

PEARSON EDUCATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003



Registered No: 872828

PEARSON EDUCATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2003

The Directors present their annual report on the affairs of the company together with the financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company continued to be that of an Educational publisher in the markets of Higher & Professional Education, English Language Teaching and Schools (both UK and International). The company remained focused on the key customer groups of educators, people in education and consumers.

During 2003 the Higher & Professional Education market continued to be highly competitive and the demand for English Language Teaching materials remained strong throughout Europe, Middle East and Asia. Although computing product continued to decline, reflecting the overall decline in the IT market, market share was maintained.

In summary, the company is well positioned to benefit from the worldwide demand for Education.

FUTURE DEVELOPMENTS OF THE BUSINESS

Pearson Education finished the year well despite difficult trading conditions in some markets. Market share was gained in all key product groupings on the back of strong new product and sale of back list titles.

Market share in the retail trade was maintained throughout the year, although sales in Professional business and computing product were affected by the continued downturn in the world economy.

Higher Education had an impressive year with strong new publishing. This strength will continue to be built upon in 2004 and it is anticipated that market position will be consolidated even further.

English Language Teaching had strong sales growth in Central and Eastern Europe, the Middle East and the UK in particular and continued to see growth in sales of its core products.

Pearson Education continues to push for increased sales and market share growth in the key areas of English Language Teaching, Higher and Professional Education, Distributed Learning and Schools publishing. This will be through strong high quality new products and continued selling of back list products

RESULTS AND DIVIDENDS

The company's loss for the financial year is £4,545,000 (2002: £5,277,000).

The directors do not recommend the payment of a dividend (2002: nil).

CHARITABLE DONATIONS

During the year the company made charitable donations of £2,398 (2002 £2,051).

DIRECTORS

The Directors who have held office during the year are as follows:

P Jovanovich (resigned 31 July 2003)

S Dowling (resigned 31 July 2003)

W Ethridge (appointed 23 October 2003)

V M Lockie

K R Bristow

J Fallon

J A Knight

PEARSON EDUCATION LIMITED

DIRECTORS' REPORT (continued)

DIRECTORS' INTERESTS

The Directors had no interests in shares of the Company. The interests of Directors in group companies are disclosed in the accounts of the immediate parent company, Longman Communications Limited or below, where appropriate.

Interests in Pearson plc shares

	Ordinary Shares ----- of 25p -----		Share Options on ----- Ordinary Shares of 25p -----			
	1 January 2003 (or date of appointment if later)	31 December 2003	1 January 2003 (or date of appointment if later)	Granted	Exercised	31 December 2003
K R Bristow	1,810	1,898	76,149	-	(4,004)	72,145
	Company match under annual Bonus matching plan		Reward Plan		Shares held in Trust	
	1 January 2003 (or date of appointment if later)	31 December 2003	1 January 2003 (or date of appointment if later)	31 December 2003	1 January 2003 (or date of appointment if later)	31 December 2003
K R Bristow	2,526	2,526	19,243	19,580	27	15

The Directors, in common with other employees of Pearson plc group companies, may participate in the Pearson plc Save As You Earn (SAYE) Share Option Scheme under which rights are granted to purchase ordinary shares upon the expiry of 3, 5 or 7 year periods. Options taken up under the current scheme are exercisable at prices ruling on the Stock Exchange at the close of dealing on the day before the offer is made, less such discount (not exceeding 20%) as the Board of Pearson plc may determine. In addition, the Directors are eligible to participate in the Pearson plc Senior Executive Share Option Scheme. Further details are disclosed in the Pearson plc consolidated financial statements.

POLICY ON INFORMATION FOR EMPLOYEES

The company attaches great importance to the creation amongst its employees of a sense of involvement in, and identification with, the objectives and success of the business.

Regular meetings are held with staff to keep them fully informed of the company's progress and future plans. Management also places great importance on timely and informative communication of changes occurring within the company.

All employees, after a specified period of service, are eligible to participate in the Pearson plc Save As You Earn Share Option Scheme. All employees are eligible to either an individual bonus linked to company performance or to a profit share bonus linked to the performance of Pearson plc (the company's ultimate parent company).

PEARSON EDUCATION LIMITED

DIRECTORS' REPORT (continued)

EMPLOYMENT OF DISABLED PERSONS

Full consideration is given by the company to applications for employment made by disabled persons, who have or have had a physical or mental impairment. Due regard will be paid to their particular aptitudes and abilities and all reasonable adjustments will be made to ensure that they are not disadvantaged. This also applies to employees who may become disabled during their employment. Disabled employees are given the same opportunities for training, career development and promotion as other employees, subject to their particular abilities.

PAYMENTS TO CREDITORS

The company's policy on the payment of creditors is, whenever possible, to ensure that suppliers are paid on the due date. Payments to suppliers of products and services are paid on their normal trading terms, unless special terms have been agreed. Trade creditor days in 2003 were 58 (2002 - 29).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the group for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, which 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 1985. 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.

AUDITORS

An elective resolution was passed on 24 April 1991 to allow the company to dispense with the requirement to annually re-appoint the auditors.

By Order of the Board



J A Knight
Director

Edinburgh Gate
Harlow
Essex
CM20 2JE

28 October 2004

PEARSON EDUCATION LIMITED

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF PEARSON EDUCATION LIMITED

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

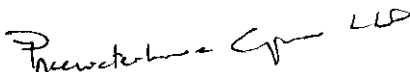
BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the company's state of affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place,
London
WC2N 6RH

28 October 2004

PEARSON EDUCATION LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>Notes</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
Turnover	1, 3	142,125	143,882
Cost of sales		(84,727)	(89,916)
Gross profit		<u>57,398</u>	<u>53,966</u>
Other net operating expenses	4	(62,239)	(59,610)
Loss on ordinary activities before interest and tax		<u>(4,841)</u>	<u>(5,644)</u>
Loss before tax before operating exceptional item		(5,341)	(3,689)
Operating exceptional as a result of the Magna Flood	5	<u>500</u>	<u>(1,955)</u>
		<u>(4,841)</u>	<u>(5,644)</u>
Interest receivable and similar income	6	1,271	627
Interest payable and similar charges	7	(3)	(25)
Loss on ordinary activities before tax	8	<u>(3,573)</u>	<u>(5,042)</u>
Tax on loss on ordinary activities	11	(972)	(235)
Retained loss on ordinary activities after tax	20	<u><u>(4,545)</u></u>	<u><u>(5,277)</u></u>

All results relate to continuing operations.

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

There is no significant difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 20 form an integral part of these accounts.

PEARSON EDUCATION LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2003

	<u>Notes</u>	<u>2003</u> <u>£'000</u>	<u>2003</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>	<u>2002</u> <u>£'000</u>
FIXED ASSETS					
Intangible assets	12		64,880		70,959
Tangible assets	13		5,188		9,754
Investments	14		353		353
			<u>70,421</u>		<u>81,066</u>
CURRENT ASSETS					
Stocks	15	35,195		35,908	
Debtors	16	48,202		58,289	
Cash at bank and in hand		<u>39,195</u>		<u>21,013</u>	
		122,592		115,210	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	17	<u>(40,755)</u>		<u>(39,384)</u>	
NET CURRENT ASSETS					
			81,837		75,826
TOTAL ASSETS LESS CURRENT LIABILITIES					
			<u>152,258</u>		<u>156,892</u>
Creditors: amounts falling due after more than one year	17		<u>(108)</u>		<u>(200)</u>
			152,150		156,692
PROVISIONS FOR LIABILITIES AND CHARGES					
	19		(1,931)		(1,928)
NET ASSETS					
			<u>150,219</u>		<u>154,764</u>
CAPITAL AND RESERVES					
Called up share capital	20		170,500		170,500
Share premium account	20		1,014		1,014
Profit and loss account	20		(21,295)		(16,750)
EQUITY SHAREHOLDERS' FUNDS					
	20		<u>150,219</u>		<u>154,764</u>

Signed on behalf of the board on 28 October 2004



J A Knight
Director

The notes on pages 7 to 20 form an integral part of these accounts.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

1 PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and preceding year, is set out below.

(a) Basis of Accounting

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain tangible fixed assets. The financial statements have been prepared in accordance with applicable accounting standards and the Companies Act 1985.

Under section 228 of the Companies Act 1985 the company is exempt from the requirement to prepare group accounts since it is a wholly owned subsidiary undertaking of a body corporate incorporated in the European Union (Note 25), in whose accounts its results are consolidated. The financial statements of the parent company meet all other conditions of section 228.

(b) Intangible Fixed Assets

Goodwill arising on the acquisition of a business or purchase of publishing rights and titles is capitalised and amortised in equal instalments over its estimated economic life (Note 12). Its estimated economic life is determined by taking account of the nature of the transaction and the opinion of the Directors.

Goodwill is amortised over a period of between 4 and 20 years. Any permanent diminution in the value of goodwill is recognised by an immediate write-off through the profit and loss account.

(c) Tangible Fixed Assets

Tangible fixed assets are stated at cost and depreciated over their estimated economic lives by equal annual instalments. Freehold buildings and long leaseholds are depreciated at 2% per annum, short leaseholds over the period of their leases, motor vehicles at 25% per annum and other plant and equipment at appropriate rates between 5% and 33.33% per annum.

(d) Stocks and Work-in-Progress

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost comprises all costs related to production processes which are, in the main, carried out by third parties.

(e) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

1 PRINCIPAL ACCOUNTING POLICIES - continued

(e) Taxation (continued)

A provision is made in full for deferred tax that arises from timing differences that have originated but not reversed by the balance sheet date on transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted. No deferred tax is provided in respect of any future remittance of earnings of foreign subsidiaries or associates where no commitment has been made to remit such earnings.

(f) Overseas Currencies

Assets and liabilities in overseas currencies are translated into sterling at the rates ruling at the balance sheet date, but where currency balances are covered by forward foreign exchange contracts, provision is made in the profit and loss account to restate these balances in the balance sheet at the appropriate forward rate. Profits and losses arising on translation and on remittances during the year have been included in profit or loss on ordinary activities before taxation.

(g) Turnover

Turnover represents the amount receivable for goods and services net of returns, discounts and Value Added Tax. Turnover is recognised on delivery date.

(h) Leases

Lease payments in respect of assets held under operating leases are written off as incurred. The financial obligations under such leases are set out in Note 21.

Tangible fixed assets acquired under finance leases are capitalised at the net present value of the minimum future lease payments at the date of inception of each lease or contract. A corresponding amount is included within creditors. The total finance charges are allocated over the period of the lease so as to match the charge to the profit and loss account to the amount of the creditor outstanding.

(i) Pensions Accounting

The company is a member of the Pearson Group Pension Plan which is a combination of both funded defined benefit and defined contribution schemes. Charges to the profit and loss account represent the costs allocated to the company by Pearson plc.

(j) Fixed Asset Investments

Fixed asset investments are stated at cost less any provision for permanent diminution in value (Note 14).

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

2 CASHFLOW STATEMENT AND RELATED PARTY DISCLOSURES

The company is a wholly owned subsidiary of Pearson plc, whose financial statements are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996).

The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of Pearson plc group.

3 GEOGRAPHICAL ANALYSIS OF TURNOVER

	2003 <u>£'000</u>	2002 <u>£'000</u>
Turnover by destination		
UK	55,439	63,250
Europe, Australia and North America	50,510	48,038
Africa, Asia and Rest of America	36,176	32,594
	<u>142,125</u>	<u>143,882</u>

All turnover derives from educational publishing.

Further segmental analysis is disclosed in the accounts of the ultimate parent company, Pearson plc.

4 OTHER NET OPERATING EXPENSES

	2003 <u>£'000</u>	2002 <u>£'000</u>
Distribution costs	2,398	2,794
Administration, marketing and other expenses	64,866	62,504
	<u>67,264</u>	<u>65,298</u>
Other operating income	(5,025)	(5,688)
	<u>62,239</u>	<u>59,610</u>

5 MAGNA FLOOD DAMAGE

On 30 July 2002 Pearson Education Limited's warehouse at Magna Park, Lutterworth suffered severe flood damage.

A £500,000 insurance claim receipt was received in 2003.

The total effect on the profit and loss account for the year ended 31 December 2002 was £1,955,000, split between £1,925,000 cost of sales and £730,000 other net operating expenses. This is net of an insurance claim receipt of £700,000.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

6 INTEREST RECEIVABLE AND SIMILAR INCOME	2003	2002
	<u>£'000</u>	<u>£'000</u>
On deposit and liquid funds:		
held with group undertakings	-	109
held with non-group undertakings	1,271	518
	<u>1,271</u>	<u>627</u>

7 INTEREST PAYABLE AND SIMILAR CHARGES	2003	2002
	<u>£'000</u>	<u>£'000</u>
Borrowings repayable wholly within five years, not by instalments:		
Bank loans and overdraft	-	24
All other loans and finance charges on finance leases	3	1
	<u>3</u>	<u>25</u>

8 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is arrived at after charging:	2003	2002
	<u>£'000</u>	<u>£'000</u>
Amortisation of goodwill	6,079	6,093
Depreciation of owned tangible fixed assets	3,465	2,247
Depreciation of tangible fixed assets held under finance leases	8	66
Loss on disposal of fixed assets	1	31
Auditors' remuneration:		
- audit services	65	65
- non-audit services	69	45
Operating lease rentals:		
- hire of plant and machinery	1,120	1,182
- other	4,839	4,410

9 EMOLUMENTS OF DIRECTORS	2003	2002
	<u>£'000</u>	<u>£'000</u>
Aggregate emoluments	<u>743</u>	<u>762</u>

The emoluments of the highest paid director were £260,000 (2002 £283,000) and the amount of his accrued pension as at 31 December 2003 was £25,200 (2002 £11,500).

As at the 31 December 2003 four of the directors were accruing pension benefits under a defined benefit scheme (2002: 4).

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

10 EMPLOYEES

The average monthly number of persons (including Directors) employed by the company during the year and their aggregate remuneration for the year was:

	2003 <u>Number</u>	2002 <u>Number</u>
Publishing	273	275
Distribution	217	228
Selling and administration	443	591
	<u>933</u>	<u>1,094</u>
	2003 <u>£'000</u>	2002 <u>£'000</u>
Wages and salaries	25,075	27,341
Social security costs	2,047	2,164
Pension costs	2,568	2,077
	<u>29,690</u>	<u>31,582</u>

11 TAXATION

	2003 <u>£'000</u>	2003 <u>£'000</u>	2002 <u>£'000</u>	2002 <u>£'000</u>
Current taxation:				
UK corporation tax on loss for the year		(1,107)		936
Adjustments relating to previous years		(846)		531
Foreign taxation:				
Double tax relief	279		132	
Overseas taxation	<u>(279)</u>		<u>(441)</u>	
		-		(309)
Total current taxation		<u>(1,953)</u>		<u>1,158</u>
Deferred taxation				
Origination and reversal of timing differences	(75)		(1,388)	
Adjustments relating to previous years	<u>1,056</u>		<u>(5)</u>	
Total deferred taxation		981		(1,393)
Taxation on loss on ordinary activities		<u>(972)</u>		<u>(235)</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

11 TAXATION - continued

The tax relief for the year is lower than the standard rate of corporation tax in the U.K. (30%)

The differences are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	<u>(3,573)</u>	<u>(5,042)</u>
Loss on ordinary activities multiplied by standard tax rate in the U.K. 30% (2002: 30%) to show tax relief of:	1,072	1,512
Effects of:		
Amortisation of goodwill	(1,824)	(1,828)
Expenses non deductible for tax purposes	(575)	(193)
Exempt income and other items	145	57
Adjustments to tax in respect of previous years	(846)	531
Foreign tax	-	(309)
Excess of depreciation over tax allowances	(157)	(173)
Movement in provisions	232	1,561
Current tax relief/(charge) for the year	<u><u>(1,953)</u></u>	<u><u>1,158</u></u>

12 INTANGIBLE FIXED ASSETS

Goodwill:	£'000
Cost:	
As at 1 January 2003 and 31 December 2003	<u>98,891</u>
Amortisation	
As at 1 January 2003	27,932
Charge for the year	6,079
As at 31 December 2003	<u>34,011</u>
Net book value as at 31 December 2003	<u><u>64,880</u></u>
Net book value as at 31 December 2002	<u><u>70,959</u></u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

13 TANGIBLE FIXED ASSETS

	Properties £'000	Plant & motor vehicles £'000	Fixtures & fittings £'000	Total £'000
Cost or valuation:				
As at 1 January 2003	2,918	6,951	8,126	17,995
Additions	22	31	325	378
Disposals	(1,156)	(798)	(52)	(2,006)
Reallocations	(274)	274	-	-
Intergroup transfer	-	-	-	-
As at 31 December 2003	<u>1,510</u>	<u>6,458</u>	<u>8,399</u>	<u>16,367</u>
Depreciation				
As at 1 January 2003	651	3,421	4,169	8,241
Charge for the year	490	1,539	1,444	3,473
Disposals	-	(519)	(16)	(535)
Reallocations	(3)	3	-	-
As at 31 December 2003	<u>1,138</u>	<u>4,444</u>	<u>5,597</u>	<u>11,179</u>
Net book value as at 31 December 2003	<u>372</u>	<u>2,014</u>	<u>2,802</u>	<u>5,188</u>
Net book value as at 31 December 2002	<u>2,267</u>	<u>3,530</u>	<u>3,957</u>	<u>9,754</u>

The net book value of the property comprises of:

	2003 £'000	2002 £'000
Freehold	-	1,429
Long leasehold	37	39
Short leasehold	335	799
	<u>372</u>	<u>2,267</u>

The historical cost net book value of the Freehold properties was £nil (2002 £1,429,000).

The net book value of assets held under finance leases was £192,000 (2002 £300,000).

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

14 FIXED ASSET INVESTMENTS	Subsidiary Undertakings £'000	Other Investments £'000	Total £'000
Cost:			
As at 1 January 2003 and 31 December 2003	353	13	366
Provision:			
As at 1 January 2003 and 31 December 2003	-	(13)	(13)
Net book value as at 1 January 2003 and 31 December 2003	<u>353</u>	<u>-</u>	<u>353</u>

The company holds 80,935 of the 80,936 Ordinary Shares of 1p each in Pearson Education Software Limited, a company registered in England. The company did not trade in 2003. Its profit for the year to 31 December 2003 was £Nil (2002 £Nil). No dividend was declared (2002 £Nil) and the aggregate of its capital and reserves at 31 December 2003 was £362,000 (2002 £362,000).

The company holds 100% of the "B" Shares of £1 in Longman Group (Overseas Holdings) Limited, a company incorporated in England.

15 STOCKS	2003 £'000	2002 £'000
Raw materials and consumables	139	2
Work in progress	21,194	22,807
Finished goods and goods for resale	13,862	13,099
	<u>35,195</u>	<u>35,908</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

16 DEBTORS

	2003	2002
	<u>£'000</u>	<u>£'000</u>
Amounts falling due within one year:		
Trade debtors	25,100	31,726
Due from immediate parent company	897	846
Due from fellow subsidiary undertakings	12,296	14,981
Due from associated undertakings	1,740	1,257
Corporation tax recoverable	-	876
Other debtors	2,022	1,981
Prepayments and accrued income	2,211	3,323
Pension prepayment (note 19b, 24)	1,765	1,405
	<u>46,031</u>	<u>56,395</u>
Amounts falling due after more than one year:		
Other debtors	1,568	1,894
UK deferred tax (note 19a)	603	-
	<u>48,202</u>	<u>58,289</u>

17 CREDITORS

	2003	2002
	<u>£'000</u>	<u>£'000</u>
Amounts falling due within one year:		
Bank overdrafts	-	29
Trade creditors	15,777	12,254
Due to fellow subsidiary undertakings	14,797	17,162
Taxation and social security	640	12
Other creditors including taxation and social security	1,991	1,278
Accruals and deferred income	7,550	8,649
	<u>40,755</u>	<u>39,384</u>
Amounts falling due after more than one year		
Finance lease obligations	108	200
	<u>40,863</u>	<u>39,584</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

18 FINANCE LEASE OBLIGATIONS

	2003 <u>£'000</u>	2002 <u>£'000</u>
Future minimum payments under finance leases are as follows:		
For leases expiring:		
Within one year	108	18
Between one and five years	<u>107</u>	<u>323</u>
	215	341
Less: Finance charges included above	(15)	(23)
	<u><u>200</u></u>	<u><u>318</u></u>

19 PROVISIONS FOR LIABILITIES AND CHARGES

(a) Deferred taxation	Excess of tax allowances over depreciation <u>£'000</u>	Timing differences relating to provisions <u>£'000</u>	Total <u>£'000</u>
Provision at 1 January 2003	80	298	378
Transferred (to)/from profit and loss account	(1,213)	232	(981)
Provision at 31 December 2003	<u><u>(1,133)</u></u>	<u><u>530</u></u>	<u><u>(603)</u></u>

There is no unprovided deferred tax (2002: £nil)

In the year ended 31 December 2003 the deferred tax balance was shown in debtors.

(b) Pension (prepayment) / provision	2003 <u>£'000</u>	2002 <u>£'000</u>
At 1 January	(1,405)	2,707
(Decrease) / Increase in provision	2,201	(2,035)
Utilised	(2,561)	(2,077)
At 31 December (note 16, 24)	<u><u>(1,765)</u></u>	<u><u>(1,405)</u></u>

The pension prepayment is shown within debtors.

(c) Property provision	2003 <u>£'000</u>	2002 <u>£'000</u>
At 1 January	1,550	1,702
Provision in year	1,618	750
Utilised	(1,237)	(902)
At 31 December	<u><u>1,931</u></u>	<u><u>1,550</u></u>

The closing property provision relates to two vacant properties held by Pearson Education Limited. The provision covers the company's obligation to meet rental payments until sub tenants can be found

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

20 EQUITY SHAREHOLDERS' FUNDS

EQUITY SHAREHOLDERS' FUNDS		2003	2002	
		£'000	£'000	
(a) Called Up Share Capital				
Authorised share capital of ordinary shares of £1 each:				
250,000,000 shares		250,000	250,000	
Allotted, called up and fully paid ordinary shares of £1 each:				
170,500,000 shares		170,500	170,500	
(b) Movement in Shareholders' Funds				
	Called Up Share Capital £'000	Share Premium Account £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2003	170,500	1,014	(16,750)	154,764
Loss for the financial year	-	-	(4,545)	(4,545)
At 31 December 2003	170,500	1,014	(21,295)	150,219
(c) Reconciliation of Movements in Shareholders' Funds				
	2003	2002		
	£'000	£'000		
Retained loss for the year	(4,545)	(5,277)		
Net reduction in shareholders' funds	(4,545)	(5,277)		
Shareholders' funds at 1 January	154,764	160,041		
Shareholders' funds at 31 December	150,219	154,764		

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21 OPERATING LEASES

Operating lease rentals payable in the next year, with commitments expiring in:

	Land and Buildings		Plant and Machinery	
	2003	2002	2003	2002
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
One year	823	-	83	357
Two to five years	535	1,110	387	561
Over five years	2,291	3,273	-	-
	<u>3,649</u>	<u>4,383</u>	<u>470</u>	<u>918</u>

22 CAPITAL COMMITMENTS

Commitments for capital expenditure at 31 December 2003 amounted to £Nil (2002 £Nil).

23 CONTINGENT LIABILITIES

Bank and other guarantees and indemnities at 31 December 2003 amounted to £100,000 (2002 £100,000) in respect of third parties. The Company has also given a guarantee in respect of bank overdrafts of certain subsidiaries totalling £3,300,480 (2002 £3,759,512).

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 37 of its subsidiaries, "the guarantors", are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. The net balance under this arrangement at 31 December 2003 was an overdraft of £2,602,634.

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

At 31 December 2003 this was the company's potential liability.

As at 31 December 2003 the potential liability arising from these guarantee arrangements amounted to £50,000,000 for the parent undertaking and fellow subsidiary undertakings and £Nil for the subsidiary undertakings of the company.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

24 PENSION COMMITMENTS

The company is a member of the Pearson Group Pension Plan, which is a combination of both funded defined benefit and defined contribution schemes. Details of the Plan, including particulars of the most recent full valuation performed by independent qualified actuaries as at 1 January 2001 for the purposes of the Group's accounts, can be found in the Report and Accounts of Pearson plc for the year ended 31 December 2003. The pension costs relating to this Plan are assessed in accordance with the advice of an independent qualified actuary.

The company's pension cost for the year is an allocation of the group cost. For 2003 this cost is £2,262,000 (2002 £2,077,000).

Included in the balance sheet at 31 December 2003 is a prepayment of £1,765,000 (2002: £1,405,000). Details are given in notes 16 and 19.

Pearson plc has followed the transitional arrangements allowed by FRS 17. As at 31 December 2003 there was a deficit of £225 million (2002: £213 million) in the Pearson Group Pension Plan. Further information about assets and liabilities of the group plan and the major assumptions used by the actuary can be found in the financial statements of Pearson plc for the year ended 31 December 2003. Although the Pearson Group Pension Plan is a combination of defined benefit and contribution schemes the company will account for the Plan as if it were a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities of the Plan.

25 ULTIMATE PARENT COMPANY

The company's immediate parent company is Longman Communications Limited, a company incorporated in Great Britain.

The company's ultimate parent company and controlling party is Pearson plc, a company incorporated in Great Britain, and registered in England and Wales. Copies of the Reports and Financial Statements of Pearson plc are available to the public from the following address:

Pearson plc
80 Strand
London
WC2R 0RL

Details of transactions with group undertakings have not been given. These are included in the consolidated financial statements of Pearson plc which are publicly available.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2003

26 RELATED PARTY TRANSACTIONS

During the year the company traded with the following related parties: Arab JV, Maskew Millar Longman, Sayegh JV, Novara Longman JV, Longman Nigeria JV, York Notes JV, Collins Longman JV, Logotron. Transactions occurred in the normal course of business. The more significant transactions are detailed below:

For the year ended 31 Deceber 2003

	Sales to related party 2003 £'000	Purchases from related party 2003 £'000	Amounts owed by related party 2003 £'000	Amounts owed to related party 2003 £'000
Arab joint venture	1,725	1,243	312	-
Maskew Millar Longman	1,106	-	841	-
Sayegh joint venture	-	51	-	139
Longman Nigeria	852	-	883	-
	<u>3,683</u>	<u>1,294</u>	<u>2,036</u>	<u>139</u>

For the year ended 31 Deceber 2002

	Sales to related party 2002 £'000	Purchases from related party 2002 £'000	Amounts owed by related party 2002 £'000	Amounts owed to related party 2002 £'000
Arab joint venture	-	-	213	-
Maskew Millar Longman	1,513	-	1,187	-
Sayegh joint venture	-	141	-	86
Longman Nigeria	558	-	36	-
	<u>2,071</u>	<u>141</u>	<u>1,436</u>	<u>86</u>