Final Pay and Penguin sections, and money purchase benefits with a defined benefit underpin through the Money Purchase Section.

It was established on 20 May 2013, following the announcement of the proposals to combine the global book publishing business of Pearson plc and Bertelsmann SE & Co KGaA by way of a Penguin Random House Limited joint venture. On 1 July 2013, the joint venture transaction completed. At this time, 731 members joined the Penguin Pension Plan (having previously been active members of the Final Pay, Penguin and Money Purchase 2003 sections of the Pearson Group Pension Plan and began to accrue future service benefits. Past service benefits for these members remained in the Pearson Group Pension Plan.

On 1 August 2013, a further group of 148 members (with past service benefits in the Final Pay, Penguin and Money Purchase 2003 Sections of the Pearson Group Pension Plan) joined the Penguin Pension Plan.

On 31 January 2014, Penguin Pension Trustee Limited, the trustee of the Penguin Pension Plan, entered into a money purchase pension transfer agreement with the trustee of the Pearson Group Pension Plan, to transfer the past service benefits of all members who were active members of the Money Purchase 2003 Section of the Pearson Group Pension Plan immediately before joining the plan. This included the defined benefit underpin to members' money purchase pots relating to "contracted-out" past service.

The Share of Fund and Shortfall amounts at 4 July 2014, which were transferred in respect of the Money Purchase Section, were calculated to be:

Share of fund	£1,847,000
Shortfall	£1,313,000

On 16 April 2014, the Trustees were notified by Pearson plc that they had decided to retain the past service liabilities (and therefore accrued benefits) for Final Pay and Penguin section members (pre 1 July 2013) within the Pearson Group Pension Plan rather than transferring them to the Penguin Pension Plan.

The major assumptions used by the actuary were:

	2014	2013
Principal actuarial assumptions:		
Retail price Inflation	3.1% pa	3.4% pa
Discount rate	3.6% pa	4.4% pa
Pension increases in payment*	3.0% pa	3.2% pa
General salary increases	2.6% pa	2.8% pa
Expected return on assets	n/a	2.8% pa
Life expectancy of male aged 65 in 2014	22	24
Life expectancy of male aged 65 in 2034	25	26

- * 3.0% pa (2013: 3.3% pa) for Final Pay Section
 3.6% pa (2013: 3.7% pa) for the Penguin Section and
 2.1% pa (2013: 2.2% pa) for the underpin of the Money Purchase Section

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

21

Pension commitments (continued)

The combined assets and liabilities of the Penguin Pension Plan and the expected rates of return on the assets were:

	2014 Long-term rate of return expected at %	2014 Value at £'000	2013 Long-term rate of return expected at %	2013 Value at £'000
Equities	n/a	24,490	7.40	1,292
Corporate bonds	n/a	7,441	3.20	45
Property	n/a	262	5.50	12
Diversified Growth Funds	n/a	2,728	6.70	70
Cash	n/a	1,558	1.30	1,637
Adjustment for expenses			-1.25	-
Total fair value of assets	n/a	36,479	2.80	3,056
Present value of scheme liabilities		(39,753)		(7,356)
Deficit in the schemes		(3,274)		(4,300)
Related deferred tax asset		655		188
Net pension liabilities		(2,619)		(4,112)

The related deferred tax asset has been calculated at 20%

	2014 £'000	2013 *Restated £'000
Movement in the present value of the defined benefit obligation		
At beginning of year	7,356	-
Current service cost	6,153	2,946
Interest cost	1,111	-
Member contributions	1,556	760
Actuarial loss on obligation	2,272	292
Benefits paid	(121)	(4)
Past service costs	(1,818)	3,362
Transfer	23,244	-
At end of year	39,753	7,356
Movement in the fair value of plan assets		
At beginning of year	3,056	-
Expected return on pension scheme assets	212	(692)
Actuarial gain / (loss)	2,084	(14)
Employer contributions	6,448	3,006
Member contributions	1,556	760
Benefits paid	(121)	(4)
Transfer	23,244	-
At end of year	36,479	3,056

*See note 1 for details

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

21

Pension commitments (continued)

	2014	2013
	£'000	*Restated £'000
Actual return on pension scheme assets	2,296	(706)
Amounts charged to profit and loss account		
Operating profit charge:		
Current service cost	6,153	2,946
Past service cost	(1,818)	3,362
	4,335	6,308
Finance (expense) / income:		
Expected return on pension scheme assets	212	(692)
Interest on pension scheme liabilities	(1,111)	-
	(899)	(692)

*See note 1 for details

	2014	2013
	£'000	*Restated £'000
Actuarial gain/(loss) recognised in the Statement of Total Recognised Gains and Losses ("STRGL"):		
Actual return less expected return on pension scheme assets	2,084	(14)
Experience gains and losses arising on the scheme liabilities	(2,272)	(292)
Actuarial loss recognised in STRGL	(188)	(306)
Cumulative actuarial losses reported in the Statement of Total Recognised Gains and Losses	(494)	(306)

*See note 1 for details

The Penguin Pension Plan was established in July 2013 for Penguin Books Limited employees who had previously earned benefits in the Pearson Group Pension Plan. The first full actuarial valuation at 30 June 2014 is currently underway. Until this has been finalised Penguin Books Limited has agreed to continue to contribute at the same rate as was previously agreed for future benefits in the Pearson Group Pension Plan. The total contributions expected to be made to the Plan by Penguin Books Limited in the year to 31 December 2015 are £6,100,000.

	2014	2013
	£'000	*Restated £'000
History of plan:		
Fair value of Plan assets	36,479	3,056
Value of Plan liabilities	(39,753)	(7,356)
Deficit in the scheme	(3,274)	(4,300)
Experience gains/ (losses) on scheme assets	2,070	(14)
Experience gains/(losses) on scheme liabilities	(2,564)	(292)

*See note 1 for details

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

22

Related party disclosure

The Company's immediate parent is Penguin Random House Limited ("PRHL"). PRHL is owned by Bertelsmann SE & Co KGaA (53%) and Pearson PRH Holdings Limited (47%). The Company's ultimate parent undertaking and controlling party is Bertelsmann SE & Co KGaA, which is incorporated in Germany, copies of whose consolidated financial statements (the smallest and largest financial statements in which the Company is consolidated) can be obtained from:

Bertelsmann SE & Co KGaA
Corporate Communications
Carl Bertelsmann Strasse 270
Postfach 111
D-33311 Gütersloh
Germany

The directors consider that there are no key managers, whose roles and activities within the Company define them as related parties in accordance with FRS 8 "Related party disclosures", outside the Board of Directors.

The remuneration of the directors is disclosed in Note 4 to the financial statements. Related party balances with fellow wholly-owned group undertakings are disclosed in Notes 13 and 14 to the financial statements.

The Company is wholly-owned by PRHL and, as such, has taken exemptions under the terms of FRS 8, 'Related party disclosures', from disclosing related party transactions with other wholly-owned subsidiaries of PRHL.

During the year the Company entered into the following transactions with related parties. The profit and loss amounts shown below represent transactions for the full year, except where otherwise stated.

	2014 £'000	2013 £'000
Sales		
Ikar, AS	-	15
Prisma Media Group	331	158
Book Club "Family Leisure Club"	36	9
Circulo de Lectores S.A	49	-
Random House LLC	127	15
Penguin Group (USA) LLC	35,249	22,228
Pearson Egitim Cozumleri TIC	(1)	240
Pearson Central Europe SP Z.O.O	(2)	19
Pearson Education Limited	13	198
Pearson Education North Asia Limited	16	53

Sales relate to sales of inventory.

	2014 £'000	2013 £'000
Cost of Sales		
GGP Media GmbH	56	-
Penguin Group (USA) LLC	1,213	-

	2014 £'000	2013 £'000
Other Operating Income		
Pearson Education Limited	242	505
Pearson Education Southern Africa	4	-
Pearson Education Inc	61	90

Other Operating Income relates to Royalty Income and income in respect of image rights.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

22

Related party disclosure (continued)

	2014	2013
Purchases	£'000	£'000
Mohn Media Mohndruck GmbH	1,354	1,494
Penguin Group (USA) LLC	990	1,594

Purchases relate to purchases of inventory.

	2014	2013
Distribution Expenses recovered	£'000	£'000
Pearson Education Limited	9,612	4,261

Pearson Education Limited's share of the distribution expenses arising from the Rugby Distribution Centre.

	2014	2013
Administration Expenses recovered	£'000	£'000
Pearson Education Limited	900	477

Pearson Education Limited's share of the administration expenses arising from the Rugby Distribution Centre.

	2014	2013
Administrative Expenses: Management Fee	£'000	£'000
Pearson Shared Services Limited	-	5,687

	2014	2013
Administrative Expenses: Other External Charges*	£'000	£'000
Pearson Shared Services Limited	33,506	33,677

	2014	2013
Interest Receivable	£'000	£'000
Penguin Random House Limited	173	23

	2014	2013
Dividend Paid	£'000	£'000
Penguin Random House Limited	7,500	-

	£'000	£'000
Debtors		
Ikar, AS	-	5
Prisma Media Group	29	14
Penguin Random House Limited	63,393	49,499
Penguin Random House LLC	3,420	1,138
Pearson Education Limited	358	2,523
Pearson Egitim Cozumleri TIC	-	8
Pearson Central Europe SP Z.O.O	-	2
Pearson Malaysia SDN BHD	2	1
Pearson North Asia Limited	9	3
Pearson Education Southern Africa	4	-
Pearson Education France	8	-
Pearson Education Inc	83	175

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2014

22

Related party disclosure (continued)

	2014	2013
Creditors	£'000	£'000
Mohn Media Mohndruck GmbH	325	294
Pearson Shared Services Limited	4,361	6,644
Pearson Education Do Brasil LTDA	-	35
Penguin Random House LLC	819	698
Pearson Egitim Cozumleri TIC	5	-

* Pearson charges are paid by Penguin Books Limited and subsequently recharged to other Penguin companies