

The Penguin Group: overview

Penguin is one of the world's premier English language book publishers. We publish an extensive backlist and frontlist of titles, including fiction and non-fiction, literary prize winners, commercial bestsellers, classics and children's titles. We rank in the top three consumer publishers, based upon sales, in all major English speaking and related markets – the US, the UK, Australia, New Zealand, Canada, India and South Africa.

Penguin publishes under many imprints including, in the adult market, Allen Lane, Avery, Berkley, Dorling Kindersley (DK), Dutton, Hamish Hamilton, Michael Joseph, Plume, Putnam, Riverhead and Viking. Our leading children's imprints include Puffin, Ladybird, Warne and Grosset & Dunlap.

In 2006, Penguin had sales of £848m, representing 19% of Pearson's total sales (20% in 2005) and contributed 11% of Pearson's operating profit. Its largest market is the US, which generated around 60% of Penguin's sales in 2006. The Penguin Group earns around 99% of its revenues from the sale of hard cover and paperback books. The balance comes from audio books and from the sale and licensing of intellectual property rights, such as the Beatrix Potter series of fictional characters, and acting as a book distributor for a number of smaller publishing houses.

We sell directly to bookshops and through wholesalers. Retail bookshops normally maintain relationships with both publishers and wholesalers and use the channel that best serves the specific requirements of an order. We also sell through online retailers such as Amazon.com.

Penguin competes with other publishers of fiction and non-fiction books. Principal competitors include Random House, HarperCollins, and Hachette Livre. Publishers compete by developing a portfolio of books by established authors and by seeking out and promoting talented new writers.

The Penguin Group: 2006 performance

£ millions	2006	2005	Headline growth	Underlying growth
Sales	848	804	5%	3%
Adjusted operating profit	66	60	10%	22%

Record literary success and bestseller performance

- Record number of bestsellers for record number of weeks – Penguin US places 139 books on The *New York Times* bestseller list, ten more than in 2005, and keeps them there for 809 weeks overall, up 119 weeks from 2005; Penguin UK places 59 titles in the BookScan Top Ten bestseller list, up 5 from 2005, and keeps them there for 361 weeks, up 42 weeks from 2005.
- Penguin authors win a large number of prestigious literary awards including: a Pulitzer Prize for Fiction (*March* by Geraldine Brooks); a National Book Critics Circle Award (*THEM: A Memoir of Parents* by Francine du Plessix Gray); the Michael L. Printz award (*Looking for Alaska* by John Green); the Whitbread Book of the Year Award (*Matisse the Master* by Hilary Spurling); the Orange Prize for Fiction (*On Beauty* by Zadie Smith); and the Man Booker Prize (*The Inheritance of Loss* by Kiran Desai).
- Penguin UK's focus on fiction rewarded with a substantial increase in market share, led by Marina Lewycka's *A Short History of Tractors in Ukrainian*.
- Penguin US premium paperback format continues to accelerate revenue growth and improves profitability in the important mass market category. Strong performance from paperbacks with Penguin authors holding the #1 position on *The New York Times* paperback fiction list for a record 22 successive weeks.

Continued focus on quality and efficiency

- Pearson-wide renegotiation of major global paper, print and binding contracts brings cost savings in 2006 and beyond.

Business Review *Continued*

- Integration of Australia and New Zealand warehouses and back office operations produces further scale benefits.
- Investment in India as a pre-production and design centre for reference titles.

Strong international growth

- Penguin India, which celebrates its 20th anniversary in 2007, continues its rapid growth and extends its market leadership. Penguin authors win all the prizes in India's national book awards: Vikram Chandra in fiction for *Sacred Games*, Vikram Seth in non-fiction for *Two Lives* and Kiran Desai in readers' choice for *The Inheritance of Loss*.
- Penguin China continues to acquire rights to between four and six Chinese titles each year, following acquisition of Jian Rong's *Wolf Totem*, due to be published in English in 2008. Penguin enters the Chinese market with the launch of ten translated Penguin Classic titles in 2007.
- Penguin South Africa grows strongly in 2006 and continues to increase market share.

Investing in digital to engage consumers

- Strong growth in online revenues and unique visitors to Penguin and DK websites.
- Penguin leading the market in developing new content creation and distribution models. In 2006 Penguin won the Revolution Award for Best Brand Building using Digital Channels and the Nielsen Nibbie for Innovation in the Book Business for the Penguin Remixed competition and the Penguin Podcast. These two initiatives have been followed by further campaigns including the launch of the acclaimed Penguin Blog, Penguin's presence in Second Life and the recent wiki-novel, *A Million Penguins*, which hosted 60,000 unique visitors in its first week. DK Travel content made available on MSN and Rough Guides distributed through mobile phones.

- Subscribers to Penguin and DK opt-in newsletters building rapidly, allowing Penguin consumers to personalise areas of interest and strengthening relationships with Penguin brand.
- Jamie Oliver's 'Cookcast' was the first ever live streamed cookery webcast and one of the most successful webcasts ever in the UK.

Strong 2007 publishing schedule

- Strong list of new titles for 2007 from bestselling and new authors including Alan Greenspan, Khaled Hosseini, Jamie Oliver, Al Gore, Jeremy Clarkson, Patricia Cornwell, Marina Lewycka and Naomi Klein.

The Penguin Group: outlook 2007

The Penguin Group is expected to improve margins further, as its publishing investment and efficiency programmes continue to bear fruit.

Penguin Key Performance Indicators

