press release

PEARSON

4 March 2002

PEARSON PLC PRELIMINARY RESULTS (audited)
Year ended 31 December 2001

	Year to 31 Dec 2001	Year to 31 Dec 2000	% Change
Sales*	**£4,225m**	£3,689m	15%
Operating profit (pre internet enterprises)*	**£563m**	£610m	(8)%
Losses from internet enterprises	**£(137)m**	£(196)m	30%
Operating profit*	**£426m**	£414m	3%
Pre-tax profit	**£294m**	£333m	(12)%
Adjusted earnings per share	**22.5p**	31.9p	(29)%
Dividend per share	**22.3p**	21.4p	4%

** Continuing operations (excludes RTL Group/ Pearson TV and Lazard) before goodwill amortisation, exceptional and non-operating items.*

Strong competitive performances; results hit by advertising downturn

- Underlying sales level with 2000; trading margin 13.6%; 94% cash conversion.
- Pre-tax profit down £39 million as falling newspaper and television advertising-related profits (down £116 million) and increased interest charge (£12 million) more than offset improvements elsewhere (£89 million).
- Strong growth in US education markets offset by downturn in technology publishing and Latin America. NCS Pearson underlying revenues up 6%; underlying operating profits up 47%, helped by integration savings.
- Penguin underlying sales increase by 3% with underlying profits up 6%.
- FT Group underlying sales down 7% as advertising volumes fall sharply; all business newspapers outperform their markets; FT Interactive Data delivers double-digit revenue and profits growth.
- £153 million of non-cash write-downs, mostly relating to the Dorling Kindersley acquisition and the value of equity investments.

Outlook for 2002

- Good prospects for education operations boosted by $250m of new federal contracts won by NCS Pearson.
- Lower costs across business newspapers and online services will help FT Group mitigate a difficult advertising market.
- Dorling Kindersley expected to be profitable this year.

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

- Internet enterprises on track to hit break-even targets with losses expected to fall by more than half.

- Lower interest costs to more than offset higher group tax charge.

Marjorie Scardino, Pearson's Chief Executive, said:
"The recession in advertising and technology markets meant that it was not possible last year to build on the steady improvement in performance which our shareholders have come to expect. Good growth in our less cyclical businesses allowed us to keep the overall level of sales and profit roughly level with the year before and, as we look ahead into 2002, we are confident of resuming our progress whatever the economic climate."

For more information:

John Fallon/ Luke Swanson	Pearson plc	+ 44 (0) 20 7010 2310

Pearson's preliminary results presentation for investors and analysts will be webcast live today from 0930 GMT – and available for replay from 1200 GMT – via **www.pearson.com**.

We will also be holding a conference call for US investors at 1500 GMT (1000 EST). To participate in the conference call or to listen to the audiocast, please register at **www.pearson.com**.

Financial review

Performance

In 2001, sales increased 15% from £3,689m to £4,225m and operating profit before goodwill and exceptional items increased 3% to £426m (this excludes the profit contribution from Pearson's 22% stake in the RTL Group, the disposal of which was announced on 24 December 2001). The 2001 figures include the first full-year contributions from Dorling Kindersley and NCS Pearson and losses from our internet enterprises, which reduced by 30% to £137 million from £196 million. Adjusted earnings per share fell 29% to 22.5p with the growth in profits from continuing operations offset by a major drop in the earnings contribution from RTL Group, higher interest and tax charges and the impact of minorities. Profits from newspaper and television advertising-related operations were £116 million lower than in 2000. On an underlying basis, sales were flat year-on-year and operating profits fell 2%.

A reported loss for the year of £391 million (a loss per share of 49.2p) reflects increased goodwill amortisation charges, £153 million of write-downs relating to Dorling Kindersley and a number of smaller acquisitions and equity investments, and a further £123 million of non-operating losses relating to businesses closed or sold in the course of the year. Integration charges increased from £40 million to £74 million, reflecting the costs of integrating Dorling Kindersley and NCS Pearson. The total negative cash impact of all these items was £5 million.

Outlook

Looking ahead to 2002, we expect a number of factors to contribute to a significant recovery in adjusted earnings per share. We expect each of our businesses to deliver a strong competitive performance in their markets and benefit from actions taken to reduce costs. Losses from our internet enterprises should fall by more than 50% as the FT's internet enterprises are on track to reach breakeven in the fourth quarter of the year and Learning Network's cost base is substantially lower as it heads for breakeven by the end of 2003. The proceeds of 1.5 billion Euros from the disposal of our 22% stake in RTL Group have been used to reduce Pearson's net debt. This, and actions we have taken to maintain the proportion of debt we pay at fixed and floating interest rates, should reduce interest charges in 2002 by some 40% (excluding a one-time cost this year of £39 million). The earnings benefit of this lower interest charge more than offsets a higher tax charge resulting from the implementation of new accounting standard, FRS 19.

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

Business review

Pearson Education

£ millions	**Year to 31 Dec 2001**	Year to 31 Dec 2000	% Change	Underlying Change
Sales				
US School	**978**	732	34%	6%
US College	**574**	524	10%	5%
US Professional	**417**	248	68%	(21)%
International	**568**	540	5%	(2)%
Pearson Education	**2,537**	2,044	24%	1%
FT Knowledge	**59**	43	37%	(15)%
Internet enterprises	**8**	3	-	-
Total	**2,604**	2,090	25%	1%
Operating profit/(loss)				
Pearson Education	**374**	337	11%	
FT Knowledge	**(23)**	(17)	(35)%	
Internet enterprises	**(77)**	(83)	7%	
Total	**274**	237	16%	

Includes a full-year contribution from NCS Pearson. In 2001, NCS Pearson contributed revenues of £592 million (2000: £146 million) and profits of £63 million (2000: £15 million).

Performance

Revenues and operating profits increased by 25% and 16% respectively, including the first full year contribution from NCS Pearson. Excluding NCS Pearson and other acquisitions and disposals, underlying revenues increased by 1% and operating profits fell by 5%. On a pro forma basis (i.e. if we had owned NCS Pearson for the whole of 2000), underlying revenues increased by 3%. Difficult market conditions hit the operating performance of our technology publishing and Latin American educational publishing operations, reducing operating profits by £30 million.

Our **US School** business increased underlying sales by 6% (8% on a pro forma basis.) Basal and supplementary publishing sales increased by 9%, ahead of the market. Scott Foresman, our elementary school publisher, took 25% of state adoption revenues (34% of those competed for) and had the year's best-selling reading programme. Prentice Hall School, our secondary school publisher, took 30% of state adoption revenues, and is now the nation's biggest secondary publisher. Assessment and testing revenues increased 18% as states such as California, Florida and Texas increased their testing programmes. Sales of curriculum and school enterprise software fell 2% as the uncertain economic outlook caused schools to defer discretionary spending.

Our **US College** business increased underlying sales by 5%, slightly ahead of the market as a whole. The business benefited from its online investment, with more than 60% of revenues generated through bundled textbook and internet programs. Over 900 colleges are now running courses on CourseCompass, the online course management system launched last year.

The underlying revenues of our **US Professional** business fell 21% (14% on a pro forma basis.) Our technology publishing business was hit hard by the industry-wide recession but gained market share and, through early action to reduce costs, sustained healthy margins. Our government solutions business, which helps to test and train federal staff in customer service and technology skills and operates large-scale data management projects, increased revenues by 18% (stripping out the benefits of the decennial Census contract in 2000 and an acquisition made in 2001). We saw modest revenue growth in our professional assessment and certification business offset by an expected fall in revenues from data management services.

Our **International** operations saw underlying revenues decline by 2% (and by 1% on a pro forma basis.) Growth in our English language training (ELT) business was offset by a fall in revenues from technology publishing. Our school and college publishing operations in Asia, Europe and South Africa all performed well. In Latin America, particularly in Argentina and Columbia, trading performance was badly hit by the economic downturn. We restructured our operations in the region, tightening our credit terms and increasing reserves for obsolescence and bad debts.

On a standalone basis, total sales at **NCS Pearson** were up 1% to £592 million and profits were up 30% to £63 million, benefiting from the integration into Pearson Education. Stripping out the benefit of the decennial US Census contract in 2000, underlying sales were up 6% and underlying operating profits were up 47%.

Losses of £23 million at **FT Knowledge** reflected a slowdown in the corporate training market, restructuring costs and the impact of the September 11 terrorist attacks on the New York Institute of Finance, which was based in the World Trade Center. Losses from education internet enterprises fell to £77 million. We fully integrated Learning Network, our consumer education portal, within Pearson Education, reducing its cost base by 75% by the end of the year. Pearson Broadband, our new multimedia education business, made a good start in its first year of operation. It launched KnowledgeBox, its interactive classroom curriculum product, in the US and Asia and created a joint venture to produce educational English language programming for CCTV, China's state broadcaster.

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

Outlook

The outlook for our education businesses is good.

In the US school market, we don't expect any growth in publishing this year, largely due to the phasing of the state adoption cycle. We expect to continue to grow our testing business and benefit from the launch of a number of new early reading and online learning programmes, including NCS4School. Learning Network is now focused on supporting our US K-12 publishing business and we expect its losses to fall sharply this year as it moves toward breakeven by the end of 2003.

We expect the US College publishing market to grow more quickly this year and for us to gain share by using our lead in technology to increase adoption and sell-through rates. Our US professional business will benefit from the actions taken in 2001 to reduce costs in technology publishing and corporate training. We also expect strong revenue growth due to a number of new federal contracts valued at $250m (with half coming through this year) won by NCS Pearson. FT Knowledge is now focused on providing blended classroom and e-learning services to major corporations and we expect it to halve its losses in 2002.

In International, our priorities for the year are to restore profitability in Latin America, grow in school, college and English language publishing and expand our testing business in the UK and Australia. On a standalone basis, we would expect NCS Pearson to deliver at least 15% revenue growth and higher profits growth with the benefits from the second year of integration savings.

Financial Times Group

£ millions	**Year to 31 Dec 2001**	Year to 31 Dec 2000	% Change
Sales	**750**	802	(6)%
Internet enterprises	**51**	42	21%
Operating profit / (loss)			
FT Newspaper	**31**	81	(62)%
Les Echos	**16**	29	(45)%
Recoletos	**23**	38	(39)%
Interactive Data Corporation	**67**	59	14%
Associates and joint ventures	**(10)**	(5)	(100)%
FT Business	**4**	7	(43)%
FT Businesses sold	1	2	
Total	**132**	211	(37)%
Internet enterprises	**(60)**	(113)	47%
	72	98	(27%)

Performance

In the toughest advertising market for a decade, in which business-to-business advertising was particularly adversely affected, the FT Group's revenues declined by 6% and profits by 27%.

The **Financial Times** newspaper ended the year with December average daily sales of 501,259, an increase of 3% on the previous year. International circulation continued to grow strongly, particularly in the US with sales up 9% to 141,000. After a strong start to the year, advertising declined sharply in May and June and further still in the third and fourth quarters. For the full year, advertising volumes were down 29% and advertising revenues down 20%. Benefiting from a series of measures to protect profits, operating margins at the FT were significantly higher than in the last advertising recession.

At **Les Echos**, average circulation was flat at approximately 127,000, gaining share in a French national newspaper market that was down 4%. Advertising volumes were down 21% and advertising revenues down 20%, contributing to a 45% decline in profits at Groupe Les Echos. Actions taken to reduce costs ensured Groupe Les Echos remains France's most profitable newspaper group.

At **Recoletos**, our Spanish media group, revenues were flat on last year, with advertising revenue declines offset by cover price increases and higher circulation revenues. Profits declined by 39% as Recoletos invested in new media channels and new markets in the Spanish-speaking world. Circulation was down 16% to 53,000 at business newspaper *Expansion*, down 8% to 372,000 at sports newspaper *Marca* and up 8% to 314,000 at *El Mundo*, the daily newspaper in which Recoletos holds a 30% stake.

Interactive Data Corporation (NASDAQ NM: IDCO), the FT's asset pricing business, had an outstanding year with revenues up 12% and profits up 14%. Its institutional business, which provides asset pricing services to major financial institutions on a subscription basis and accounts for approximately 90% of IDC revenues, continued to prove extremely resilient.

The FT Group's **internet enterprises** (which include the online businesses of the Financial Times, Les Echos and Expansion as well as our share of FT Deutschland's FTD.de, economist.com, CBSMarketWatch and eSignal) generated revenues of £51 million, up 21% on 2000, despite the advertising downturn. Losses were lower at £60 million as start-up costs fell away as planned and as we aggressively integrated the FT's internet businesses.

FT.com's popularity continues to increase and in January 2002 it achieved 55 million page views (up 29% on January 2001) and 2.7 million unique monthly users (up 37%). FT.com has successfully introduced new revenue streams, including content syndication and premium services, so that advertising now accounts for approximately 60% of its revenues (compared with 85% in 2000).

The Economist Group, in which Pearson owns a 50% stake, increased circulation of its flagship weekly title by 10% to 830,000. It too felt the impact of the advertising downturn, with its contribution to the FT Group's profits declining. The Economist Intelligence Unit has successfully transformed itself into a digital business, with more than 70% of revenues now being electronic, and *Chief Financial Officer* magazine is expanding internationally.

FT Deutschland, our joint venture with Gruner + Jahr, delivered robust circulation growth. For the fourth quarter, circulation was up 18% on the previous year to 78,000. FTD also continued to gain advertising market share, though the market was particularly tough.

FT Business, the FT Group's UK specialist financial magazine publisher, increased share and maintained advertising revenues in a tough market. We have recently announced our intention to consider strategic options for FT Business, in order to focus more closely on our international network of business and financial newspapers and information companies.

Outlook

Across the Financial Times Group, the advertising outlook remains uncertain.

In the first two months of the year advertising revenues were, as expected, down significantly on the same period last year. However, we are benefiting from the actions we started to take early last year to reduce costs across all our business newspapers including the *Financial Times*. Lower print, distribution and staff costs, and the benefits of integrating our internet businesses with their print counterparts, are helping to offset the decline in advertising revenues. FT.com is on track to break even by the fourth quarter of this year and make a growing profits contribution in the years ahead. This year we expect subscriptions from new premium services to add to the revenues generated by advertising, syndication and services. A successful cost reduction programme means that Recoletos has started 2002 with a significantly lower cost base and should generate strong profits growth. IDC is expecting another good year, boosted by the integration of the Merrill Lynch Securities Pricing Service and the launch of the first in a range of new products to provide intra-day pricing data.

The Penguin Group

£ millions	**Year to 31 Dec 2001**	Year to 31 Dec 2000	% Change	Underlying Change
Sales	**820**	755	9%	3%
Operating profit	**80**	79	1%	6%

2001 includes a full-year contribution from Dorling Kindersley: revenues of £146 million and losses of £7million. The DK acquisition was completed on 6 May 2000 and in the remaining seven months of 2000 DK broke even on sales of £125 million. For the 12 months to 31 December 2000, DK made losses of £21 million on sales of £182 million.

Performance

The Penguin Group's total sales increased 9%, boosted by a full-year contribution from Dorling Kindersley. Underlying sales were up 3% with continued strong bestseller performance partially offset by industry-wide softness in travel books and backlist sales. Total operating profits include losses of £7 million at Dorling Kindersley. Underlying operating profits increased by 6%.

In the US, Penguin Putnam posted a record performance on the bestseller lists for a fifth consecutive year. 139 Penguin Putnam titles reached the New York Times adult and children's bestseller lists, an increase of 30%. In the UK, Penguin had another strong year of bestseller performance, with 41 titles reaching the Booktrack top 15 (up 5% on 2000). At Dorling Kindersley (assuming we had owned DK for the whole of 2000), pro forma sales were 20%

lower due to the closure of the loss-making DKFL and multi-media operations and a one-off increase in returns in the US resulting from actions to improve the distribution network. Pro forma losses fell to £7 million from £21 million the previous year. *Animal*, the first title in DK's new frontlist, exceeded all expectations, selling more than 500,000 copies in 23 languages since its launch in October 2001.

Outlook

The outlook for the Penguin group is good.

The restructuring of Dorling Kindersley and its integration into Penguin is now largely complete and should deliver a significant boost to profits in 2002. As a result of the integration, DK is benefiting from a larger sales force, lower production costs, faster origination and a focus on fewer, bigger selling titles. Both Penguin Putnam and Penguin UK have a powerful frontlist for 2002, including new books by number one best-selling authors. This year, the release of titles will be more heavily weighted to the second half of the year.

Penguin and Pearson Education continue to work together on new publishing, back office integration and steps to improve working capital. Scott Foresman's new elementary social sciences programme, launched next month, is the first to benefit from Dorling Kindersley's creative approach, with other programmes in production. The two companies are combining warehousing, distribution and purchasing and salesforce clout. Worldwide, Penguin and Pearson Education are looking to reduce working capital through lower production costs, better forecasting and faster collection.

Ends

Except for the historical information contained herein, the matters discussed in this press release include forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. These risks and uncertainties include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in the company's publicly-filed documents, including the company's Annual Report on form 20-F. The company undertakes no obligation to publicly update any forward looking statement, whether as a result of new information, future events or otherwise.

Consolidated Profit and Loss Account

for the year ended 31 December 2001

all figures in £ millions	Note	**2001** Results from operations	**2001** Other items	**2001** Total	2000 Results from operations	2000 Other items	2000 Total
Sales (including share of joint ventures)		**4,240**	**-**	**4,240**	3,891	-	3,891
Less: share of joint ventures		**(15)**	**-**	**(15)**	(17)	-	(17)
Sales of which	2a	**4,225**	**-**	**4,225**	3,874	-	3,874
Continuing operations		**4,225**	**-**	**4,225**	3,689	-	3,689
Discontinued operations		**-**	**-**	**-**	185	-	185
Group operating profit of which		**444**	**(431)**	**13**	450	(228)	222
Continuing operations		**444**	**(431)**	**13**	421	(227)	194
Discontinued operations		**-**	**-**	**-**	29	(1)	28
Share of operating (loss) of joint ventures and associates of which	2c	**19**	**(86)**	**(67)**	40	(51)	(11)
Continuing operations		**(18)**	**(51)**	**(69)**	(7)	(37)	(44)
Discontinued operations		**37**	**(35)**	**2**	47	(14)	33
Total operating (loss)/profit	2b	**463**	**(517)**	**(54)**	490	(279)	211
Continuing operations							
Group loss on sale of fixed assets and investments	3	**-**	**(12)**	**(12)**	-	(4)	(4)
Group (loss)/profit on sale of subsidiary undertakings and associates	4	**-**	**(58)**	**(58)**	-	30	30
Loss on sale of subsidiary undertakings and associates by an associate		**-**	**(36)**	**(36)**	-	(3)	(3)
Discontinued operations							
Group profit on sale of subsidiary undertakings and associates	4	**-**	**-**	**-**	-	231	231
Loss on sale of subsidiary undertakings and associates by an associate		**-**	**(17)**	**(17)**	-	-	-
(Loss)/profit before interest and taxation		**463**	**(640)**	**(177)**	490	(25)	465
Amounts written off investments	5	**-**	**(92)**	**(92)**	-	-	-
Net finance costs		**(169)**	**-**	**(169)**	(157)	(24)	(181)
(Loss)/profit before taxation		**294**	**(732)**	**(438)**	333	(49)	284
Taxation	7	**(92)**	**159**	**67**	(87)	(19)	(106)
(Loss)/profit after taxation		**202**	**(573)**	**(371)**	246	(68)	178
Equity minority interests		**(23)**	**3**	**(20)**	(14)	15	1
(Loss)/profit for the financial year		**179**	**(570)**	**(391)**	232	(53)	179
Dividends on equity shares	8			**(177)**			(164)
(Loss)/profit retained				**(568)**			15
Adjusted earnings per equity share before internet enterprises	6			**39.2p**			54.6p
Adjusted earnings per equity share after internet enterprises	6			**22.5p**			31.9p
(Loss)/earnings per equity share	6			**(49.2)p**			24.6p
Diluted earnings per equity share	6			**n/a**			24.0p
Dividends per equity share	8			**22.3p**			21.4p

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

Consolidated Balance Sheet
as at 31 December 2001

all figures in £ millions	Note	**2001**	2000
Fixed assets			
Intangible assets		**4,261**	4,522
Tangible assets		**542**	524
Investments: joint ventures			
Share of gross assets		**8**	13
Share of gross liabilities		**(1)**	(1)
		7	12
Investments: associates		**893**	1,024
Investments: other		**84**	155
		5,787	6,237
Current assets			
Stocks		**849**	828
Debtors		**1,005**	1,217
Investments		**3**	12
Cash at bank and in hand		**393**	516
		2,250	2,573
Creditors – amounts falling due within one year			
Short term borrowing		**(165)**	(112)
Other creditors		**(1,203)**	(1,484)
		(1,368)	(1,596)
Net current assets		**882**	977
Total assets less current liabilities		**6,669**	7,214
Creditors – amounts falling due after more than one year			
Medium and long term borrowing		**(2,607)**	(2,705)
Other creditors		**(54)**	(34)
		(2,661)	(2,739)
Provisions for liabilities and charges			
Deferred taxation		**(5)**	(9)
Other provisions for liabilities and charges		**(239)**	(257)
Net assets		**3,764**	4,209
Capital and reserves			
Called up share capital	10	**200**	199
Share premium account	10	**2,459**	2,440
Profit and loss account	10	**929**	1,405
Equity shareholders' funds		**3,588**	4,044
Equity minority interests		**176**	165
		3,764	4,209

Consolidated Statement of Cash Flows

for the year ended 31 December 2001

all figures in £ millions	Note	2001	2000
Net cash inflow from operating activities	11	**490**	361
Dividends from joint ventures and associates		**25**	49
Interest received		**31**	16
Interest paid		**(187)**	(179)
Debt issue costs		**(1)**	(4)
Dividends paid to minority interests		**(9)**	-
Returns on investments and servicing of finance		**(166)**	(167)
Taxation		**(71)**	(90)
Purchase of tangible fixed assets		**(165)**	(139)
Sale of tangible fixed assets		**36**	22
Purchase of investments		**(35)**	(132)
Sale of investments		**22**	1
Capital expenditure and financial investment		**(142)**	(248)
Purchase of subsidiary undertakings		**(128)**	(2,276)
Net cash/(debt) acquired with subsidiary undertakings		**83**	(31)
Purchase of joint ventures and associates		**(26)**	(108)
Sale of subsidiary undertakings		**41**	158
Sale of associates		**1**	392
Acquisitions and disposals		**(29)**	(1,865)
Equity dividends paid		**(174)**	(143)
Net cash outflow before management of liquid resources and financing		**(67)**	(2,103)
Liquid resources acquired		**(48)**	(16)
Collateral deposit reimbursed/(placed)		**47**	(118)
Management of liquid resources		**(1)**	(134)
Issue of equity share capital		**20**	1,959
Capital element of finance lease rentals		**(7)**	(10)
Loan facility advanced		**-**	473
Loan facility repaid		**(521)**	(735)
Bonds advanced		**507**	411
Loan notes advanced		**-**	134
Net movement in other borrowings		**3**	63
Financing		**2**	2,295
(Decrease)/increase in cash in the year		**(66)**	58

2001 results

The preliminary results for the year ended 31 December 2001 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The 2000 accounts carry an unqualified audit report and have been so delivered. The 2001 Annual Report will be posted to shareholders on Tuesday 26 March 2002.

Dividend

The directors recommend a final dividend of 13.6p per share, payable on Friday 7 June 2002 to shareholders on the register at the close of business on Friday 15 March 2002.

Annual General Meeting

The AGM will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SWIP 3EE, at 12 noon on Friday 26 April 2002.

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2001

all figures in £ millions	**2001**	2000
(Loss)/profit for the financial year	**(391)**	179
Other net gains and losses recognised in reserves:		
Currency translation differences	**25**	95
Taxation on currency translation differences - UK	**(6)**	(8)
Total recognised (losses)/gains relating to the year	**(372)**	266

Reconciliation of Movements in Equity Shareholders' Funds
for the year ended 31 December 2001

all figures in £ millions	**2001**	2000
(Loss)/profit for the financial year	**(391)**	179
Dividends on equity shares	**(177)**	(164)
	(568)	15
Currency translation differences (net of taxation)	**19**	87
Goodwill arising on prior year acquisitions	**-**	1
Goodwill written back on business combinations	**-**	585
Goodwill written back on sale of subsidiary undertakings and associates	**37**	68
Goodwill written back on sale of subsidiary undertakings and associates by an associate	**36**	-
Shares issued	**18**	1,961
Replacement options granted on acquisition of subsidiary	**2**	6
Net movement for the year	**(456)**	2,723
Equity shareholders' funds at beginning of the year	**4,044**	1,321
Equity shareholders' funds at end of the year	**3,588**	4,044

Notes to the 2001 Results
for the year ended 31 December 2001

1. Basis of preparation

The results for the year ended 31 December 2001 have been prepared in accordance with the accounting policies set out in the 2000 Annual Report. FRS 18 'Accounting Policies' has been adopted but this has had no impact on the 2001 results. The transitional arrangements of FRS 17 'Retirement Benefits' have been adopted which require additional disclosures in respect of all retirement benefits.

2a. Sector analysis – sales

	2001			2000		
all figures in £ millions	**Sales before internet enterprise**	**Internet enterprises**	**Sales**	Sales before internet enterprise	Internet enterprises	Sales
Business sectors						
Pearson Education	**2,596**	**8**	**2,604**	2,087	3	2,090
FT Group	**750**	**51**	**801**	802	42	844
The Penguin Group	**820**	**-**	**820**	755	-	755
Continuing operations	**4,166**	**59**	**4,225**	3,644	45	3,689
Discontinued operations	**-**	**-**	**-**	185	-	185
	4,166	**59**	**4,225**	3,829	45	3,874
Geographical markets supplied						
United Kingdom	**423**	**10**	**433**	436	13	449
Continental Europe	**438**	**8**	**446**	449	7	456
North America	**2,936**	**39**	**2,975**	2,424	24	2,448
Asia Pacific	**239**	**2**	**241**	229	1	230
Rest of world	**130**	**-**	**130**	106	-	106
Continuing operations	**4,166**	**59**	**4,225**	3,644	45	3,689
Discontinued operations	**-**	**-**	**-**	185	-	185
	4,166	**59**	**4,225**	3,829	45	3,874

2b. Sector analysis – operating (loss)/profit

	2001						
all figures in £ millions	**Results from operations before internet enterprises**	**Internet enterprises**	**Results from operations**	**Integration costs**	**Goodwill amortisation**	**Goodwill impairment**	**Operating loss**
Business sectors							
Pearson Education	**351**	**(77)**	**274**	**(29)**	**(260)**	**(8)**	**(23)**
FT Group	**132**	**(60)**	**72**	**-**	**(67)**	**(3)**	**2**
The Penguin Group	**80**	**-**	**80**	**(45)**	**(20)**	**(50)**	**(35)**
Continuing operations	**563**	**(137)**	**426**	**(74)**	**(347)**	**(61)**	**(56)**
Discontinued operations	**37**	**-**	**37**	**-**	**(35)**	**-**	**2**
	600	**(137)**	**463**	**(74)**	**(382)**	**(61)**	**(54)**

2b. Sector analysis – operating (loss)/profit (continued)

	2001						
all figures in £ millions	**Results from operations before internet enterprises**	**Internet enterprises**	**Results from operations**	**Integration costs**	**Goodwill amortisation**	**Goodwill impairment**	**Operating loss**
Geographical markets supplied							
United Kingdom	**16**	**(53)**	**(37)**	**(33)**	**(27)**	**(55)**	**(152)**
Continental Europe	**55**	**(10)**	**45**	**-**	**(6)**	**-**	**39**
North America	**470**	**(73)**	**397**	**(41)**	**(309)**	**(3)**	**44**
Asia Pacific	**24**	**-**	**24**	**-**	**(4)**	**-**	**20**
Rest of world	**(2)**	**(1)**	**(3)**	**-**	**(1)**	**(3)**	**(7)**
Continuing operations	**563**	**(137)**	**426**	**(74)**	**(347)**	**(61)**	**(56)**
Discontinued operations	**37**	**-**	**37**	**-**	**(35)**	**-**	**2**
	600	**(137)**	**463**	**(74)**	**(382)**	**(61)**	**(54)**

	2000						
all figures in £ millions	Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating Profit
Business sectors							
Pearson Education	320	(83)	237	(13)	(157)	-	67
FT Group	211	(113)	98	-	(53)	-	45
The Penguin Group	79	-	79	(27)	(14)	-	38
Continuing operations	610	(196)	414	(40)	(224)	-	150
Discontinued operations	76	-	76	-	(15)	-	61
	686	(196)	490	(40)	(239)	-	211
						-	
Geographical markets supplied						-	
United Kingdom	82	(90)	(8)	(16)	(20)	-	(44)
Continental Europe	83	(8)	75	-	(1)	-	74
North America	398	(97)	301	(21)	(203)	-	77
Asia Pacific	26	-	26	(3)	-	-	23
Rest of world	21	(1)	20	-	-	-	20
Continuing operations	610	(196)	414	(40)	(224)	-	150
Discontinued operations	76	-	76	-	(15)	-	61
	686	(196)	490	(40)	(239)	-	211

Note: Internet enterprises consist of the Group's discrete internet operations, principally FT.com and Learning Network. Integration costs in 2001 and 2000 include costs in respect of the Dorling Kindersley and National Computer Systems acquisitions and, in 2000, the Simon & Schuster acquisition. In 2001, of the goodwill impairment charge £58m relates to the impairment of goodwill arising on acquisition of subsidiaries, principally in respect of DK, £50m, and £3m relates to the impairment of goodwill arising on acquisition of associates. Discontinued operations relate to the withdrawal of the Group from the television business following its disposal of its 22% interest in the RTL Group in January 2002 and from the banking business following its disposal of Lazard in March 2000. Analyses of the profits of joint ventures and associates are shown in note 2c.

2c. Sector analysis – joint ventures and associates

Included in the analysis of operating (loss)/profit, results from operations, in note 2b are the following amounts in respect of joint ventures and associates:

	2001			2000		
all figures in £ millions	**Results from operations**	**Other items**	**Total**	Results from operations	Other items	Total
Joint ventures						
Continuing operations	**(19)**	**-**	**(19)**	(21)	-	(21)

	2001			2000		
all figures in £ millions	**Results from operations**	**Other items**	**Total**	Results from operations	Other items	Total
Associates						
Continuing operations	**1**	**(51)**	**(50)**	14	(37)	(23)
Discontinued operations	**37**	**(35)**	**2**	47	(14)	33
	38	**(86)**	**(48)**	61	(51)	10

3. Loss on sale of fixed assets and investments

all figures in £ millions	**2001**	2000
Continuing operations:		
Loss on investment in Industry Standard	**(3)**	-
Net loss on sale of property	**(2)**	-
Net loss on other investments	**(7)**	(4)
	(12)	(4)
Taxation	**1**	3

4. (Loss)/profit on sale of subsidiary undertakings and associates

all figures in £ millions	**2001**	2000
Profit on sale of Lazard	**-**	231
Profit on sale of 20% of Recolétos	**-**	86
Loss on sale of iForum	**(27)**	-
Loss on closure of Dorling Kindersley Family Learning business	**(2)**	(16)
Net loss on sale of other businesses and associates	**(29)**	(40)
	(58)	261
Continuing operations	**(58)**	30
Discontinued operations	**-**	231
	(58)	261
Taxation	**4**	(51)

5. Amounts written off investments

The value of own shares held has been assessed against the current market value and a provision of £37m for impairment has been made. The value of other fixed asset investments has been assessed according to the higher of net realisable value and value in use and a provision for impairment of £55m has also been made.

6. Earnings per share

In order to show results from operating activities on a comparable basis two adjusted earnings per equity share are presented. First, an adjusted earnings per share is presented which excludes items of an unusual nature and goodwill amortisation as shown below. Due to a significant level of expenditure on internet enterprises, a second adjusted earnings per equity share is presented in which the results of these are also excluded from earnings. The company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

	2001		2000	
		Earnings per share		Earnings per share
	£m	**(p)**	£m	(p)
(Loss)/profit for the financial year	**(391)**	**(49.2)**	179	24.6
Adjustments:				
Loss on sale of fixed assets and investments: continuing operations	**12**	**1.5**	4	0.5
Loss/(profit) on sale of subsidiary undertakings and associates: continuing operations	**58**	**7.3**	(30)	(4.0)
Profit on sale of subsidiary undertakings and associates: discontinued operations	**-**	**-**	(231)	(31.7)
Loss on sale of subsidiary undertakings and associates by an associate: continuing operations	**36**	**4.5**	3	0.4
Loss on sale of subsidiary undertakings and associates by an associate: discontinued operations	**17**	**2.1**	-	-
Internet enterprises	**137**	**17.1**	196	26.9
Interest on internet enterprises	**14**	**1.8**	9	1.2
Goodwill amortisation	**382**	**48.2**	239	32.9
Integration costs	**74**	**9.3**	40	5.5
Goodwill impairment	**61**	**7.7**	-	-
Amounts written off investments	**92**	**11.6**	-	-
Other net finance costs	**-**	**-**	24	3.3
Taxation on above items	**(174)**	**(21.9)**	(18)	(2.5)
Minority interest share of above items	**(6)**	**(0.8)**	(18)	(2.5)
Adjusted earnings before internet enterprises	**312**	**39.2**	397	54.6
Internet enterprises	**(137)**	**(17.1)**	(196)	(26.9)
Interest on internet enterprises	**(14)**	**(1.8)**	(9)	(1.2)
Taxation on internet enterprises	**16**	**2.0**	37	5.0
Minority interest share of internet enterprises	**2**	**0.2**	3	0.4
Adjusted earnings after internet enterprises	**179**	**22.5**	232	31.9
(Loss)/profit for the financial year	**(391)**	**n/a**	179	24.3
Taxation on the conversion of ordinary shares	**(1)**	**n/a**	(2)	(0.3)
Diluted (loss)/earnings	**(392)**	**n/a**	177	24.0
Weighted average number of equity shares (millions)				
- for earnings and adjusted earnings	**795.4**		727.7	
Effect of dilutive share options	**n/a**		8.4	
Weighted average number of equity shares (millions)				
- for diluted earnings	**n/a**		736.1	
Adjusted earnings per equity share before internet enterprises	**39.2p**		54.6p	
Adjusted earnings per equity share after internet enterprises	**22.5p**		31.9p	
(Loss)/earnings per equity share	**(49.2)p**		24.6p	
Diluted earnings per equity share	**n/a**		24.0p	

7. Taxation

The tax rate provided in the profit and loss account is analysed as follows:

all figures in percentages	**2001**	2000
United Kingdom tax rate	**30.0**	30.0
Effect of overseas tax rates	**6.8**	2.2
Effect of utilisation of tax losses in the US	**(10.8)**	(7.8)
Other items	**(1.9)**	(1.4)
Tax rate reflected in adjusted earnings (before internet enterprises)	**24.1**	23.0
Effect of internet enterprises	**7.0**	3.1
Tax rate reflected in adjusted earnings (after internet enterprises)	**31.1**	26.1
Effect of (losses)/profits excluded from adjusted earnings	**(15.8)**	11.2
Tax rate reflected in earnings	**15.3**	37.3

The taxation (benefit)/charge is analysed as:

all figures in £ millions	**2001**	2000
Parent and subsidiaries	**(82)**	92
Joint ventures and associates	**15**	14
	(67)	106

Note: The Group has significant tax losses available in the US, which are not recognised in the accounts and hence the tax rate reflected in adjusted earnings is lowered. Included in the parent and subsidiaries taxation of £82m, is a benefit of £143m relating to prior period disposals.

8. Dividends

	2001 Pence per share	**2001 £m**	2000 Pence per share	2000 £m
Interim paid	**8.7**	**68**	8.2	58
Final proposed	**13.6**	**109**	13.2	106
Dividends for the year	**22.3**	**177**	21.4	164

9. Exchange rates

Pearson earns a significant proportion of its sales and profits in overseas currencies, the most important being the US dollar. The relevant rates are as follows:

	----- £ versus US$ -----	
	2001	2000
Average for operating profits	**1.44**	1.51
Year end rate	**1.46**	1.49

10. Equity shareholders' funds

all figures in £ millions	Share capital	Share premium	Profit and loss account	Total
At 31 December 2000	199	2,440	1,405	4,044
Exchange differences	-	-	19	19
Shares issued	1	-	-	1
Premium on issue of shares	-	19	(2)	17
Goodwill written back on disposal of subsidiary undertakings and associates	-	-	37	37
Goodwill written back on disposal of subsidiary undertakings and associates by an associate	-	-	36	36
Replacement options granted on acquisition of subsidiary	-	-	2	2
(Loss) retained for the year	-	-	(568)	(568)
At 31 December 2001	**200**	**2,459**	**929**	**3,588**

11. Note to consolidated statement of cash flows

all figures in £ millions	**2001**	2000
Reconciliation of operating (loss)/profit to net cash inflow from operating activities		
Operating (loss)/profit – total	**(54)**	211
Share of loss of joint ventures and associates	**64**	11
Depreciation charges	**125**	100
Goodwill amortisation and impairment	**360**	188
(Increase) in stocks	**(6)**	(97)
Decrease in debtors	**102**	53
(Decrease) in creditors	**(103)**	(119)
Increase/(decrease) in operating provisions	**3**	(4)
Other and non-cash items	**(1)**	18
Net cash inflow from operating activities	**490**	361
Purchase of fixed assets and finance lease payments	**(172)**	(149)
Sale of operating tangible fixed assets	**36**	22
Dividends from associates	**25**	49
Other	**(11)**	(8)
Operating cash flow	**368**	275
Analysed between:		
Operating cash flow before internet enterprises and other items	**553**	580
Dorling Kindersley exceptional payments	**-**	(46)
Integration costs :		
Simon & Schuster / NCS	**(26)**	(36)
Dorling Kindersley	**(43)**	(25)
Cash effect of internet enterprises	**(116)**	(198)
Operating cash flow	**368**	275

Note: The Dorling Kindersley exceptional payments in 2000 are in respect of creditors on the acquisition balance sheet beyond normal trading terms.