

## Consolidated Profit and Loss Account

for the six months to 30 June 2003

<i>all figures in £ millions</i>	Note	2003 half year	2002 half year	2002 full year
<b>Sales (including share of joint ventures)</b>		<b>1,673</b>	1,819	4,331
Less: share of joint ventures		<b>(8)</b>	(6)	(11)
<b>Sales</b>	2a	<b>1,665</b>	1,813	4,320
<b>Group operating (loss) / profit</b>		<b>(105)</b>	(79)	194
<b>Share of operating loss of joint ventures and associates</b>	2c / d	<b>(5)</b>	(32)	(51)
<b>Total operating (loss) / profit</b>	2b	<b>(110)</b>	(111)	143
Total operating (loss) / profit analysed between :				
Operating profit before goodwill amortisation, goodwill impairment and integration costs		<b>38</b>	76	493
Goodwill amortisation and impairment		<b>(148)</b>	(182)	(340)
Integration costs		<b>-</b>	(5)	(10)
<b>Total operating (loss) / profit</b>	2b	<b>(110)</b>	(111)	143
Loss on sale of fixed assets and investments		<b>(1)</b>	-	(13)
Profit / (loss) on sale of subsidiaries and associates	3	<b>12</b>	7	(27)
Profit on sale of subsidiaries and associates by an associate		<b>-</b>	3	3
<b>Non operating items</b>		<b>11</b>	10	(37)
<b>(Loss) / profit before interest and taxation</b>		<b>(99)</b>	(101)	106
Net finance costs	4	<b>(39)</b>	(87)	(131)
<b>Loss before taxation</b>	5	<b>(138)</b>	(188)	(25)
Taxation	7	<b>(9)</b>	(6)	(64)
<b>Loss after taxation</b>		<b>(147)</b>	(194)	(89)
Equity minority interests		<b>(13)</b>	(13)	(22)
<b>Loss for the financial period</b>		<b>(160)</b>	(207)	(111)
<b>Dividends on equity shares</b>	8	<b>(74)</b>	(73)	(187)
<b>Retained loss</b>		<b>(234)</b>	(280)	(298)
<b>Adjusted (loss) / earnings per share</b>	6	<b>(2.3)p</b>	0.5p	30.3p
<b>Loss per share</b>	6	<b>(20.1)p</b>	(26.0)p	(13.9)p
<b>Diluted loss per share</b>	6	<b>(20.1)p</b>	(26.0)p	(13.9)p
<b>Dividend per share</b>	8	<b>9.4p</b>	9.1p	23.4p

There is no difference between the loss before taxation and the retained loss for the period stated above and their historical cost equivalents.

The results for the 2002 full year are an abridged version of the full accounts, which have received an unqualified audit report from the auditors and have been filed with the Registrar of Companies. First half year figures are neither audited nor reviewed.

## Consolidated Balance Sheet

as at 30 June 2003

<i>all figures in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
<b>Fixed assets</b>			
Intangible assets	<b>3,560</b>	3,939	3,610
Tangible assets	<b>498</b>	528	503
Investments: joint ventures			
Share of gross assets	<b>1</b>	4	7
Share of gross liabilities	<b>-</b>	-	-
	<b>1</b>	4	7
Investments: associates	<b>62</b>	107	106
Investments: other	<b>85</b>	83	84
	<b>4,206</b>	4,661	4,310
<b>Current assets</b>			
Stocks	<b>792</b>	848	734
Debtors	<b>1,240</b>	1,073	1,057
Deferred taxation	<b>180</b>	280	174
Investments	<b>2</b>	3	2
Cash at bank and in hand	<b>229</b>	542	575
	<b>2,443</b>	2,746	2,542
<b>Creditors – amounts falling due within one year</b>			
Short-term borrowing	<b>(206)</b>	(57)	(249)
Other creditors	<b>(1,046)</b>	(995)	(1,114)
	<b>(1,252)</b>	(1,052)	(1,363)
<b>Net current assets</b>	<b>1,191</b>	1,694	1,179
<b>Total assets less current liabilities</b>	<b>5,397</b>	6,355	5,489
<b>Creditors – amounts falling due after more than one year</b>			
Medium and long-term borrowing	<b>(1,920)</b>	(2,442)	(1,734)
Other creditors	<b>(41)</b>	(41)	(60)
	<b>(1,961)</b>	(2,483)	(1,794)
<b>Provisions for liabilities and charges</b>	<b>(148)</b>	(174)	(165)
<b>Net assets</b>	<b>3,288</b>	3,698	3,530
<b>Capital and reserves</b>			
Called up share capital	<b>200</b>	200	200
Share premium account	<b>2,466</b>	2,460	2,465
Profit and loss account	<b>411</b>	849	673
<b>Equity shareholders' funds</b>	<b>3,077</b>	3,509	3,338
<b>Equity minority interests</b>	<b>211</b>	189	192
	<b>3,288</b>	3,698	3,530

## Consolidated Statement of Cash Flows

for the six months to 30 June 2003

<i>all figures in £ millions</i>	Note	2003 half year	2002 half year	2002 full year
<b>Net cash (outflow) / inflow from operating activities</b>	10	<b>(293)</b>	(193)	529
<b>Dividends from joint ventures and associates</b>		<b>1</b>	1	6
Interest received		<b>8</b>	6	11
Interest paid		<b>(44)</b>	(99)	(151)
Debt issue costs		<b>(1)</b>	-	-
Dividends paid to minority interests		<b>(2)</b>	(1)	(1)
<b>Returns on investments and servicing of finance</b>		<b>(39)</b>	(94)	(141)
<b>Taxation</b>		<b>(1)</b>	(35)	(55)
Purchase of tangible fixed assets		<b>(56)</b>	(71)	(126)
Sale of tangible fixed assets		<b>3</b>	-	7
Purchase of investments		<b>(3)</b>	(3)	(21)
Sale of investments		<b>-</b>	-	3
<b>Capital expenditure and financial investment</b>		<b>(56)</b>	(74)	(137)
Purchase of subsidiaries		<b>(87)</b>	(38)	(87)
Net cash acquired with subsidiaries		<b>1</b>	-	1
Purchase of joint ventures and associates		<b>(2)</b>	(9)	(40)
Sale of subsidiaries		<b>-</b>	8	3
Net cash disposed with subsidiaries		<b>-</b>	-	(1)
Sale of associates		<b>56</b>	921	920
<b>Acquisitions and disposals</b>		<b>(32)</b>	882	796
<b>Equity dividends paid</b>		<b>(113)</b>	(108)	(181)
<b>Net cash (outflow) / inflow before management of liquid resources and financing</b>		<b>(533)</b>	379	817
Liquid resources acquired		<b>(112)</b>	(82)	(65)
Collateral deposit (placed) / reclaimed		<b>-</b>	(29)	22
<b>Management of liquid resources</b>		<b>(112)</b>	(111)	(43)
Issue of equity share capital		<b>1</b>	1	6
Capital element of finance lease rentals		<b>(2)</b>	(2)	(5)
Loan facility advanced / (repaid)		<b>326</b>	(59)	(507)
Bonds advanced / (repaid)		<b>164</b>	(156)	(167)
Collateral deposit reimbursed		<b>45</b>	-	17
Net movement in other borrowings		<b>(5)</b>	7	(7)
<b>Financing</b>		<b>529</b>	(209)	(663)
<b>(Decrease) / increase in cash in the period</b>		<b>(116)</b>	59	111

## Statement of Total Recognised Gains and Losses

for the six months ended 30 June 2003

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<i>all figures in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
Loss for the financial period	<b>(160)</b>	(207)	(111)
Other net gains and losses recognised in reserves:			
Currency translation differences	<b>(29)</b>	(153)	(317)
Taxation on currency translation differences	-	-	5
<b>Total recognised gains and losses relating to the period</b>	<b>(189)</b>	(360)	(423)
Prior year adjustment – FRS 19	-	209	209
<b>Total recognised gains and losses</b>	<b>(189)</b>	(151)	(214)

## Reconciliation of Movements in Equity Shareholders' Funds

for the six months ended 30 June 2003

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<i>all figures in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
Loss for the financial period	<b>(160)</b>	(207)	(111)
Dividends on equity shares	<b>(74)</b>	(73)	(187)
	<b>(234)</b>	(280)	(298)
Currency translation differences (net of taxation)	<b>(29)</b>	(153)	(312)
Goodwill written back on sale of subsidiaries and associates	-	144	144
Shares issued	<b>1</b>	1	6
Replacement options granted on acquisition of subsidiary	<b>1</b>	-	1
Net movement for the period	<b>(261)</b>	(288)	(459)
Equity shareholders' funds at beginning of the period	<b>3,338</b>	3,797	3,797
<b>Equity shareholders' funds at end of the period</b>	<b>3,077</b>	3,509	3,338

## Notes to the 2003 Results

for the six months ended 30 June 2003

### 1. Basis of preparation

The results for the six months ended 30 June 2003 have been prepared in accordance with the accounting policies set out in the 2002 Annual Report.

### 2a. Sector analysis – sales

<i>all figures in £ millions</i>	<b>2003 half year</b>	2002 half year	2002 full year
Pearson Education	<b>927</b>	1,049	2,756
FT Group	<b>370</b>	370	726
The Penguin Group	<b>368</b>	394	838
	<b>1,665</b>	1,813	4,320

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

<i>all figures in £ millions</i>	.....2003 half year.....				
	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
Pearson Education	(26)	-	(120)	-	(146)
FT Group	43	-	(18)	-	25
The Penguin Group	21	-	(10)	-	11
Continuing operations	38	-	(148)	-	(110)
Discontinued operations	-	-	-	-	-
	38	-	(148)	-	(110)

<i>all figures in £ millions</i>	.....2002 half year.....				
	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
Pearson Education	-	(3)	(126)	-	(129)
FT Group	38	-	(33)	(10)	(5)
The Penguin Group	38	(2)	(10)	-	26
Continuing operations	76	(5)	(169)	(10)	(108)
Discontinued operations	-	-	(3)	-	(3)
	76	(5)	(172)	(10)	(111)

<i>all figures in £ millions</i>	.....2002 full year.....				
	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Pearson Education	326	(7)	(244)	-	75
FT Group	80	-	(65)	(10)	5
The Penguin Group	87	(3)	(18)	-	66
Continuing operations	493	(10)	(327)	(10)	146
Discontinued operations	-	-	(3)	-	(3)
	493	(10)	(330)	(10)	143

## 2c. Sector analysis – joint ventures

Included in the analysis of operating (loss) / profit in note 2b are the following amounts in respect of joint ventures:

<i>all figures in £ millions</i>	<b>2003 half year</b>	2002 half year	2002 full year
Pearson Education	-	-	(1)
FT Group	<b>(4)</b>	(7)	(13)
The Penguin Group	-	-	1
	<b>(4)</b>	(7)	(13)

## 2d. Sector analysis - associates

Included in the analysis of operating (loss) / profit in note 2b are the following amounts in respect of associates:

.....2003 half year.....

<i>all figures in £ millions</i>	<b>Results from operations</b>	<b>Goodwill amortisation</b>	<b>Operating loss</b>
Pearson Education	<b>1</b>	-	<b>1</b>
FT Group	<b>6</b>	<b>(8)</b>	<b>(2)</b>
The Penguin Group	-	-	-
Continuing operations	<b>7</b>	<b>(8)</b>	<b>(1)</b>
Discontinued operations	-	-	-
	<b>7</b>	<b>(8)</b>	<b>(1)</b>

.....2002 half year.....

<i>all figures in £ millions</i>	<b>Results from operations</b>	<b>Goodwill amortisation</b>	<b>Operating loss</b>
Pearson Education	1	-	1
FT Group	1	(24)	(23)
The Penguin Group	-	-	-
Continuing operations	2	(24)	(22)
Discontinued operations	-	(3)	(3)
	2	(27)	(25)

.....2002 full year.....

<i>all figures in £ millions</i>	<b>Results from operations</b>	<b>Goodwill amortisation</b>	<b>Operating loss</b>
Pearson Education	3	(1)	2
FT Group	7	(44)	(37)
The Penguin Group	-	-	-
Continuing operations	10	(45)	(35)
Discontinued operations	-	(3)	(3)
	10	(48)	(38)

### 3. Profit / (loss) on sale of subsidiaries and associates

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<i>all figures in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
Continuing operations:			
Loss on sale of Forum	-	-	(40)
Loss on sale of PH Direct	-	(10)	(8)
Net profit on sale of other subsidiaries and associates	<b>12</b>	-	3
Continuing operations	<b>12</b>	(10)	(45)
Profit on sale of RTL Group – discontinued operations	-	17	18
<b>Profit / (loss) on sale of subsidiaries and associates</b>	<b>12</b>	7	(27)
<b>Taxation</b>	<b>(11)</b>	(11)	(6)

### 4. Net finance costs

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<i>all figures in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
Net interest payable	<b>(39)</b>	(50)	(94)
Early repayment of debt and termination of swap contracts	-	(37)	(37)
<b>Net finance costs</b>	<b>(39)</b>	(87)	(131)

## 5. (Loss) / profit before taxation

<i>all figures in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
<b>Loss before taxation</b>	<b>(138)</b>	(188)	(25)
Goodwill amortisation	<b>148</b>	172	330
Goodwill impairment	-	10	10
Integration costs	-	5	10
Non operating items	<b>(11)</b>	(10)	37
Early repayment of debt and termination of swap contracts	-	37	37
<b>(Loss) / profit before taxation (before goodwill amortisation and other items)</b>	<b>(1)</b>	26	399

## 6. (Loss) / earnings per share

In order to show results from operating activities on a comparable basis, an adjusted earnings per share is presented which excludes items as set out below. The company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

<i>all figures are in £ millions</i>	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
<b>Loss for the financial period</b>	<b>(160)</b>	(207)	(111)
Adjustments:			
- Non operating items	<b>(11)</b>	(10)	37
- Integration costs	-	5	10
- Goodwill amortisation	<b>148</b>	172	330
- Goodwill impairment	-	10	10
- Early repayment of debt and termination of swap contracts	-	37	37
Taxation on above items	<b>9</b>	(3)	(67)
Minority interest share of above items	<b>(4)</b>	-	(5)
<b>Adjusted (loss) / earnings</b>	<b>(18)</b>	4	241
Weighted average number of shares (millions)			
- for earnings and adjusted earnings	<b>797.1</b>	795.9	796.3
Effect of dilutive share options	-	-	-
Weighted average number of shares (millions)			
- for diluted loss	<b>797.1</b>	795.9	796.3
Adjusted (loss) / earnings per share	<b>(2.3)p</b>	0.5p	30.3p
Loss per share	<b>(20.1)p</b>	(26.0)p	(13.9)p

Where the Group has made a loss for the financial period, after taking into account goodwill amortisation, the effect of share options is anti-dilutive and there is no difference between the loss per share and the diluted loss per share.



## 7. Taxation

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

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	<b>2003</b>	2002	2002
<i>all figures in percentages</i>	<b>half year</b>	half year	full year
UK tax rate	<b>30.0</b>	30.0	30.0
Effect of overseas tax rates	<b>4.0</b>	4.8	2.8
Other items	-	(0.8)	-
<b>Tax rate reflected in adjusted (loss) / earnings</b>	<b>34.0</b>	34.0	32.8

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The taxation charge is analysed as:

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	<b>2003</b>	2002	2002
<i>all figures in £ millions</i>	<b>half year</b>	half year	full year
Parent and subsidiaries	<b>(7)</b>	(4)	(60)
Joint ventures and associates	<b>(2)</b>	(2)	(4)
	<b>(9)</b>	(6)	(64)

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## 8. Dividends

The directors have declared an interim dividend of 9.4p per equity share, payable on 26 September 2003 to shareholders on the register at the close of business on 8 August 2003.

## 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:

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	<b>2003</b>	2002	2002
	<b>half year</b>	half year	full year
Average for operating profits	<b>1.61</b>	1.45	1.51
Period end rate	<b>1.65</b>	1.52	1.61

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## 10. Note to consolidated statement of cash flows

<i>all figures in £ millions</i>	2003 half year	2002 half year	2002 full year
<b>Reconciliation of operating (loss) / profit to net cash (outflow) / inflow from operating activities</b>			
Total operating (loss) / profit	(110)	(111)	143
Share of operating loss of joint ventures and associates	5	32	51
Depreciation charges	56	63	122
Subsidiary goodwill amortisation and impairment	140	155	292
(Increase) / decrease in stocks	(68)	(27)	43
Increase in debtors	(137)	(94)	(111)
(Decrease) / increase in creditors	(165)	(156)	64
Decrease in operating provisions	(14)	(51)	(50)
Other and non-cash items	-	(4)	(25)
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(293)</b>	<b>(193)</b>	<b>529</b>
Dividends from joint ventures and associates	1	1	6
Purchase of tangible fixed assets	(56)	(71)	(126)
Capital element of finance lease rentals	(2)	(2)	(5)
Proceeds from sale of tangible fixed assets	3	-	7
Add back: Non operating expenditure on fixed assets	3	4	-
Add back: Cash spent against integration and fair value provisions	6	32	44
<b>Pearson operating cashflow</b>	<b>(338)</b>	<b>(229)</b>	<b>455</b>
Operating tax paid	(1)	(19)	(46)
Operating finance charges	(36)	(56)	(104)
<b>Operating free cashflow</b>	<b>(375)</b>	<b>(304)</b>	<b>305</b>
Non operating tax paid	-	(16)	(9)
Non operating finance charges	-	(37)	(37)
Integration and fair value spend	(6)	(32)	(44)
<b>Total free cashflow</b>	<b>(381)</b>	<b>(389)</b>	<b>215</b>
Dividends paid (including minorities)	(115)	(109)	(182)
<b>Net movement of funds from operations</b>	<b>(496)</b>	<b>(498)</b>	<b>33</b>
Acquisitions of businesses and investments	(59)	(50)	(124)
Disposals of businesses, investments and property	51	930	930
New equity	1	1	6
Other non operating items	-	(5)	(5)
<b>Net movement of funds</b>	<b>(503)</b>	<b>378</b>	<b>840</b>
Exchange movements on net debt	14	44	131
<b>Total movement in net debt</b>	<b>(489)</b>	<b>422</b>	<b>971</b>