

ADDISON WESLEY LONGMAN LIMITED
FINANCIAL STATEMENTS - 31st DECEMBER 1996
TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS



Registered No: 872828

ADDISON WESLEY LONGMAN LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31st DECEMBER 1996

The Directors present their annual report on the affairs of the Company together with the financial statements for the year ended 31st December 1996.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company continues to be the publishing of Education, Reference, Scientific and Children's Materials in a variety of media, focused on the key customer group of educators and consumers.

The company achieved sales growth of 33.8% and operating profit growth of 83% over the 1995 results (as adjusted for the transfer of the business of Logotron Ltd from 1st January 1996). These increases were achieved with the benefit of a full years sales and profits contribution from the May 1995 acquisition of the Thomas Nelson ELT list, and with the integration of the Addison Wesley UK operation into the Higher Education Group.

MARKET VALUATION OF LAND AND BUILDINGS

It is estimated that the market value of the Company's properties at 31st December 1996 is approximately £2,465,000 in excess of book values. The realisation of the Company's properties at such a surplus would give rise to a maximum liability to tax of approximately £813,000.

DIRECTORS

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

T C Davy

J E Robinson

J L Jones

R N Woodward

D A Smith

(resigned 16th October 1996)

(appointed 16th October 1996)

DIRECTORS' INTERESTS

The interests of Directors in Group Companies are disclosed in the accounts of the immediate parent company, Longman Communications Limited.

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 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.

DIRECTORS' REPORT (continued)

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Company made various charitable contributions totalling £1,692 (1995 - £1,236). The company did not make any political contributions during the year (1995 - £nil).

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.

For several years the Company has aimed to encourage this sense of involvement specifically through the provision to every employee of quarterly and annual information on the progress and objectives of the Company.

Regular meetings are held with all staff to keep them fully informed of the Company's progress and future plans.

All employees, after a specified period of service, are eligible to participate in the Pearson plc Save As You Earn Share Option Scheme.

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.

ELECTIVE RESOLUTIONS

On 24th April 1991 the Company passed an elective resolution whereby it would dispense with the holding of an annual general meeting in 1992 and subsequent years until the election was revoked. Further elective resolutions were passed at the same time that the Company would dispense with:

- (a) The laying of the annual report and financial statements before the Company in general meeting; and
- (b) The requirement to re-appoint annually the auditors of the Company in general meeting.

AUDITORS

During the year Coopers & Lybrand resigned as auditors and Price Waterhouse were formally appointed by the Board of Directors to fill a casual vacancy.

By Order of the Board

J E ROBINSON
Executive Director

5 Bentinck Street
London
W1M 5RN

10th March 1997

ADDISON WESLEY LONGMAN LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which 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 those financial statements, the directors are required to :

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

ADDISON WESLEY LONGMAN LIMITED

AUDITORS REPORT TO THE MEMBERS OF ADDISON WESLEY LONGMAN LIMITED

We have audited the financial statements on pages five to seventeen which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages seven and eight.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page three the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

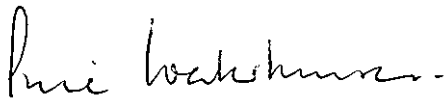
BASIS OF OPINION

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 disclosure 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 state of the Company's affairs at 31st December 1996 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Price Waterhouse
Chartered Accountants and Registered Auditors
London**

10th March 1997

ADDISON WESLEY LONGMAN LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31st DECEMBER 1996

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Turnover	2				
- Continuing operations		80,789		56,103	
- Acquisitions		944		3,008	
		-----	81,733	-----	59,111
Cost of sales					
- Continuing operations		(41,558)		(30,265)	
- Acquisitions		(516)		(1,566)	
		-----	(42,074)	-----	(31,831)
Gross Profit			39,659		27,280
Other operating expenses (net)	3				
- Continuing operations		(24,332)		(18,065)	
- Acquisitions		(334)		(1,282)	
		-----	(24,666)	-----	(19,347)
Operating profit					
- Continuing operations		14,899		7,773	
- Acquisitions		94		160	
		-----	14,993	-----	7,933
Income from shares in group undertakings			-		2,677
Exceptional items - continuing operations	4				
- Loss on disposal of fixed assets		(821)		-	
- Cost of fundamental reorganisation		-		(264)	
		-----	(821)	-----	(264)
Profit on ordinary activities before interest and taxation			14,172		10,346
Interest receivable and similar income	5		89		114
Interest payable and similar charges	6		(1,063)		(518)
Profit on ordinary activities before taxation	7		13,198		9,942
Taxation	10		(5,180)		(2,691)
Profit for the financial year	18		8,018		7,251
Dividend paid	18		(3,056)		(7,591)
Retained profit/(loss) for the year	18		4,962		(340)
			=====		=====

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.

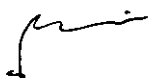
There is no significant difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 7 to 17 form an integral part of these accounts.

ADDISON WESLEY LONGMAN LIMITED**BALANCE SHEET - 31st DECEMBER 1996**

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
FIXED ASSETS			
Intangible assets	11	12,653	14,085
Tangible assets	12	14,177	14,471
Investments	13	353	353
		<hr/>	<hr/>
		27,183	28,909
CURRENT ASSETS			
Stocks	14	28,786	22,703
Debtors	15	61,123	56,280
Cash at bank and in hand		3,147	1,843
		<hr/>	<hr/>
		93,056	80,826
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	16	(59,014)	(54,226)
		<hr/>	<hr/>
NET CURRENT ASSETS		34,042	26,600
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		61,225	55,509
		<hr/>	<hr/>
PROVISIONS FOR LIABILITIES AND CHARGES			
Pension provision	17	(433)	(433)
UK deferred taxation	24	(754)	-
		<hr/>	<hr/>
NET ASSETS		60,038	55,076
		<hr/>	<hr/>
 CAPITAL AND RESERVES			
Called up share capital	18	37,500	37,500
Share premium account	18	1,014	1,014
Other reserves	18	453	476
Profit and loss account	18	21,071	16,086
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	18	60,038	55,076
		<hr/>	<hr/>

Signed on behalf of the Board on 10th March 1997



J E Robinson - Executive Director

The notes on pages 7 to 17 form an integral part of these accounts.

ADDISON WESLEY LONGMAN LIMITED

NOTES ON THE ACCOUNTS - 31st DECEMBER 1996

1. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of Accounting

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with applicable accounting standards.

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 Community (Note 26), in whose accounts its results are consolidated. The financial statements of the parent company meet all other conditions of section 228.

In accordance with the provisions of Financial Reporting Standard ("FRS") Number One, a cash flow statement has not been prepared since the Company is a wholly owned subsidiary of a body corporate incorporated in the European Community (Note 26). A consolidated cash flow statement is included in the financial statements of the ultimate parent company which meet all other conditions of the FRS.

(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 11). 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 not exceeding 20 years. Any permanent diminution in the value of goodwill is recognised by an immediate write-off through the profit and loss account.

(c) Fixed Assets

Tangible fixed assets are stated at cost or valuation (Note 12) and are 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 valued 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) Deferred Taxation

The Company provides deferred taxation at the expected applicable rates, to take account of timing differences between the treatment of certain items for financial statements purposes and their treatment for taxation purposes, except to the extent it is, in the opinion of the Directors, likely that the timing differences will reverse in the future so as to crystallise a tax asset or liability. The major timing differences and the amounts involved are set out in Note 24.

(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 on ordinary activities before taxation.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Turnover

Turnover represents the amount receivable for goods and services net of returns, discounts and Value Added Tax.

(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 19.

(i) Pensions Accounting

The expected cost of the Company's defined benefit pension scheme is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the scheme. Variations arising from a significant reduction in the number of employees are adjusted in the profit and loss account to the extent that the expected pension cost, reduced by other variations exceeds contributions payable for that year. Other variations from cost are apportioned over the expected service lives of current employees in the scheme.

(j) Fixed Asset Investments

Fixed asset investments are stated at cost less any provision (Note 13).

2. GEOGRAPHICAL ANALYSIS OF TURNOVER

	1996 <u>£000</u>	1995 <u>£000</u>
Turnover by Destination:		
UK	25,014	18,178
North America	7,640	1,278
Central and South America	9,687	7,822
Europe	24,155	18,461
Africa and Middle East	7,234	6,387
Asia	7,178	6,499
Australasia	825	486
	<u>81,733</u>	<u>59,111</u>

All turnover derives from Educational Publishing.

All turnover arises by origin in the UK.

Acquisition results reflect the acquisition of the Educational (College) publishing business from Harper Collins Publishers Ltd

3. OTHER OPERATING EXPENSES (NET)

	1996 <u>£000</u>	1995 <u>£000</u>
Distribution Costs	3,220	3,341
Administration, Marketing and Other Expenses	25,602	20,609
	<u>28,822</u>	<u>23,950</u>
Other Operating Income	(4,156)	(4,603)
	<u>24,666</u>	<u>19,347</u>

Included within other operating income is £43,262 for Inter Group licence fees (1995 - £49,000), and £NIL for Inter Group consultancy fees (1995 - £1,000).

4. EXCEPTIONAL ITEMS

During January 1996 the company moved to new office premises at Edinburgh Gate, Harlow. A provision in respect of the previous building, now no longer in use, was made of £821,000 (1995-£NIL) to reflect its current market value.

5. INTEREST RECEIVABLE AND SIMILAR INCOME	1996 £000	1995 £000
On deposit and liquid funds	89	114
	-----	-----
	89	114
	=====	=====

6. INTEREST PAYABLE AND SIMILAR CHARGES

Other borrowings repayable wholly within five years not by instalment:	1996 £000	1995 £000
Bank loans and overdraft	1,062	518
All other loans	1	-
	-----	-----
	1,063	518
	=====	=====

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is arrived at after charging:	1996 £000	1995 £000
Amortisation of goodwill	1,482	873
Depreciation of tangible fixed assets	1,961	1,642
Auditors' remuneration:		
- audit services	57	93
- non-audit services	73	60
Operating lease rentals:		
- land and buildings	1,364	26
- hire of plant and machinery	158	111
	=====	=====

8. EMOLUMENTS OF DIRECTORS

	1996 £000	1995 £000
Fees	-	-
Other Emoluments	235	210
Compensation for Loss of Office	-	-
	-----	-----
	235	210
	=====	=====

8. EMOLUMENTS OF DIRECTORS (continued)

Analysis of directors' remuneration (excluding pension fund contributions):	1996 £000	1995 £000
Chairman	-	-
Highest Paid Director	120	102
	<hr/>	<hr/>
 All directors	 1996 £000	 1995 £000
£0 to £5,000	3	7
£100,001 to £105,000	-	1
£105,001 to £110,000	-	1
£115,001 to £120,000	2	-
	<hr/>	<hr/>

9. EMPLOYEES

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

	1996 Number	1995 Number
Publishing	244	243
Distribution	89	99
Selling and administration	489	376
	<hr/>	<hr/>
	822	718
	<hr/>	<hr/>
	1996 £000	1995 £000
Wages and salaries	16,705	13,567
Social security costs	1,335	1,152
	<hr/>	<hr/>
	18,040	14,719
	<hr/>	<hr/>

10. TAXATION	1996 <u>£000</u>	1995 <u>£000</u>
Taxation on profit on ordinary activities:		
UK Corporation tax on profits for the year at 33% (1995 - 33%)	(4,950)	(4,163)
Double taxation relief	148	2,120
	<u>(4,802)</u>	<u>(2,043)</u>
UK deferred taxation	(356)	-
Transfer of UK deferred taxation balance to fellow subsidiary undertaking	-	133
Overseas taxation	(148)	(580)
	<u>(5,306)</u>	<u>(2,490)</u>
Taxation adjustments relating to previous year:		
Corporation tax	524	-
BSkyB consortium relief	-	(201)
UK deferred taxation	(398)	-
	<u>(5,180)</u>	<u>(2,691)</u>

11. INTANGIBLE FIXED ASSETS	1996 <u>£000</u>
Goodwill:	
Cost:	
At 1st January 1996	15,015
Additions (see below)	50
	<u>15,065</u>
At 31st December 1996	
Amortisation:	
At 1st January 1996	930
Charge for the year	1,482
	<u>2,412</u>
At 31st December 1996	
Net book amount:	
At 31st December 1996	<u>12,653</u>
At 31st December 1995	<u>14,085</u>

Additions in the year comprise goodwill arising on the acquisition of the assets and publication rights and titles of GoGo product from Longman Asia Ltd.

	1996 <u>£000</u>
Stocks	537
	<u>537</u>
Net assets acquired at book and fair value	537
Consideration (including Acquisition Costs)	587
	<u>50</u>
Goodwill	

12. TANGIBLE FIXED ASSETS

Cost or Valuation:	Properties £000	Plant & Motor Vehicles £000	Fixtures & Fittings £000	Assets Under Construction £000	Total £000
At 1st January 1996	5,485	5,482	5,595	5,812	22,374
Transfer from Logotron Limited	-	87	223	-	310
Reclassification	-	-	5,417	(5,417)	-
Additions	1	630	1,287	615	2,533
Acquisition	-	31	-	-	31
Disposals	-	(411)	(59)	-	(470)
Provision for diminution in value	(1,059)	-	-	-	(1,059)
At 31st December 1996	4,427	5,819	12,463	1,010	23,719
At Directors' valuations 1976	1,082	-	-	-	1,082
At cost	3,345	5,819	12,463	1,010	22,637
	4,427	5,819	12,463	1,010	23,719
Depreciation:					
At 1st January 1996	789	2,882	4,232	-	7,903
Transfer from Logotron Limited	-	35	150	-	185
Charge for the year	84	578	1,299	-	1,961
Disposals	-	(224)	(45)	-	(269)
Provision for diminution in value	(238)	-	-	-	(238)
At 31st December 1996	635	3,271	5,636	-	9,542
Net book values:					
At 31st December 1996	3,792	2,548	6,827	1,010	14,177
At 31st December 1995	4,696	2,600	1,363	5,812	14,471
The net book value of the properties comprises:		1996 £000	1995 £000		
Freehold		3,402	4,302		
Long leasehold		47	49		
Short leasehold		343	345		
		3,792	4,696		

13. FIXED ASSET INVESTMENTS

	Subsidiary Undertakings £000	Other Investments £000	Total £000
Cost:			
At beginning of year	353	13	366
	-----	-----	-----
At end of year	353	13	366
	-----	-----	-----
Provision:			
At beginning and end of year	-	(13)	(13)
	-----	-----	-----
Net Book Amount :			
At beginning and end of year	353	-	353
	=====	=====	=====

The Company holds 80,935 of the 80,936 Ordinary Shares of 1p each in Logotron Limited, a company registered in England and involved in the publication and distribution of computer software. The company did not trade in 1996. Its profit for the year to 31st December 1996 was £NIL (1995 - £211,000), and the aggregate of its capital and reserves at 31st December 1996 was £1,207,000 (1995 - £1,207,000).

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

In the opinion of the Directors the value of the Company's interest in its subsidiaries is not less than the amount stated in the balance sheet.

14. STOCKS	1996 £000	1995 £000
Raw materials and consumables	122	339
Work in progress	14,705	9,458
Finished goods and goods for sale	13,959	12,906
	-----	-----
	28,786	22,703
	=====	=====

The replacement costs of these stocks is estimated as being approximately £445,000 greater than the amounts stated above.

15. DEBTORS	1996	1995
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade debtors	19,213	17,028
Due from immediate parent company	814	791
Due from fellow subsidiary undertakings	15,519	12,585
Loans to fellow subsidiary undertakings	20,397	20,397
Due from associated undertakings	1,002	1,453
Other debtors	1,336	1,816
Prepayments	1,499	1,156
	<hr/>	<hr/>
	59,780	55,226
	<hr/>	<hr/>
Amounts falling due after more than one year:		
Other debtors	1,343	1,054
	<hr/>	<hr/>
	61,123	56,280
	<hr/>	<hr/>
16. CREDITORS	1996	1995
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Bank overdraft	17,291	15,932
Trade creditors	6,879	5,660
Due to fellow subsidiary undertakings	3,440	3,132
Loan from fellow subsidiary undertaking	17,966	17,966
Other creditors	1,083	157
Corporation tax	6,227	3,801
Other taxation and social security payable	452	416
Accruals and deferred income	5,676	7,162
	<hr/>	<hr/>
	59,014	54,226
	<hr/>	<hr/>
17. PENSION PROVISION	1996	
	<u>£000</u>	
At 1st January 1996	433	
	<hr/>	
At 31st December 1996	433	
	<hr/>	
Provision has been made in respect of certain pension arrangements (Note 23).		
18. EQUITY SHAREHOLDERS' FUNDS		
(a) Called Up Share Capital	1996	1995
	<u>£000</u>	<u>£000</u>
Authorised, called up and fully paid 37,500,000 (1995 - 37,500,000) ordinary shares of £1 each	37,500	37,500
	<hr/>	<hr/>

18. EQUITY SHAREHOLDERS' FUNDS (continued)

(b) Movement in Shareholders' Funds

	Called Up Share Capital £000	Share Premium Account £000	Other Reserves £000	Profit and Loss Account £000	Total £000
At 1st January 1996	37,500	1,014	476	16,086	55,076
Profit for the financial year	-	-	-	8,018	8,018
Dividend paid	-	-	-	(3,056)	(3,056)
Transfers between reserves	-	-	(23)	23	-
At 31st December 1996	37,500	1,014	453	21,071	60,038

(c) Reconciliation of Movements in Shareholders' Funds	1996 £000	1995 £000
Profit for the financial year	8,018	7,251
Dividends paid	(3,056)	(7,591)
Retained Profit (loss) for the year	4,962	(340)
Net increase in shareholders' funds	4,962	(340)
Shareholders' funds at 1st January	55,076	55,416
Shareholders' funds at 31st December	60,038	55,076

19. OPERATING LEASES

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

	Land and Buildings		Plant and Machinery	
	1996 £000	1995 £000	1996 £000	1995 £000
One year	22	-	-	-
One to two years	-	-	30	-
Two to five years	-	1,490	125	111
Over five years	1,381	30	-	-
	1,403	1,520	155	111

20. CAPITAL COMMITMENTS

Commitments for capital expenditure at 31st December 1996 amounted to NIL (1995 - £nil).

21. CONTINGENT LIABILITIES

Bank and other guarantees and indemnities at 31st December 1996 amounted to £2,036,000 (1995 - £1,136,000) in respect of third parties and the Company has also given a guarantee in respect of bank overdrafts of certain subsidiaries totalling £5,571,000 (1995 - £6,583,000).

21. CONTINGENT LIABILITIES (continued)

The company participates in an arrangement with National Westminster Bank PLC whereby the accounts of Pearson plc and twenty two 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 1996 was an overdraft of £1,147,364.

The maximum amount of this guarantee is limited to a gross overdraft of £130,000,000.

At 31 December 1996 the company had an overdraft of £16,731,434 under this arrangement, limiting its potential liability at that date to £113,268,565.

As at 31 December 1996 the potential liability arising from these guarantee arrangements amounted to £113,268,565 for the parent undertakings and fellow subsidiary undertakings of the company.

22. DEBENTURE STOCKS OF PEARSON PLC

The Company, together with certain other subsidiaries of Pearson plc, has guaranteed interest on and repayment of £25,500,000 (1995 - £25,500,000) guaranteed unsecured loan stock of Pearson plc.

23. PENSION COMMITMENTS

The Company is a member of the Pearson Group Pension Plan, which is primarily a funded defined benefit scheme, details of which, including particulars of the latest actuarial valuation as at 1st January 1996, can be found in the Report and Accounts of Pearson plc for the year ended 31st December 1996. The pension costs relating to the group plan are assessed in accordance with the advice of an independent qualified actuary.

The valuation surplus on the group plan calculated by the actuary at 1st January 1996 is being apportioned over the expected service lives of the group's employees who are members of the scheme. The Company's pension cost, net of this surplus is NIL (1995 - £nil). Details of pension provisions are given in note 17.

24. DEFERRED TAXATION	Provided 1996 £000	Provided 1995 £000	Full Potential Liability 1996 £000	Full Potential Liability 1995 £000
Deferred taxation provided and not provided in the accounts:				
Capital allowances in excess of depreciation	(485)	(290)	(485)	(290)
Short-term timing differences	-	-	-	-
Pension provision timing differences	143	143	143	143
Reorganisation Provision	198	147	198	198
Authors Advances	(610)	-	(610)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 1996	(754)	-	(754)	51
	<hr/>	<hr/>	<hr/>	<hr/>

In accordance with the accounting policy set out in Note 1(e), the above total potential liability has been provided in full.

25. POST BALANCE SHEET EVENTS

Details of any post balance sheet events are given in the Directors' report.

26. RELATED PARTY TRANSACTIONS

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

The Company's ultimate parent company 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
3 Burlington Gardens
London
W1X 1LE

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.