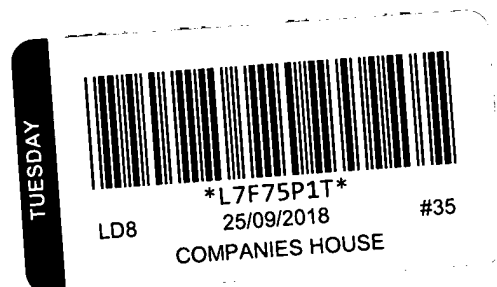


Penguin Books Limited
Registered Number:

00861590

Annual Report
For the Year Ended:

31 December 2017



Penguin Books Limited
For the year ended 31 December 2017

STRATEGIC REPORT

The directors present their Strategic Report of Penguin Books Limited ("the company") for the year ended 31 December 2017.

Principal activities

The company is a subsidiary of Penguin Random House Limited, a company registered in England and Wales. The company is UK domiciled and registered in England and Wales. The principal activity of the company continues to be book publishing.

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 75% by Bertelsmann SE & Co KGaA and 25% by Pearson plc. Operating profit for 2017 was £35,243,000 compared to the previous year of £37,384,000.

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 £194,535,000 (2016: £185,893,000);

Principal Risks and Uncertainties

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

General

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

On Behalf of the Board



Mark Gardiner
Director

30 July 2018

Penguin Books Limited
For the year ended 31 December 2017

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Penguin Books Limited ("the company") for the year ended 31 December 2017.

Future outlook and development

Looking ahead, the market remains challenging and the economic backdrop remains similarly tough. Nonetheless the company will continue to seek suitable publishing opportunities to ensure growth. The directors do not anticipate any significant changes in the activities of the company.

Dividends

Dividends of £34,000,000 (2016: nil) were paid in 2017. The company paid the final dividend of £30,000,000 (2016: nil) on 28 March 2018.

Financial instruments

It is the company's policy to implement financial risk management objectives and policies for each major type of transaction. The directors consider the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk as not significant.

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

Michael Symons	Resigned on 31 January 2017
Thomas Weldon	
Mark Gardiner	
Robert Waddington	Appointed on 31 January 2017
Markus Dohle	Appointed on 1 January 2017

Events after the end of the reporting period

Please refer to note 25 in the financial statements for details of the events after the end of the reporting period.

Employees

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its prosperity.

The company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the company's progress. The company operates a pension scheme for which all employees are eligible.

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or sexual orientation. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Penguin Books Limited
For the year ended 31 December 2017

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, comprising Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and applicable law.)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their appointment will be proposed at the Annual General Meeting.

On behalf of the Board



Mark Gardiner
Director

30 July 2018

Penguin Books Limited
For the year ended:
31 December 2017

Independent auditors' report to the members of Penguin Books Limited

Report on the audit of the financial statements

Opinion

In our opinion, Penguin Books Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2017; the Income Statement and Statement of Comprehensive Income for the year then ended, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

Independent auditors' report to the members of Penguin Books Limited (Continued)

Reporting on other information (Continued)

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of the directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Penguin Books Limited
For the year ended:
31 December 2017

Independent auditors' report to the members of Penguin Books Limited (Continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

30 July 2018

Penguin Books Limited

INCOME STATEMENT

For the year ended:

31 December 2017

	Note	2017 £'000	Restated 2016 £'000
Turnover	5	194,535	185,893
Cost of sales		(89,073)	(83,616)
Gross profit		105,462	102,277
Distribution costs		(17,203)	(15,955)
Administrative expenses		(83,549)	(62,860)
Other operating income		30,533	13,922
Operating profit	6	35,243	37,384
Income from investments in subsidiaries	9	5,061	2,788
Impairment charge on investment in subsidiaries	10	(3,894)	(20,854)
Gain on sale of investment		500	-
Profit on ordinary activities before interest and taxation		36,910	19,318
Interest receivable and similar income	11	257	516
Profit on ordinary activities before taxation		37,167	19,834
Tax charge on profit on ordinary activities	12	(7,139)	(7,574)
Profit for the financial year		30,028	12,260

Prior year balances have been restated to present them in conformity with the current year treatment. The impact was to increase 2016 other operating income and administrative expenses by £13.9m.

The notes on pages 10 to 30 are an integral part of these financial statements.

Penguin Books Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended:

31 December 2017

		2017	2016
	Note	£'000	£'000
Profit for the financial year		30,028	12,260
Other comprehensive income / (expense): items that will not be reclassified to profit or loss			
Actuarial gain / (loss) on pension scheme	21	3,047	(4,552)
Movement on deferred tax relating to pension (gain) / deficit	12	(474)	864
Other comprehensive income / (expense) for the year, net of tax		2,573	(3,688)
Total comprehensive income for the year		32,601	8,572

Penguin Books Limited

BALANCE SHEET

As at:

31 December 2017

	Note	2017 £'000	Restated* 2016 £'000
Fixed assets			
Intangible assets	14a	576	652
Tangible assets	14b	1,366	2,511
Investments	15	15,569	18,569
Deferred tax assets	16	2,541	3,647
		20,052	25,379
Current assets			
Stocks	17	13,074	7,106
Debtors	18	180,284	160,816
Cash at bank and in hand		724	3,640
		194,082	171,562
Creditors: amounts falling due within one year	19a	(82,997)	(61,808)
Net current assets		111,085	109,754
Total assets less current liabilities		131,137	135,133
Creditors: amounts falling due after more than one year	19b	(1,125)	(919)
Provisions for other liabilities and charges	20	(9,144)	(9,488)
Pension deficit	21	(323)	(2,782)
Net assets		120,545	121,944
Equity			
Called up share capital	22	88,300	88,300
Share premium account		1,139	1,139
Retained earnings		31,106	32,505
Total shareholders' funds		120,545	121,944

*Prior year balances have been restated to present them in conformity with the current year treatment. The impact was to increase 2016 creditors falling due after more than one year and decrease creditors falling due within one year by £919,000.

The notes on pages 10 to 30 are an integral part of these financial statements.

The financial statements on pages 7 to 30 were approved by the board of directors on ³⁰ July 2018 and were signed on its behalf by :



Mark Gardiner
Director
Penguin Books Limited
Registered no: 00861590

Penguin Books Limited

STATEMENT OF CHANGES IN EQUITY
For the Year Ended:
31 December 2017

	Note	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total shareholders' funds £'000
At 1 January 2016		88,300	1,139	25,131	114,570
Changes in equity 2016					
Profit for the financial year		-	-	12,260	12,260
Pension remeasurement		-	-	(4,552)	(4,552)
Deferred tax on pensions		-	-	864	864
Prior year adjustment		-	-	(1,198)	(1,198)
At 1 January 2017		88,300	1,139	32,505	121,944
Changes in equity 2017					
Dividends	13	-	-	(34,000)	(34,000)
Profit for the financial year		-	-	30,028	30,028
Pension remeasurement		-	-	3,047	3,047
Deferred tax on pensions		-	-	(474)	(474)
At 31 December 2017		88,300	1,139	31,106	120,545

The notes on pages 10 to 30 are an integral part of these financial statements.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS

**For the year ended:
31 December 2017**

1

GENERAL INFORMATION

Penguin Books Limited is a book publisher. The company sells its books globally with the majority of the sales in the UK. The company is a private company limited by shares and is incorporated in England and Wales. The address of its registered office is 80 Strand, London, WC2R 0RL.

2

STATEMENT OF COMPLIANCE

The individual financial statements of Penguin Books Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation of financial statements

These financial statements are prepared on a going concern basis, under the historical cost convention. The company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare group financial statements as it is included in the consolidated financial statements of Bertelsmann SE & Co KGaA, which are publicly available. These financial statements present information about the company as an individual undertaking and not about the group.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1 'Presentation of financial statements'
 - paragraph 73(e) of IAS 16 'Property, plant & equipment'
 - paragraph 118(e) of IAS 38 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period)
- The following paragraphs of IAS1 'Presentation of financial statements':
 - 10(d) (statement of cash flows)
 - 38A (requirement for minimum of two primary statements, including cash flow statements)
 - 38B-D (additional comparative information)
 - 111 (cash flow statement information)
 - 134-136 (capital management disclosures)
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation of financial statements (Continued)

- 101p8(j) & Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- 101p8(k) & The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate in light of the company's current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements.

New standards, amendments and IFRIC interpretations

No new accounting standards or amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2017 have had a material impact on the company.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax, rebates, trade marketing costs and discounts. Turnover from the sale of books is recognised when 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 sub rights

Fees charged for the use of rights granted by the agreement and related services are recognised as turnover as the rights are used and the right to receive payment is established.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Employee benefits

The company operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

Pension obligations

The company operates a defined contribution plan for certain employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

The company also operates a defined benefit plan to certain employees. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past-service costs are recognised immediately in the income statement.

For defined contribution plans, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investments

Investments are stated at cost and a provision is made for impairment. At the year-end management reviewed the investments in order to determine whether there was any objective evidence present that in accordance with IAS 36 would lead to impairment.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of four years. Amortisation expense is charged to the income statement.

(i) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Tangible assets

Tangible 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; and
- Leasehold buildings are depreciated over the period of the lease.

Leased assets

Leases that do not transfer all the risks and rewards of ownership are classified in the financial statements as operating leases. Payments under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Impairment of non-financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which they are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date, if there have been favourable events or changes in circumstances, since the impairment loss was recognised that would indicate that the impairment loss no longer exists or might have decreased.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

3

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Stocks

Stocks mainly comprise finished goods and work in progress in respect of books, and are stated at the lower of cost and net realisable value. Cost is determined using FIFO method. Cost includes the costs of paper, printing and binding incurred on a title by title basis. Plant costs, which do not vary with the number of copies printed (for example typesetting, origination and illustration), are charged to the income statement in full on publication. Provision is made for obsolete and slow moving stocks. Net realisable value is estimated selling price in the ordinary course of business less applicable variable selling expenses.

Royalty advances

Advances of royalties to authors are recognised once a contract is approved within the royalty system, less any provision required to adjust the advance to its net realisable value. For unpublished titles, the contracts are assessed at key points within the year, to determine whether the value of a title is diminished from its original acquisition value. These titles are reassessed each year until publication occurs. For published titles, the company assesses the difference between the advance payable and the projected royalty earnings and sub rights income at the point of publication. All titles are reassessed at various times throughout the years following publication. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned.

Financial Assets

The company classifies its financial assets as loans and receivables. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred subsequently all risks and rewards of ownership

Trade debtors and amounts owed by group undertakings

Trade debtors and amounts owed by group undertakings are stated at amortised cost after provision for bad and doubtful debts 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.

Trade creditors and amounts owed to group undertakings

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

Provisions

Provisions for restructuring costs are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probably that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Recharge income

The company recharge administrative, distribution and other operating expenses incurred on behalf of other group undertakings as a management charge. The management charge comprises of certain fixed costs and the allocation of expenses calculated using specific percentages within a recharge model and recognised as other operating income.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates, underlying assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable and relevant under the circumstances.

Key accounting estimates and assumptions

(i) Advances

Advances of royalties to authors are recognised 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. Royalty advances are included in 'Other debtors', see note 18 for reference.

(ii) Provisions

Other provisions include provisions arising in the ordinary course of business, such as provisions relating to property and legal matters.

(iii) Impairment of trade and other receivables

The company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the debtor, the ageing profile of receivables and historical experience. See note 18 for the net carrying amount of the receivables and associated impairment provision.

(iv) Inventories provisioning

The company publishes books and is subject to changing customer demands. As a result it is necessary to consider the recoverability of the cost of inventories. When calculating the inventories provision, management considers the ageing of the inventories as well as predicted future sales based on historical sales data by publishing imprint. See note 17 for the net carrying amount of the inventory and associated provision.

(v) Returns provisioning

The company has agreements in place to allow customers to return books. As a result the company makes an estimate of future returns based on historic data, the ageing of sales and business experience. See note 18 for details of the returns provision.

(vi) Defined benefit scheme

The company has obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors including life expectancy, salary increases, asset valuations and the discount rate on corporation bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures of the defined benefit pension scheme.

(viii) Impairment of Investments

Investments in subsidiary companies are held at cost less accumulated impairment losses. The company tests annually whether investments have suffered any impairment, with the carrying amount being written down for any impairment highlighted.

The company uses budgeted profits, projected cash flows and weighted average cost of capital in order to determine whether any impairment is required. See note 15 for the carrying amount of investments and associated provision.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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TURNOVER

	2017	2016
	£'000	£'000
Geographical markets supplied by origin		
United Kingdom and The Republic of Ireland	129,356	122,706
Rest of the World	65,179	63,187
	194,535	185,893

Turnover includes supplies made to geographical locations worldwide. The products sold, means of selling and commercial terms are similar across the various markets and, in the opinion of the directors, the geographical markets supplied are not substantially different from each other.

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

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OPERATING PROFIT

	2017	2016
	£'000	£'000
Operating profit is stated after (crediting)/charging:		
Impairment of trade receivables	(3,718)	(1,596)
Impairment of inventory	1,004	(1,062)
Personnel costs		
- Wages and salaries	23,062	18,256
- Social security costs	2,449	1,891
- Other pension costs	3,306	5,448
Operating lease charges	10,741	9,968
Foreign exchange loss / (gain)	86	(819)
Auditors' remuneration:		
- Statutory audit	294	294

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 2017 of £30,534,000 were recharged back to the associate group companies as a management charge (2016: £13,922,000).

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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DIRECTORS

	2017	2016
	£'000	£'000
Aggregate emoluments	649	697
Amounts receivable under long term incentives	27	126
Company pension contributions to money purchase schemes	50	34

	2017	2016
	£'000	£'000
Highest paid director		
Emoluments	414	407
Amount receivable under long term incentives	-	-
Defined benefit pension scheme – accrued pension at end of year	12	3

Two directors were paid by Penguin Books Limited and the other directors are paid by other companies as follows:

Director	Paid by
T Weldon	Penguin Books Limited
M Gardiner	The Random House Group Limited
M Symons	Penguin Books Limited
R Waddington	The Random House Group Limited
M Dohle	Penguin Random House LLC

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EMPLOYEE INFORMATION

	2017	2016
Average monthly number of persons (including directors) employed by the company during the year	Number	Number
Production	55	44
Selling and distribution	225	222
Administration	96	83
Editorial	159	173
	535	522

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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INCOME FROM OTHER INVESTMENTS IN SUBSIDIARIES

	2017	2016
	£'000	£'000
Dividend from shares in group undertakings	5,061	2,788

In 2017 the company received dividends of £2,000,000 (2016: £1,700,000) from Frederick Warne and Co Limited, £2,000,000 (2016: nil) from Ladybird Books Limited, £61,000 (2016: £88,000) from Penguin Books Deutschland GmbH, £500,000 (2016: £500,000) from Ventura Publishing Limited and £500,000 (2016: £500,000) from Snowman Publishing Limited.

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IMPAIRMENT CHARGES ON INVESTMENT IN SUBSIDIARIES

	2017	2016
	£'000	£'000
The Rough Guides Limited	894	19,000
Snowman Enterprises Limited	1,500	-
Ventura Publishing Limited	1,500	1,854
	3,894	20,854

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INTEREST RECEIVABLE AND SIMILAR INCOME

	2017	2016
	£'000	£'000
Pension Scheme interest receivable	3	174
Interest on borrowings to group undertakings	222	342
Other interest receivable	32	-
	257	516

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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TAX ON PROFIT

	2017	2016
	£'000	£'000
Current tax :		
UK corporation tax on profits for the year	6,969	7,255
Adjustments in respect of prior years	(491)	(265)
	6,478	6,990
Overseas taxation	280	598
Double tax relief	(252)	(186)
Total current tax	6,506	7,402
Deferred tax :		
Origination and reversal of timing differences	391	517
Adjustments in respect of prior years	242	(345)
Total deferred tax	633	172
Tax charge on profit on ordinary activities	7,139	7,574
UK standard effective rate of corporation tax (%)	19.25%	20%

Tax included in Other Comprehensive Income

	2017	2016
	£'000	£'000
Deferred tax on pension remeasurement	(474)	864

The tax assessed for the year differs (2016: differs) from the standard effective rate of corporation tax in the UK as explained below :

	2017	2016
	£'000	£'000
Profit on ordinary activities before taxation	37,167	19,834
Profit on ordinary activities before taxation multiplied by UK standard effective rate 19.25% (2016: 20%)	7,155	4,016
Effects of:		
Expenses not deductible for tax purposes	961	4,342
Deferred tax rate differences	314	(27)
Adjustments in respect of prior years	(249)	(610)
Overseas withholding tax suffered	28	412
Income exempt from taxation	(1,070)	(559)
Total tax charge for the year	7,139	7,574

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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TAX ON PROFIT (continued)

The standard rate of corporation tax in the United Kingdom changed from 20% to 19% with effect from 1 April 2017. Accordingly the company's profits are taxed at an effective rate of 19.25% (2016: 20%).

The tax rate will reduce to 17% with effect from 1 April 2020. Accordingly deferred tax has been provided at 17%.

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DIVIDENDS

	2017	2016	2017	2016
	pence	pence	£'000	£'000
Equity – Ordinary				
Dividends paid in the year	0.385	-	34,000	-

Dividends paid are settled through intercompany. In addition, the directors proposed a final dividend in respect of the financial year ended 31 December 2017 of []p per share which will absorb an estimated £30m of shareholders' funds. It has been paid on 28 March 2018 to shareholders.

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INTANGIBLE ASSETS

	Software	Total
	£'000	£'000
Cost:		
At 1 January 2017	12,834	12,834
At 31 December 2017	12,834	12,834
Accumulated amortisation and impairment :		
At 1 January 2017	12,182	12,182
Charge for the year	76	76
At 31 December 2017	12,258	12,258
Net book amount :		
At 31 December 2016	652	652
At 31 December 2017	576	576

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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TANGIBLE ASSETS

	Land & Buildings	Plant & Machinery	Fixtures & Fittings	Total
	£'000	£'000	£'000	£'000
Cost or valuation :				
At 1 January 2017	219	14,740	7,807	22,766
Additions	-	48	-	48
At 31 December 2017	219	14,788	7,807	22,814
Accumulated depreciation :				
At 1 January 2017	186	13,428	6,641	20,255
Charge for the year	14	566	613	1,193
At 31 December 2017	200	13,994	7,254	21,448
Net book value :				
At 31 December 2016	33	1,312	1,166	2,511
At 31 December 2017	19	794	553	1,366

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INVESTMENTS

Investments – subsidiary undertakings	Total
	£'000
Cost :	
At 1 January 2017 - restated	54,152
Additions	894
Disposals	(24,932)
At 31 December 2017	30,114
Accumulated impairment	
At 1 January 2017 - restated	35,583
Charge for the year	3,894
Disposals	(24,932)
At 31 December 2017	14,545
Net book value :	
At 31 December 2016	18,569
At 31 December 2017	15,569

The cost and accumulated impairment balances as at 1 January 2017 have been restated for the investment in Children's Character Books Limited. The impact is to increase the 2016 cost and accumulated impairment balances by £1,921,000, with no change to the net book value as at 31 December 2016.

During the year the company increased its investment in The Rough Guides Limited by £894,000, which did not change the percentage of ownership any further. On the 31 October 2017, the company sold its entire investment in The Rough Guides Limited to an independent third party for consideration of £500,000. The investment in The Rough Guides Limited had been fully impaired before disposal so a profit on disposal of £500,000 has been recognised in the income statement.

An impairment test was carried out in accordance with International Accounting Standard 36. The carrying amount and the equity value of each investment have been compared to ascertain if impairment is necessary. Impairment charges were recorded in the year in respect of the investments in Snowman Enterprises Limited and Ventura Publishing Limited of £1,500,000 each, in addition to £894,000 for The Rough Guides Limited referred to above.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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INVESTMENTS (continued)

Details of subsidiary undertakings :

Subsidiary	Principal activity	Class of shares held	Country of incorporation	2017	2016
				% owned	% owned
Allen Lane The Penguin Press Limited	Dormant	Ordinary	UK	100	100
Frederick Warne & Co Limited	Publishing	Ordinary	UK	100	100
Michael Joseph Limited	Dormant	Ordinary	UK	100	100
Hamish Hamilton Limited	Dormant	Ordinary	UK	100	100
Penguin Books Deutschland GmbH	Publishing & Distribution	Ordinary	Germany	100	100
Ventura Publishing Limited	Publishing	Ordinary	UK	100	100
Ladybird Books Limited	Publishing	Ordinary	UK	100	100
Snowman Enterprises Limited	Media rights	Ordinary	UK	100	100
Children's Character Books Limited	Publishing	Ordinary	UK	75	75

The Registered Office addresses of the subsidiary undertakings are as follows:

Allen Lane The Penguin Press Limited – 80 Strand, London, WC2R 0RL

Frederick Warne & Co Limited – 80 Strand, London, WC2R 0RL

Michael Joseph Limited – 80 Strand, London, WC2R 0RL

Hamish Hamilton Limited – 80 Strand, London, WC2R 0RL

Penguin Books Deutschland GmbH – Myliusstrasse 9, Frankfurt, 60323

Ventura Publishing Limited – 80 Strand, London, WC2R 0RL

Ladybird Books Limited – 80 Strand, London, WC2R 0RL

Snowman Enterprises Limited – 80 Strand, London, WC2R 0RL

Children's Character Books Limited – 80 Strand, London, WC2R 0RL

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 2017

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DEFERRED TAX ASSETS

	Provisions	Property Plant & Equipment	Pensions (Note 21)	Total
Asset	£'000	£'000	£'000	£'000
At 1 January 2017	1,018	2,100	529	3,647
Amounts charged to the income statement	105	(167)	-	(62)
Amounts charged to statement of comprehensive income	-	-	(418)	(418)
Prior year adjustment	(150)	(92)	-	(242)
Change in tax rate	(107)	(221)	(56)	(384)
At 31 December 2017	866	1,620	55	2,541

	Provisions	Property Plant & Equipment	Pensions (Note 21)	Total
Asset	£'000	£'000	£'000	£'000
At 1 January 2016	958	2,340	(212)	3,086
Amounts charged to the income statement	60	(240)	9	(171)
Amounts charged to statement of comprehensive income	-	-	864	864
Prior year adjustment	-	-	(132)	(132)
At 31 December 2016	1,018	2,100	529	3,647

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STOCKS

	2017	2016
	£'000	£'000
Raw materials and consumables	1,039	1,322
Work in progress	3,546	1,303
Finished goods	8,489	4,481
	13,074	7,106

As of 31 December 2017, total stock balance of £16.2m (2016: £9.2m) were reviewed for impairment. The amount of the provision was £3.1m (2016: £2.1m) as at 31 December 2017, and mainly relates to slow moving stock.

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DEBTORS

	2017	Restated* 2016
Amounts falling due within one year :	£'000	£'000
Trade debtors	5,026	38,746
Amounts owed by group undertakings	164,395	116,150
Other debtors	9,026	4,766
Prepayments and accrued income	1,837	1,154
	180,284	160,816

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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DEBTORS (continued)

*Certain prior year balances have been restated to present them in conformity with the current year treatment. The impact was to reduce 2016 amounts owed by group undertakings and increase other debtors by £268,000.

Amounts owed by group undertakings are unsecured and repayable on demand. Other debtors include author advances. Included within this is £76.5m (2016: £79.8m) in respect of cash pooling agreements with the company's parent entity, Penguin Random House Limited. These amounts incur interest on a monthly basis; the average interest rate for the year was 2.84% (2016: 3.03%).

As of 31 December 2017, author advances of £17.0m (2016: £14.2m) were reviewed for impairment. The amount of the provision was £9.4m (2016: £9.0m). The net carrying values are included in other debtors.

Following the implementation of a new sales order processing system from 1 August 2017, trade debtor balances are now held with the group company The Book Service Limited ("TBS") with a corresponding balance included in amounts owed by group undertakings. As of 31 December 2017, amounts owed by TBS are stated after provision for impairment of £4.3m and returns of £12.7m. In 2016 trade debtors are stated after provisions for impairment of £8.0m and returns of £16.2m.

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(a) CREDITORS

	2017	Restated* 2016
Amounts falling due within one year :	£'000	£'000
Trade creditors	27,997	28,838
Amounts owed to group undertakings	28,481	7,619
Corporation tax	6,718	6,893
Other creditors	3,965	6,463
Accruals and deferred income	15,836	11,995
	82,997	61,808

Prior year balances have been restated to present them in conformity with the current year treatment. The impact was to increase 2016 creditors falling due after more than one year and decrease creditors falling due within one year by £919,000.

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

Other creditors includes nil (2016: £420,000) 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.

	2017	Restated* 2016
(b) CREDITORS		
Amounts falling due after more one year and less than 5 years :	£'000	£'000
Trade creditors	1,125	919

Prior year balances have been restated to present them in conformity with the current year treatment. The impact was to increase 2016 creditors falling due after more than one year and decrease creditors falling due within one year by £919,000.

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PROVISION FOR OTHER LIABILITIES AND CHARGES

Provision for other liabilities and charges comprise of provisions for dilapidation costs of £3,369,000 (2016: £1,850,000) and an onerous lease provision of £2,548,000 (2016: £7,638,000) following the expected closure of the Rugby Distribution Centre. The balance also includes an onerous lease provision of £3,227,000 (2016: nil) for the expected relocation from the Strand offices.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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POST-EMPLOYMENT BENEFITS

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.

The Penguin Pension Plan was established in July 2013 for the company employees who had previously earned benefits in the Pearson Group Pension Plan. The first full actuarial valuation of the Penguin Pension Plan at 30 June 2015 was completed on 30 September 2016.

The risks of the scheme are as follows:

a) Investment Strategy

The plan liabilities are calculated using a discount rate set with reference to gilt yields, but the plan assets include return-seeking and other assets; if the plan assets underperform this yield, this will create a deficit.

b) Gilt Yields

Asset values and plan liabilities do not move in line as a result of changes in the yields available on fixed interest and index-linked gilts. This may arise because of a mismatch between the plan's holding in gilts and its liabilities in terms of their nature (ie fixed or inflation-linked) and/or their duration.

c) Life Expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

d) Inflation Risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities.

A comprehensive actuarial valuation of the company pension scheme, using the projected unit basis, was carried out at 31 December 2017 by Lane Clark & Peacock LLP, independent consulting actuaries. Adjustments to the valuation at that date have been made based on the following assumptions:

	2017	2016
Expected rate of salary increases	2.7%	2.8%
Expected rate of increase of pensions in payment *	3.0%	2.5%
Discount rate	2.5%	2.6%
Rate of inflation	2.2%	2.3%

- * 3.1% pa (2016: 3.1% pa) for Final Pay Section
3.7% pa (2016: 3.7% pa) for the Penguin Section and
2.2% pa (2016: 2.3% pa) for the underpin of the Money Purchase Section

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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POST-EMPLOYMENT BENEFITS (continued)

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into a life expectancy for a male aged 65 as follows:

	2017	2016
Current age 65	87.6	88.1
Current age 45	89.2	90.2

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2017	59,993	(62,775)	(2,782)
Benefits paid	(720)	720	-
Employer contributions	4,600	-	4,600
Employee contributions	1,436	(1,436)	-
Current service cost	-	(5,191)	(5,191)
Interest income / (expense)	1,628	(1,625)	3
Gain from change in demographic assumptions	-	1,196	1,196
Gain from change in financial assumptions	-	357	357
Loss from experience adjustments	-	(4,641)	(4,641)
Return on plan assets, excluding amounts included in interest expense	6,135	-	6,135
At 31 December 2017	73,072	(73,395)	(323)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.10%	Decrease by 9.4%	Increase by 10.9%
Salary growth rate	(0.10%)	Increase by 1.6%	Decrease by 1.6%
Pension growth rate	0.50%	Increase by 4.3%	Decrease by 3.8%
	Increase or decrease by		
Life expectancy	1 year	Increase by 4.1%	Decrease by 4.1%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

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POST-EMPLOYMENT BENEFITS (continued)

Total cost recognised as an expense:

	2017 £'000	2016 £'000
Current service cost	(5,191)	(4,763)
Interest cost	(1,625)	(1,691)
	(6,816)	(6,454)

The fair value of the plan assets was:

	2017 £'000	2016 £'000
Equity instruments	55,128	43,092
Bonds	13,209	11,821
Property	443	358
Cash and cash equivalents	807	785
Investment funds	3,485	3,937
	73,072	59,993

The return on the plan assets was:

	2017 £'000	2016 £'000
Interest income	1,628	1,865
Re-measurements	6,135	6,922
Total return on plan assets	7,763	8,787

Defined contribution scheme

Following the closure of the defined benefit scheme to new entrants, the company provided a defined contribution scheme for its employees, administered by Capita. The defined contribution scheme was replaced in March 2016 by a money purchase scheme administered by Aviva.

The amount recognised as an expense for the defined contribution & money purchase schemes was:

	2017 £'000	2016 £'000
Current year contributions	2,232	2,262

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CALLED UP SHARE CAPITAL

	2017 No. '000	2016 No. '000	2017 £'000	2016 £'000
Ordinary share £1 each				
Allotted and fully paid	88,300	88,300	88,300	88,300

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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OPERATING LEASE COMMITMENTS

	2017 Land & Buildings £'000s	2016 Land & Buildings £'000s	2017 Plant & Machinery £'000s	2016 Plant & Machinery £'000s
Future minimum operating lease payments:				
Within one year	10,741	9,968	86	79
Between two and five years	12,336	21,989	67	134
	23,077	31,957	153	213

There are commitments to authors for the payment of royalty advances amounting to £5,624,000 at 31 December 2017 (2016: £4,137,000). Together with the advances already paid these will be charged against sales of future accounting periods as the books are published.

There were no contracted capital commitments outstanding at 31 December 2017 (2016: Nil).

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CONTINGENT LIABILITIES

The company has given a guarantee in respect of a lease agreement dated 14 December 2017 entered into by fellow subsidiary companies of the company's immediate parent company Penguin Random House Limited. The access date under the lease agreement is 1 July 2019 so it is not practical to state the timing or amount of any possible payments. As any future payments are possible, but not probable, no provision for any liability has been made in these financial statements.

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EVENTS AFTER THE END OF THE REPORTING PERIOD

On 27 June 2018, the company acquired the entire issued share capital of Hinds Pocket Books Private Limited, a private company incorporated and registered in India. The purchase price paid by the company was Rs.103,608,890 equivalent to £1,148,918.

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RELATED PARTY DISCLOSURE

The company's immediate parent is Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann SE & Co KGaA (75%) and Pearson PRH Holdings Limited (25%). 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:

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

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RELATED PARTY DISCLOSURE (continued)

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

The company is wholly-owned by PRHL and, as such, has taken exemptions under the terms of Financial Reporting Standard 101, 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 not wholly owned by PRHL.

Sales	2017 £'000	2016 £'000
Ikar, AS	8	10
Pearson College	-	1
Pearson South Africa	-	11
Pearson Education North Asia Limited	-	14
Penguin Random House Group Spain	-	24

Cost of Sales	2017 £'000	2016 £'000
GGP Media GmbH	30	82

Other Operating Income	2017 £'000	2016 £'000
Pearson Education Limited	13,298	11,590
Pearson Education Southern Africa	-	1
Pearson Education Inc	1	21
Pearson Management Services	-	89
Pearson Shared Services	-	39

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

Purchases	2017 £'000	2016 £'000
Mohn Media Mohndruck GmbH	148	1,555
Penguin Group (USA) LLC	1,255	201
Penguin Books SA	-	39

Purchases relate to purchases of inventory.

Penguin Books Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended:

31 December 2017

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RELATED PARTY DISCLOSURE (continued)

	2017	2016
	£'000	£'000
Administrative Expenses: Management Fee		
Pearson Shared Services Limited	-	505

	2017	2016
	£'000	£'000
Administrative Expenses: Other External Charges*		
Pearson Shared Services Limited	19,157	12,884

	2017	2016
	£'000	£'000
Debtors		
Ikar, AS	-	22
Pearson Education Limited	4,149	1,196
Penguin Random House South Africa	355	-
Pearson PLC	11	22
Circulo de Lectores S.A	-	21
Pearson Egitim Cozumleri TIC	-	34
Pearson Shared Services	4	4
Penguin Books Germany	61	-

	2017	2016
	£'000	£'000
Creditors		
Mohn Media Mohndruck GmbH	-	19
Pearson Education Inc	-	162
Penguin Random House Canada	3	16
Penguin Random House New Zealand	134	-
Penguin Random House Australia	519	-
Penguin Random House LLC	270	394
Penguin Random House SA	49	24
Penguin Books Deutschland GMBH	13	3
Penguin Books SA	39	14
GGP Media	-	7
Pearson Education Canada	-	14

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