

PEARSON EDUCATION LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001



Registered No: 872828

PEARSON EDUCATION LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2001

The Directors present their annual report on the affairs of the company together with the financial statements for the year ended 31 December 2001.

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 and consumers.

During 2001 the Higher & Professional Education market continued to be highly competitive and the demand for English Language Teaching materials remained strong throughout Europe and Asia.

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 the second half of the year. Market share was gained in all key product groupings on the back of strong new product and sale of back list titles.

The retail trade had an excellent year in business publishing with very strong growth while it was affected by the weakness in the computing market as a result of very few new releases of major new software products and the impact of the downturn in the world economy.

Higher Education had a strong year in a year of not too many new editions. 2002 is a big year for new product and it is anticipated that market position will be consolidated even further.

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

Towards the end of 2000 the structure of the management team for UK Schools sales was changed resulting in increased sales in 2001 and market share gain for the first time in a number of years.

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

POST BALANCE SHEET EVENT

On 30 July 2002 Pearson Education Limited's warehouse at Magna Park, Lutterworth suffered severe flood damage. Due to the hard work of those at the warehouse all water damaged stock has now been reprinted and customer disruption was minimal (note 26).

INCREASE IN SHARE CAPITAL

On 5 June 2001, the authorised share capital of the Company was increased to £250,000,000. On the same date, 133,000,000 ordinary shares of £1 each were allotted and issued to Longman Communications Limited, the Company's immediate parent company.

DIVIDENDS

The directors do not recommend the payment of a dividend.

DIRECTORS' REPORT (continued)

MARKET VALUATION OF LAND AND BUILDINGS

It is estimated that the market value of the company's properties at 31 December 2001, based on management's market research, is approximately £531,000 in excess of book value.

DIRECTORS

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

P Jovanovich
S Dowling
N Portwood
V M Lockie
B J Landers
K R Bristow (appointed 7 March 2001)

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.

	Ordinary Shares ----- of 25p -----		Share Options on ----- Ordinary Shares of 25p -----			
	1 January 2001 (or date of appointment if later)	31 December 2001 (or date of resignation if earlier)	1 January 2001 (or date of appointment if later)	Granted	Exercised	31 December 2001 (or date of resignation if earlier)
K R Bristow	2,984	3,307	49,567	25,920		75,487

	Company match under annual Bonus matching plan		Reward Plan		Shares held in Trust	
	1 January 2001 (or date of appointment if later)	31 December 2001 (or date of resignation if earlier)	1 January 2001 (or date of appointment if later)	31 December 2001 (or date of resignation if earlier)	1 January 2001 (or date of appointment if later)	31 December 2001 (or date of resignation if earlier)
K R Bristow	2,295	2,526	12,833	16,833	31	46

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.

DIRECTORS' REPORT (continued)

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).

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. Creditor days in 2001 were 28 (2000 - 28).

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.

PEARSON EDUCATION LIMITED

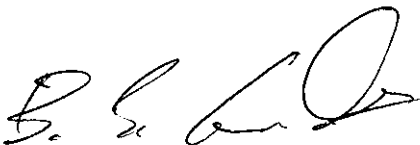
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 judgements 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.

By Order of the Board



B J LANDERS
Director

Edinburgh Gate
Harlow
Essex
CM20 2JE

16 October 2002

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 related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

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.

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 state of the company's affairs at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
10, Bricket Road,
St. Albans
Herts AL1 3JX

16 October 2002

PEARSON EDUCATION LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	<u>Notes</u>	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Turnover	1, 2	167,218	186,110
Cost of sales		(103,843)	(117,182)
Gross profit		<u>63,375</u>	<u>68,928</u>
Other net operating expenses	3	(68,053)	(74,981)
Operating loss		<u>(4,678)</u>	<u>(6,053)</u>
Write back of provision/(cost) of fundamental reorganisation		-	26
Loss on ordinary activities before interest and tax		<u>(4,678)</u>	<u>(6,027)</u>
Interest receivable and similar income	5	614	353
Interest payable and similar charges	6	(1,034)	(1,660)
Loss on ordinary activities before tax	7	<u>(5,098)</u>	<u>(7,334)</u>
Tax on loss on ordinary activities	10	(726)	(204)
Retained loss on ordinary activities after tax	19	<u><u>(5,824)</u></u>	<u><u>(7,538)</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 8 to 20 form an integral part of these accounts.

PEARSON EDUCATION LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2001

	<u>Notes</u>	<u>2001</u> <u>£'000</u>	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
FIXED ASSETS					
Intangible assets	11		77,052		83,259
Tangible assets	12		11,983		11,135
Investments	13		353		353
			<u>89,388</u>		<u>94,747</u>
CURRENT ASSETS					
Stocks	14	39,780		41,777	
Debtors	15	67,266		97,871	
Cash at bank and in hand		<u>12,795</u>		<u>4,233</u>	
		119,841		143,881	
CURRENT LIABILITIES					
Creditors: amounts falling due within one year	16	<u>(44,761)</u>		<u>(204,625)</u>	
NET CURRENT ASSETS/(LIABILITIES)			75,080		(60,744)
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>164,468</u>		<u>34,003</u>
Creditors: amounts falling due after more than one year	16		<u>(18)</u>		<u>(102)</u>
			164,450		33,901
PROVISIONS FOR LIABILITIES AND CHARGES	18		(4,409)		(1,036)
NET ASSETS			<u>160,041</u>		<u>32,865</u>
CAPITAL AND RESERVES					
Called up share capital	19		170,500		37,500
Share premium account	19		1,014		1,014
Profit and loss account	19		(11,473)		(5,649)
EQUITY SHAREHOLDERS' FUNDS	19		<u>160,041</u>		<u>32,865</u>

Signed on behalf of the board on 16 October 2002



B J Landers
Director

The notes on pages 8 to 20 form an integral part of these accounts.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

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 fixed assets. 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 Union (Note 25), 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") 1, a cash flow statement has not been prepared since the Company is a wholly owned subsidiary of a body corporate incorporated in the European Union (Note 25). 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 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.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

1 PRINCIPAL ACCOUNTING POLICIES - continued

(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, 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 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.

(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 20.

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 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 for permanent diminution in value (Note 13).

(k) Going Concern

Pearson plc, the ultimate parent undertaking, has confirmed that it will continue to provide financial support for the company for the foreseeable future and accordingly the accounts have been drawn up on a going concern basis.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

2 GEOGRAPHICAL ANALYSIS OF TURNOVER	2001	2000
	<u>£'000</u>	<u>£'000</u>
Turnover by destination		
UK	76,468	88,719
Europe, Australia and North America	54,659	58,900
Africa, Asia and Rest of America	36,091	38,491
	<u>167,218</u>	<u>186,110</u>

All turnover derives from educational publishing.

3 OTHER NET OPERATING EXPENSES	2001	2000
	<u>£'000</u>	<u>£'000</u>
Distribution costs	3,573	4,886
Administration, marketing and other expenses	68,090	73,456
	<u>71,663</u>	<u>78,342</u>
Other operating income	(3,610)	(3,361)
	<u>68,053</u>	<u>74,981</u>

4 COST OF FUNDAMENTAL REORGANISATION

The acquisition by Pearson plc of the educational business of Simon & Schuster and the creation of Pearson Education Limited gave rise to a write-back of organisation costs in the year of £Nil (2000 credit £26,000).

5 INTEREST RECEIVABLE AND SIMILAR INCOME	2001	2000
	<u>£'000</u>	<u>£'000</u>
On deposit and liquid funds:		
held with group undertakings	152	42
held with non-group undertakings	462	311
	<u>614</u>	<u>353</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES	2001	2000
	<u>£'000</u>	<u>£'000</u>
Borrowings repayable wholly within five years, not by instalments:		
Bank loans and overdraft	1,033	1,512
All other loans and finance charges on finance leases	1	148
	<u>1,034</u>	<u>1,660</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

7 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is arrived at after charging:	2001 £'000	2000 £'000
Amortisation of goodwill	6,207	6,277
Depreciation of owned tangible fixed assets	1,702	1,680
Depreciation of tangible fixed assets held under finance leases	58	58
Auditors' remuneration:		
- audit services	56	65
- non-audit services	56	118
Operating lease rentals:		
- hire of plant and machinery	2,052	1,800
- other	4,256	3,829
	<u>4,256</u>	<u>3,829</u>

8 EMOLUMENTS OF DIRECTORS

	2001 £'000	2000 £'000
Aggregate emoluments	<u>693</u>	<u>526</u>

The emoluments of the highest paid director were £273,000 (2000 £329,000) and the amount of his accrued pension as at 31 December 2001 was £10,000 (2000 £8,000).

As at the 31 December 2001 four of the directors were accruing pension benefits under a defined benefit scheme.

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:

	2001 Number	2000 Number
Publishing	257	232
Distribution	249	284
Selling and administration	640	696
	<u>1,146</u>	<u>1,212</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

9 EMPLOYEES (continued)	2001	2000
	<u>£'000</u>	<u>£'000</u>
Wages and salaries	28,683	33,188
Social security costs	2,343	2,532
Pension costs	2,026	1,430
	<u>33,052</u>	<u>37,150</u>

10 TAXATION	2001	2000
	<u>£'000</u>	<u>£'000</u>
Taxation on loss on ordinary activities:		
UK corporation tax on loss for the year at 30% (2000 30%)	(1,040)	(421)
Double tax relief	281	300
	<u>(759)</u>	<u>(121)</u>
UK deferred taxation	46	(324)
Overseas taxation	(281)	(459)
	<u>(994)</u>	<u>(904)</u>
Taxation adjustments relating to previous years:		
Corporation tax	268	(914)
UK deferred taxation	-	1,614
	<u>(726)</u>	<u>(204)</u>

11 INTANGIBLE FIXED ASSETS

Goodwill:	<u>£'000</u>
Cost:	
As at 1 January 2001 and 31 December 2001	<u>98,891</u>
Amortisation	
As at 1 January 2001	15,632
Charge for the year	6,207
As at 31 December 2001	<u>21,839</u>
Net book value as at 31 December 2001	<u>77,052</u>
Net book value as at 31 December 2000	<u>83,259</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

12 TANGIBLE FIXED ASSETS

	Properties £'000	Plant & motor vehicles £'000	Fixtures & fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation:					
As at 1 January 2001	2,996	5,224	11,735	1,165	21,120
Additions	241	397	1,961	35	2,634
Disposals	-	(29)	(3,252)	-	(3,281)
Reallocations / differences written off	-	1,830	(912)	(915)	3
As at 31 December 2001	<u>3,237</u>	<u>7,422</u>	<u>9,532</u>	<u>285</u>	<u>20,476</u>
Depreciation					
As at 1 January 2001	357	1,881	7,747	-	9,985
Charge for the year	183	628	949	-	1,760
Disposals	-	(12)	(3,244)	-	(3,256)
Reallocations / differences written off	-	582	(578)	-	4
As at 31 December 2001	<u>540</u>	<u>3,079</u>	<u>4,874</u>	<u>-</u>	<u>8,493</u>
Net book value as at 31 December 2001	<u>2,697</u>	<u>4,343</u>	<u>4,658</u>	<u>285</u>	<u>11,983</u>
Net book value as at 31 December 2000	<u>2,639</u>	<u>3,343</u>	<u>3,988</u>	<u>1,165</u>	<u>11,135</u>

The net book value of the property comprises of:

	2001 £'000	2000 £'000
Freehold	1,429	1,429
Long leasehold	40	41
Short leasehold	1,228	1,169
	<u>2,697</u>	<u>2,639</u>

The historical cost net book value of the Freehold properties was £1,429,000 (2000 £1,429,000).

The net book value of assets held under finance leases was £66,000 (2000 £124,330).

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

13 FIXED ASSET INVESTMENTS	Subsidiary Undertakings £'000	Other Investments £'000	Total £'000
Cost:			
As at 1 January 2001 and 31 December 2001	353	13	366
Provision:			
As at 1 January 2001 and 31 December 2001	-	(13)	(13)
Net book value as at 1 January 2001 and 31 December 2001	<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 2001. Its profit for the year to 31 December 2001 was £Nil (2000 £Nil). No dividend was declared (2000 £Nil) and the aggregate of its capital and reserves at 31 December 2001 was £362,000 (2000 £362,000).

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

14 STOCKS	2001 £'000	2000 £'000
Raw materials and consumables	-	40
Work in progress	23,304	22,003
Finished goods and goods for resale	16,476	19,734
	<u>39,780</u>	<u>41,777</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

15 DEBTORS	2001 £'000	2000 £'000
Amounts falling due within one year:		
Trade debtors	32,810	47,574
Due from immediate parent company	-	401
Due from fellow subsidiary undertakings	19,765	20,522
Loans to fellow subsidiary undertakings	2,875	16,961
Due from associated undertakings	2,073	2,269
Corporation tax recoverable	2,972	3,000
Other debtors	826	772
Prepayments and accrued income	2,910	2,862
	<u>64,231</u>	<u>94,361</u>
Amounts falling due after more than one year:		
Other debtors	2,020	2,542
UK deferred tax (note 24)	1,015	968
	<u>67,266</u>	<u>97,871</u>
16 CREDITORS	2001 £'000	2000 £'000
Amounts falling due within one year:		
Bank overdrafts	-	18,885
Trade creditors	15,739	13,787
Due to immediate parent company	395	-
Due to fellow subsidiary undertakings	17,177	18,083
Loans from fellow subsidiary undertakings	-	129,233
Finance lease obligations	74	102
Other creditors including taxation and social security	1,883	10,434
Accruals and deferred income	9,493	14,101
	<u>44,761</u>	<u>204,625</u>
Amounts falling due after more than one year		
Finance lease obligations	18	102
	<u>44,779</u>	<u>204,727</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

17 FINANCE LEASE OBLIGATIONS

	2001	2000
	<u>£'000</u>	<u>£'000</u>
Future minimum payments under finance leases are as follows:		
For leases expiring:		
Within one year	74	112
Between one and five years	<u>18</u>	<u>92</u>
	92	204
Less: Finance charges included above	(6)	(23)
	<u><u>86</u></u>	<u><u>181</u></u>

18 PROVISIONS FOR LIABILITIES AND CHARGES

	2001	2000
	<u>£'000</u>	<u>£'000</u>
Reorganisation Provision		
At 1 January	-	746
Utilised in year	-	(720)
Released in the year	-	(26)
At 31 December	<u><u>-</u></u>	<u><u>-</u></u>
Pension provision		
At 1 January	1,036	1,036
Increase in provision	1,671	-
At 31 December	<u><u>2,707</u></u>	<u><u>1,036</u></u>
Property provision		
At 1 January	-	-
Provision in year	1,702	-
At 31 December	<u><u>1,702</u></u>	<u><u>-</u></u>

Two property provisions were made in the year to cover properties leased by the company which are unlikely to attract subtenants. Both properties are vacant and they are unlikely to be relet in the short period left before the leases run out.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

19 EQUITY SHAREHOLDERS' FUNDS

2001
£'000

2000
£'000

(a) Called Up Share Capital

Authorised share capital of ordinary shares of £1 each:

250,000,000 shares (2000: 37,500,000 shares)

250,000

37,500

Allotted, called up and fully paid ordinary shares of £1 each:

37,500,000 shares brought forward

37,500

37,500

133,000,000 shares issued

133,000

-

170,500,000 shares carried forward

170,500

37,500

The company issued 133,000,000 £1 ordinary shares for cash during the year.

(b) Movement in Shareholders' Funds

**Called Up
Share
Capital
£'000**

**Share
Premium
Account
£'000**

**Profit
and Loss
Account
£'000**

**Total
£'000**

At 1 January 2001

37,500

1,014

(5,649)

32,865

Issued

133,000

-

-

133,000

Loss for the financial year

-

-

(5,824)

(5,824)

At 31 December 2001

170,500

1,014

(11,473)

160,041

(c) Reconciliation of Movements in Shareholders' Funds

2001
£'000

2000
£'000

Retained loss for the year

(5,824)

(7,538)

Net reduction in shareholders' funds

(5,824)

(7,538)

Share capital issued

133,000

-

Shareholders' funds at 1 January

32,865

40,403

Shareholders' funds at 31 December

160,041

32,865

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

20 OPERATING LEASES

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

	Land and Buildings		Plant and Machinery	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
One year	-	-	-	132
Two to five years	580	38	1,089	1,256
Over five years	3,210	3,769	-	-
	<u>3,790</u>	<u>3,807</u>	<u>1,089</u>	<u>1,388</u>

21 CAPITAL COMMITMENTS

Commitments for capital expenditure at 31 December 2001 amounted to £Nil (2000 £Nil).

22 CONTINGENT LIABILITIES

Bank and other guarantees and indemnities at 31 December 2001 amounted to £1,106,136 (2000 £1,235,818) in respect of third parties and the Company has also given a guarantee in respect of bank overdrafts of certain subsidiaries totalling £3,728,261 (2000 £1,450,000).

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 32 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 2001 was a cash balance of £1,948,257.

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

At 31 December 2001 this was the company's potential liability.

As at 31 December 2001 the potential liability arising from these guarantee arrangements amounted to £50,000,000 for the parent undertaking and £Nil for the subsidiary undertakings of the company.

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

23 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 valuation 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 2001. The pension costs relating to this Plan are assessed in accordance with the advice of an independent qualified actuary.

The valuation surplus on the group plan calculated by the actuary as at 1 January 2001 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 deficit, is an allocation of the group cost. For 2001 this cost is £1,671,000 (2000 £Nil).

Details of pension provisions are given in note 18.

Pearson plc has followed the transitional arrangements allowed by FRS 17. As at 31 December 2001 there was a deficit of £73 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 2001. 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.

24 DEFERRED TAXATION

	Provided 2001 £'000	Provided 2000 £'000	Full Potential Liability 2001 £'000	Full Potential Liability 2000 £'000
Deferred taxation accrued (note 15)				
Capital allowances in (deficit)/excess of depreciation	(235)	15	(235)	15
General Provisions	1,250	953	1,250	953
At 31 December 2001	<u>1,015</u>	<u>968</u>	<u>1,015</u>	<u>968</u>

PEARSON EDUCATION LIMITED

NOTES ON THE ACCOUNTS - 31 DECEMBER 2001

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.

26 POST BALANCE SHEET EVENT

On 30 July 2002 Pearson Education Limited's warehouse at Magna Park, Lutterworth suffered severe flood damage. In the days following the flood extensive work was done to identify damaged stock, clear debris and repair systems. Due to the hard work of those involved all water damaged stock has now been reprinted and customer disruption was minimal.

At present it is not possible to estimate the total costs of repairing the building and replacing lost stock. The company's expense will be limited to £1.5million, which is the insurance excess.