REGISTERED NUMBER: 01177822

DORLING KINDERSLEY LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

DORLING KINDERSLEY LIMITED

STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their Strategic Report for Dorling Kindersley Limited ("the company" or "DK") for the year ended 31 December 2018.

Principal activities
The company is a subsidiary of Penguin Random House Limited ("PRHL"), a company owned 75% by Bertelsmann SE & Co KGaA and 25% by Pearson plc and registered in England and Wales. The company is UK domiciled and registered in England and Wales. The principal activity of the company continues being a global publisher of illustrated reference content and travel information across a range of platforms in print and digital.

Review of the business
The results and financial position of the company are set out in the attached financial statements. The company made an operating loss for the year of £3,708,000 (2017: £11,913,000).

The balance sheet on page 9 of the financial statements shows the company's financial position at the end of the year.

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

- Turnover was £115,129,000 (2017: £113,248,000).

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

P Kelly

P KELLY
Director

27 June 2019

DORLING KINDERSLEY LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and audited financial statements of the company for the year ended 31 December 2018.

Future developments
Looking ahead, the market remains challenging and the economic backdrop remains similarly tough. The company will continue to create and publish reference content as books, both physically and digitally. The directors do not anticipate any significant changes in the activities of the company.

Dividends
No interim dividend was paid in 2018 (2017: nil). The directors recommend that no final dividend be paid (2017: nil).

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

Directors
The directors who held office during the year and up to the date of this report were as follows:

Alexandra Stephanie Allan – resigned 30 July 2018
Shaun David Hodgkinson
Paul Nicholas Kelly
Rebecca Jane Smart – appointed 1 January 2019

Sinead Mary Martin – Company Secretary

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

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

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

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

DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

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 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 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 present 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

P KELLY
Director

27 June 2019

Independent auditors' report to the members of Dorling Kindersley Limited

Report on the audit of the financial statements

Opinion

In our opinion, Dorling Kindersley Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss 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 for the year ended 31 December 2018; the Income Statement and Statement of Comprehensive Income for the year ended 31 December 2018 and the Statement of Changes in Equity for the year then ended 31 December 2018; 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 Dorling Kindersley 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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Independent auditors' report to the members of Dorling Kindersley 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
27 June 2019

DORLING KINDERSLEY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
Turnover	5	115,129	113,248
Cost of sales		(76,822)	(79,198)
Gross profit		38,307	34,050
Distribution costs		(2,799)	(2,933)
Administrative expenses		(42,553)	(43,030)
Other operating income		3,337	-
Operating loss	6	(3,708)	(11,913)
Income from investments in subsidiaries	8	-	644
Interest payable and similar charges	9	(1,281)	(458)
Loss on ordinary activities before taxation		(4,989)	(11,727)
Tax on loss on ordinary activities	10	112	1,749
Loss for the financial year		(4,877)	(9,978)

The notes on pages 11 to 27 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	£'000	£'000
Loss for the financial year	(4,877)	(9,978)
Other comprehensive income: items that will not be reclassified to profit or loss	-	-
Total comprehensive expense for the year	(4,877)	(9,978)

DORLING KINDERSLEY LIMITED

Registered no: 01177822

BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note		2018 £'000		Restated 2017 £'000
Fixed assets					
Intangible assets	11		40		136
Investments	12		7,474		7,474
Deferred tax assets	13		298		106
			7,812		7,716
Current assets					
Stocks	14	18,737		22,510	
Debtors	15	58,406		53,215 *	
Cash at bank and in hand		60		39	
		77,203		75,764	
Creditors: amounts falling due within one year	16	(88,905)		(82,352) *	
Net current liabilities			(11,702)		(6,588)
Total assets less current liabilities			(3,889)		1,128
Net (liabilities)/assets			(3,889)		1,128
Capital and Reserves					
Called up share capital	17		102		102
Share premium account			1,699		1,699
Accumulated losses			(5,690)		(673)
Total equity			(3,889)		1,128

*Prior year balances have been restated to present them in conformity with the current year treatment. See note 19 for the impact of the restatements.

The notes on pages 11 to 27 are an integral part of these financial statements.

The financial statements on pages 7 to 27 were authorised for issue by the board of directors on 27 June 2019 and were signed on its behalf by:

P KELLY
Director

DORLING KINDERSLEY LIMITED

Registered no: 01177822

BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note		2018 £'000		Restated 2017 £'000
Fixed assets					
Intangible assets	11		40		136
Investments	12		7,474		7,474
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Current assets					
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Accumulated losses			(5,690)		(673)
Total equity			(3,889)		1,128

*Prior year balances have been restated to present them in conformity with the current year treatment. See note 19 for the impact of the restatements.

The notes on pages 11 to 27 are an integral part of these financial statements.

The financial statements on pages 8 to 27 were authorised for issue by the board of directors on 27 June 2019 and were signed on its behalf by:

P KELLY
Director

DORLING KINDERSLEY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total equity £'000
Balance as at 1 January 2017		102	1,699	(695)	1,106
Changes in equity					
Total comprehensive expense for the year		-	-	(9,978)	(9,978)
Issued during the year		-	10,000	-	10,000
Share premium reduction		-	(10,000)	10,000	-
Balance as at 31 December 2017		102	1,699	(673)	1,128
Change in accounting policy	19	-	-	(140)	(140)
Restated balance as at 1 January 2018		102	1,699	(813)	988
Changes in equity					
Total comprehensive expense for the year		-	-	(4,877)	(4,877)
Balance as at 31 December 2018		102	1,699	(5,690)	(3,889)

1 GENERAL INFORMATION

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation of financial statements (Continued)
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.

Going concern
The financial statements are prepared on a going concern basis notwithstanding the net current liabilities in the balance sheet at the year end. The directors believe this basis to be appropriate in light of the company's continued support from Penguin Random House Limited ("PRHL") and current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements.

New standards, amendments and IFRIC interpretations
IFRS 9 and IFRS 15 are new accounting standards that are effective for the year ended 31 December 2018. Neither accounting standard has had a material impact on the company (see note 19). There are no other amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2018 which 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The tax credit for the period comprises current and deferred tax and is recognised in the income statement.

The current income tax credit 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 losses. 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 income tax asset is realised or the deferred income 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 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 in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment. 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated to write off the cost of the assets over their estimated useful lives over periods of three years on a straight line basis. Amortisation expense is charged to the income statement.

Stocks

Finished goods have been valued at the lower of cost and net realisable value. Cost is determined using the FIFO method. Cost comprises direct costs including related production overheads. Origination costs represent direct costs incurred in the development of titles prior to their publication. These costs are recognised as origination costs where the title will generate probable future economic benefits and costs can be measured reliably. Origination assets are amortised upon publication of the title over estimated economic lives of one year or less, being an estimate of the expected operating life cycle of the title.

The assessment of the recoverability of the origination assets and the determination of the amortisation profile involve a significant degree of judgement based on historical trends and management estimation of future potential sales. An incorrect amortisation profile could result in excess amounts being carried forward as stock that would otherwise have been written off to the income statement in an earlier review. Reviews are performed regularly to estimate recoverability of pre-publication assets, based on forecast title sales.

Royalty advances

Advances of royalties paid to authors are recognised within other debtors once a contract is approved within the royalty system, provided it is a signature advance or has had a manuscript accepted on the work, less any provision required to adjust the advance to its net realisable value. Once a manuscript is accepted in the future, contracted advances are recognised as payable. 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.

Trade debtors and amounts owed by group undertakings

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

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade debtors. To measure the expected credit losses, trade debtors are grouped based on shared credit risk characteristics and the days past due.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments
The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities such as trade and other accounts receivable and payable, and loans to and from subsidiaries and related parties. Financial instruments of the company are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

Key accounting estimates and assumptions
(i) Advances
Advances of royalties paid to authors are recognised within other debtors once a contract is approved within the royalty system, provided it is a signature advance or has had a manuscript accepted on the work, 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.

(ii) Origination costs
Specific provision is made concerning Origination costs, generated by the business via the creation of books internally, covering content, format and channel. These costs are capitalised upon publication and amortised over 12 months being the future sales curve of the product generated.

Periodic impairment reviews are undertaken on all Origination costs, with unsuccessful titles being provided for in full and written off to the Income statement. The assessment of the recoverability of the origination asset and the determination of the amortisation profile involve a significant degree of judgement based on historical trends and management estimate of future potential sales.

(iii) Useful life of tangible and intangible assets
The useful life of the software is based on its expected utilisation by Dorling Kindersley Limited. Software is amortised over its estimated useful life of three years, on a straight line basis. See note 11 for the carrying amounts of intangible assets.

4 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

(iv) 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 a two year historical review, the ageing of sales and business experience. See note 16 for details of the returns provision value.

(v) 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 12 for the carrying amount of investments and associated provision.

5 TURNOVER

	2018	2017
	£'000	£'000
Analysis of turnover by geography:		
UK and The Republic of Ireland	27,206	33,721
Rest of Europe	22,525	21,607
Americas	46,419	39,060
Rest of the World	18,979	18,860
	115,129	113,248

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

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

6 OPERATING LOSS

Operating loss is stated after charging/(crediting):

	2018	2017
	£'000	£'000
Audit fees payable to the company's auditor	124	148
Impairment of inventory	1,445	1,961
Foreign exchange gain	(633)	(170)

Administrative expenses comprised of salaries and other expenses that are borne by Penguin Books Limited and The Random House Group Limited which are recharged to Dorling Kindersley Limited as part of a management recharge of £9,780,000 (2017: £13,800,000).

Distribution expenses includes £2,667,000 (2017: £2,803,000) recharged to Dorling Kindersley Limited from The Book Service Limited during the year.

Costs incurred of £3,337,000 (2017: £nil) were recharged to associate group companies during the year.

No staff were employed by the company (2017: none).

7 EMPLOYEES AND DIRECTORS

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

Directors

	2018	2017
	£'000	£'000
Directors' remuneration:		
Aggregate emoluments	587	557
Company pension contributions to money purchase schemes	81	84

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

	2018	2017
	£'000	£'000
Highest paid director:		
Emoluments	254	217
Defined benefit pension scheme accrued at the end of the year	32	30

Although the directors of the company have service contracts with PBL, the proportion of their time and efforts relate to the company and, therefore their emoluments, have been included in these financial statements. All directors are paid by PBL.

8 INCOME FROM SHARES IN GROUP UNDERTAKINGS

	2018	2017
	£'000	£'000
Dividends received:		
Dorling Kindersley Verlag GmbH	-	644
	-	644

9 INTEREST PAYABLE AND SIMILAR CHARGES

	2018	2017
	£'000	£'000
On borrowings from group undertakings	1,281	458
	1,281	458

10 TAXATION ON LOSS ON ORDINARY ACTIVITIES

Analysis of tax credit for the year:

	2018	2017
	£'000	£'000
Current tax:		
UK corporation tax on losses for the year	(966)	(2,516)
Adjustments in respect of prior years	51	23
Overseas tax	967	764
Deferred tax:		
Origination and reversal of timing differences	55	23
Adjustments in respect of prior years	(218)	(43)
	(112)	(1,749)

The tax assessment for the year is higher (2017: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2018 of 19.00% (2017: 19.25%). The differences are explained as follows.

10 TAXATION ON LOSS ON ORDINARY ACTIVITIES (continued)

	2018 £'000	2017 £'000
Loss on ordinary activities before taxation	(4,989)	(11,727)
Corporation tax at standard rate of 19.00% (2017: 19.25%)	(948)	(2,257)
Effects of:		
Expenses not deductible for tax purposes	227	29
Adjustments in respect of prior years current tax	51	23
Income not taxable	-	(124)
Unrelieved withholding tax	783	616
Adjustments in respect of prior years deferred tax	(218)	(43)
Deferred tax rate differences	(7)	7
Total tax credit for year	(112)	(1,749)

The current year tax credit represents amounts receivable from fellow UK subsidiaries of the Bertelsmann group in respect of current year tax losses surrendered in the UK.

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017, with a further reduction to 17% from 1 April 2020. Accordingly the company's profits/losses are taxed at an effective rate of 19% (2017: 19.25%).

11 INTANGIBLE ASSETS

	Software £'000	Total £'000
Cost:		
At 1 January 2018	4,828	4,828
At 31 December 2018	4,828	4,828
Accumulated amortisation:		
At 1 January 2018	(4,692)	(4,692)
Amortisation in the year	(96)	(96)
At 31 December 2018	(4,788)	(4,788)
Net book amounts:		
At 31 December 2018	40	40
At 31 December 2017	136	136

11 INTANGIBLE ASSETS (continued)

The software intangible assets include the company's 'SAP finance and procurement' system which was created by an external development from the company's specific requirements. Those assets are amortised over 3 years (2017: 3 years) on a straight line basis. Intangible assets amortisation is recorded in administrative expenses in the Income Statement.

12 INVESTMENTS

	Shares in subsidiaries £'000	Total £'000
Cost:		
At 1 January 2018	7,474	7,474
At 31 December 2018	7,474	7,474
Accumulated impairment:		
At 1 January 2018	-	-
At 31 December 2018	-	-
Net book amounts:		
At 31 December 2018	7,474	7,474
At 31 December 2017	7,474	7,474

The company's subsidiaries are listed in note 20.

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.

13 DEFERRED TAX ASSETS AND LIABILITIES

Movement in recognised deferred tax during the year	1 January 2018 £'000	Amounts charged/ (credited) to the income statement £'000	IFRS 9 restatement £'000	31 December 2018 £'000
Property plant and equipment	64	(11)	-	53
Other temporary differences	42	174	28	244
Total deferred tax	106	164	28	298

Movement in recognised deferred tax during the prior year	1 January 2017 £'000	Amounts charged/ (credited) to the income statement £'000	IFRS 9 restatement £'000	31 December 2017 £'000
Property plant and equipment	86	(22)	-	64
Other temporary differences	-	42	-	42
Total deferred tax	86	20	-	106

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

14 STOCKS

	2018 £'000	2017 £'000
Origination costs	10,867	10,427
Finished goods	7,870	12,083
	18,737	22,510

As of 31 December 2018, origination costs of £15,914,000 (2017: £15,339,000) were reviewed for impairment. The amount of the provision was £5,047,000 (2017: £4,912,000) for unsuccessful titles. As of 31 December 2018, finished goods of £12,687,000 (2017: £15,275,000) were reviewed for impairment. The amount of the provision was £4,817,000 (2017: £3,192,000), and mainly relates to slow moving stock.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

15 DEBTORS

	2018	Restated 2017
	£'000	£'000
Trade debtors	3,651	1,750
Amounts owed by group undertakings	49,618	47,041
Other debtors	3,915	1,841
Corporation tax	1,125	2,516
Prepayments and accrued income	97	67
	58,406	53,215

Amounts owed by group undertakings are unsecured, interest free and repayable on demand. The balance is stated after provisions for impairment of £1,740,000 (2017: £1,936,000).

As of 31 December 2018, author advances of £12,030,000 (2017: £10,260,000) were reviewed for impairment. The amount of the provision was £9,454,000 (2017: £9,017,000). The net carrying values are included in other debtors.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	Restated 2017
	£'000	£'000
Trade creditors	9,320	7,427
Amounts owed to group undertakings	62,046	52,804
Other taxation and social security	248	113
Other creditors	540	407
Accruals and deferred income	16,751	21,601
	88,905	82,352

Amounts owed by group undertakings are unsecured and repayable on demand. Included within this is £44,212,000 (2017: £37,212,000) in respect of cash pooling agreements with the company's parent entity, Penguin Random House Limited ('PRHL'). These amounts incur interest on a monthly basis; the average interest rate for the year was 3.17% (2017: 2.84%)

On 10 June 2019 PRHL signed an addendum to the cash pooling agreement dated 2 July 2013 with the commitment not to call for £30,000,000 of the balance owed to them by the company. The addendum is provided for at least the next twelve months from the date of the audit report and shall automatically terminate and lapse after the expiry of such period of time, but at the latest on 30 June 2020.

17 CALLED UP SHARE CAPITAL

	2018	2017
	£'000	£'000
Authorised, allotted, called up and fully paid:		
1,022,588 (2017: 1,022,588) Ordinary shares of 10p each	102	102

18 RELATED PARTIES

The company's immediate parent is Penguin Random House Limited ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann UK Limited (75%) and Pearson PRH Holdings Limited (25%). The company's ultimate parent 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 company is wholly-owned by PRHL and as such has taken exemptions under the terms of FRS101, "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 not wholly owned by PRHL:

	2018	2017
	£'000	£'000
Administrative expenses:		
Dorling Kindersley Inc.	3,111	664
Bertelsmann AG	25	6
Penguin Group (China)	419	482
Penguin Random House Inc	8	15

Administrative expenses relate to recharges of expenditure incurred by the company on behalf of Dorling Kindersley Inc.

	2018	2017
	£'000	£'000
Creditors:		
Penguin Random House LLC	12	56

19 CHANGES IN ACCOUNTING POLICIES

IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 3 above. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
The company has adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year.

The adoption of IFRS 15 impacted the company in the following areas:

- Sales of ebooks under agency terms are now shown gross inclusive of commissions paid to etailers, with the commission payable shown as a cost within administrative expenses in the income statement; and
- Provisions for returns and expected volume discounts are now disclosed separately in provisions for liabilities and other charges.

19 CHANGES IN ACCOUNTING POLICIES

The following table shows the adjustments recognised for each individual line item following the adoption of IFRS 9 and IFRS 15. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Statement of financial position (extract)	31 Dec 2017 As originally presented £'000	IFRS 15 £'000	31 Dec 2017 Restated £'000	IFRS 9 £'000	1 January 2018 Restated £'000
Fixed assets					
Deferred tax assets	106	-	106	28	134
Current assets					
Debtors	50,766	2,449	53,215	(168)	53,047
Creditors: amounts falling due within one year	(79,903)	(2,449)	(82,352)	-	(82,352)
Net current liabilities	(6,588)	-	(6,588)	(168)	(6,756)
Total assets less current liabilities	1,128	-	1,128	(140)	988
Net assets	1,128	-	1,128	(140)	988
Capital and reserves					
Called up share capital	102	-	102	-	102
Other reserves	1,699	-	1,699	-	1,699
Profit and loss account	(673)	-	(673)	(140)	(813)
Total equity	1,128	-	1,128	(140)	988

IFRS 15 had no impact on retained earnings as at 1 January 2018. The total impact on the company's retained earnings as at 1 January 2018 following the adoption of IFRS 9 is as follows:

	Note	£'000
Closing retained earnings 31 December 2017 - IAS 39		(673)
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018:		
Increase in provision for trade receivables		(168)
Deferred tax	13	28
Opening retained earnings 1 January 2018 - IFRS 9		(813)

There were no adjustments made to line items in the Income Statement or Statement of Other Comprehensive Income for the 2017 reporting period relating to IFRS 9 or IFRS 15 adjustments.

20 SUBSIDIARY UNDERTAKINGS

Refer to the following table for the company's subsidiary undertakings as at 31 December 2018.

Name	Principal Activity	Holding	Share Class	Registered Address
Dorling Kindersley Vision Limited	Dormant Entity	100.00	Ordinary	80 Strand, London, United Kingdom, WC2R 0RL
Funfax Limited	Dormant Entity	100.00	Ordinary	80 Strand, London, United Kingdom, WC2R 0RL
Dorling Kindersley Verlag GmbH	Marketing	100.00	Ordinary	Arnulfstraße 124, München, Germany, 80636