

28 July 2003

PEARSON PLC INTERIM RESULTS (unaudited)
Six months ended 30 June 2003

	Half year 2003	Half year 2002	Change – as reported	Change - underlying	Full year 2002
Sales	£1,665m	£1,813m	(8)%	(3)%	£4,320m
Business performance					
Operating profit*	£38m	£76m	(50)%	(71)%	£493m
Profit/ (loss) before tax*	£(1)m	£26m	--		£399m
Adjusted earnings/ (loss) per share	(2.3)p	0.5p	--		30.3p
Operating free cash flow	£(375)m	£(304)m	(23)%		£305m
Statutory results					
Operating profit/ (loss)	£(110)m	£(111)m	1%		£143m
Loss before tax	£(138)m	£(188)m	27%		£(25)m
Loss per share	(20.1)p	(26.0)p	23%		(13.9)p
Dividend per share	9.4p	9.1p	3%		23.4p
Net borrowings	£1,897m	£1,957m	3%		£1,408m

*Continuing operations before goodwill, non-operating items and integration costs.

On track for the full year

- Pearson makes most of its sales and all of its profits in the second half.
- Revenues and operating profits were down in the first half, as expected, due to tough trading conditions in advertising and technology businesses and phasing of book publishing revenues into the second half.
- Strong momentum built for second half, based on significant market share gains and further cost reductions.

Strong competitive performances

- Pearson Education takes the number one position in new US School adoptions; US Higher Education continues to grow well ahead of the industry.
- FT Group profits up as IDC remains resilient and cost controls reduce impact of advertising declines at business newspapers.
- Penguin profits down in first half as expected; best-ever publishing schedule in the second half.

Continuing efficiency gains

- Ongoing cost reductions offset tough trading conditions in business newspapers and technology publishing.
- Further integration of school software and book publishing businesses.
- Working capital management continues to improve.

Marjorie Scardino, Pearson's chief executive, said:

"We are confident about the full year because we are making the most of our strong market positions and operating on much lower costs. Our book publishing operations are proving resilient and performing well ahead of their competitors. Our business newspapers, with lower costs and improved content, will bounce back strongly when business advertising recovers."

Financial review

Sales in the six months to June 30, 2003 were £1,665m, 3% lower than in the first half of 2002. Sales were affected by tough trading conditions for our business newspapers and technology-related operations, a shift of business into the second half of the year at our education and consumer publishing businesses and the absence of the one-off, 2002 Transportation and Security Administration (TSA) contract. Operating profit was £38m versus £76m last year, due to business phasing. Adjusted earnings per share fell from 0.5p to a loss of 2.3p.

Operating free cash flow was £71m lower at (£375)m. The two main factors were business phasing and a receivable due from the TSA. Improved inventory management resulted in the average working capital to sales ratio in our book publishing businesses improving to 31.9% (from 32.8% in 2002). Total free cash flow improved by £8m to (£381)m, helped by lower finance and integration charges.

On a statutory basis, our loss before tax for the half-year improved 27% to £138m, helped by a lower (non cash) goodwill charge of £148m (£182m in 2002). The loss reflects the fact that Pearson makes all its profits in the second half but amortises goodwill evenly through the year.

Pearson's net borrowings, which are at their peak at the half-year stage, were 3% lower than last year at £1,897m. The board has declared a 3% increase in the interim dividend to 9.4p.

Outlook

At this stage the outlook for our major businesses is:

- At **Pearson Education**, we expect the US School industry to grow at the low end of the 0-3% range and the US College industry to grow in the 5-7% range this year. In both markets, we expect to grow ahead of the industry as we build on the market share we gained in the first half. Revenues and profits in our Professional business will be significantly lower than last year due to the continued recession in technology publishing and the absence of the one-off, \$400m TSA contract.
- Though corporate and financial advertising remains depressed, the **FT Group** should deliver profits ahead of last year. The FT Group is benefiting from continued strength at IDC and further cost reductions across its business newspapers. Those cost measures, together with investments in our business newspapers, will increase the benefits of an eventual advertising recovery.
- At **Penguin**, we are confident of revenue growth greater than the overall consumer publishing industry, which we expect to be broadly flat this year, and further profits progress. Penguin has its strongest-ever publishing schedule and has made an excellent start to the rest of the year.

In the second half, we expect our interest charge to be similar to the first-half level of £39m based on current exchange rates. We expect free cash flow to benefit from reduced finance charges, working capital efficiencies and lower integration spend.

For more information:

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Pearson's interim results presentation for investors and analysts will be webcast live today from 0930 (BST) and available for replay from 12 noon (BST) via www.pearson.com. We are holding a conference call for US investors at 1500 (BST)/ 1000 (EDT). To participate in the conference call or to listen to the audiocast, please register at www.pearson.com.

Video interviews with Marjorie Scardino and Rona Fairhead are also available at www.pearson.com. High resolution photographs are available for the media at www.newscast.co.uk.

Notes. Throughout this statement (unless otherwise stated):

1. Growth rates are stated on an underlying basis, excluding the impact of currency movements and portfolio changes. Pearson generates approximately 70% of its revenues in the US. The average exchange rate for the first half of 2003 was £1:\$1.61 (£1:\$1.45 in the first half of 2002). The full year exchange rate in 2002 was £1:\$1.51;
2. Adjusted figures are presented as additional measures of business performance. They are stated before goodwill, integration costs and non-operating items. Goodwill is amortised over no more than 20 years.
3. The 'business performance' measures, which Pearson uses alongside other measures to track performance, are included to provide additional detail on business performance. They are non-GAAP measures for both US and UK reporting. Reconciliations of operating profit, profit/ (loss) before tax, adjusted earnings per share and operating free cash flow to the equivalent statutory heading under UK GAAP are included in notes 2, 5, 6 and 10 respectively.

Pearson Education

£ millions	Half year 2003	Half year 2002	Change – as reported	Change - underlying	Full year 2002
Sales					
School	487	519	(6)%	0%	1,151
Higher Education	196	222	(12)%	3%	775
Professional	244	285	(14)%	(6)%	784
FT Knowledge	-	23	--	--	46
Total	927	1,049	(12)%	(1)%	2,756
Operating profit					
School	12	12	0%	(26)%	115
Higher Education	(43)	(32)	(34)%	(54)%	142
Professional	5	29	(83)%	(81)%	81
FT Knowledge	--	(9)	--	--	(12)
Total	(26)	0	--	--	326

Notes:

1. In May 2003, Pearson and Edexcel agreed to create a new UK examining body, London Qualifications, with Pearson taking a 75% stake. In the first half of the year, Edexcel contributed £16m of revenues to our School division.
2. At the start of 2003, we moved our Alpha consumer publishing imprint from Pearson Education's Professional division to Penguin.
3. In January 2003 we restructured FT Knowledge, selling its corporate training arm and integrating its remaining businesses within the FT and Pearson Education's Professional business.

Sales at **Pearson Education** were down level with last year. Pearson Education faces tough comparisons throughout 2003 due to the absence of the one-off, \$400m TSA contract (which contributed \$55m/ £38m of revenues in the first half of 2002).

Sales at our **School** business were flat. The US School industry has been affected by state budget pressures, with some states reducing their planned spend on textbooks, testing programs and software, or deferring purchases into the second half of the year. However, adoption states are spending and our business is performing very strongly and growing ahead of the industry.

In school publishing we expect to lead the industry in new adoption sales* this year, taking approximately 30% of the total new adoption market (even though we competed for only 85% of the adoption opportunities). We have successfully re-entered the Social Studies market, securing approximately 33% of all Social Studies adoptions and taking the leading position in the key Texas adoption. We expect to win more than 40% of Secondary Literature adoptions, taking the number one position in both Florida and California. We also have good early results from the open territories, which buy textbooks later in the year.

Revenues at our US School testing business were slightly up, as it began work on several contracts won last year. It continued to extend its market leadership, even as some states delayed or reduced their testing programmes in the face of budget pressures. In the first half we have won several major new testing contracts in the US, including a five-year contract with the US College Board, beginning in 2005, to process and score the constructed response part of the SAT, the world's most widely used college admissions test. In May we became a major player in UK education testing through our partnership with Edexcel, one of the UK's leading examining and awarding bodies. Although, with budget pressures, school software sales are down on last year, we have significantly reduced costs and improved products by integrating our software and content businesses, and we expect them to breakeven for the full year.

Outside the US, our English Language Teaching business grew 7%. We are benefiting from strong demand for textbooks and online programs as countries in Asia, Latin America and Europe integrate English language instruction into their school curriculum.

** In the US, 21 'adoption' states buy textbooks and related programmes to a planned contract schedule, which means the level of spending varies from year to year according to this schedule. The 'open territory' states are those in which local districts buy textbooks on an as-needed basis rather than on a published state adoption schedule.*

Our **Higher Education** business makes approximately three-quarters of its revenues in the second half of the year, with major selling seasons in July/ August and December, ahead of the two US college semesters. The business reports losses in the first half as it invests in publishing, sales and marketing to deliver full-year growth. Worldwide, sales were up 3% and increased investment moved first-half losses up to £43m.

In the US, sales were up 4%. According to Management Practice Data, gross sales for the industry were flat. Our share gains are based on a strong publishing schedule with several successful first editions, sales growth of more than 20% in custom publishing and the extension of our technology, particularly online course management systems, into new subject areas such as economics, health and physiology.

Revenues were down 6% in our **Professional** business and profits down sharply. The key factors were the 2002 TSA contract and the continued recession in technology markets around the world. Stripping out the impact of the TSA contract, the Professional business is growing. We are benefiting from several major new contracts won from Federal departments including Defense and Health and Human Services, and the first full year of our contract to certify nurses in our 200 professional testing centres. These contracts were in start-up phase in the first half, with profits coming through strongly later in the year.

Sales at our technology publishing business continued to decline with the IT industry. Our costs are already some \$80m lower than three years ago and we have taken a series of further steps to reduce costs, both in the US and internationally. In the second half we will benefit from the absence of restructuring costs to implement these changes (which were absorbed in our operating profit) and the normal phasing of the business, which is weighted to the end of the year.

Financial Times Group

£ millions	Half year 2003	Half year 2002	Change – as reported	Change – underlying	Full year 2002
Sales					
Financial Times	102	115	(11)%	(14)%	224
Other FT publishing	54	55	(2)%	(12)%	105
Recoletos	82	74	11%	0%	148
IDC	132	126	5%	3%	249
Total	370	370	0%	(5)%	726
Operating profit					
Financial Times	(15)	(11)	(36)%	(38)%	(23)
Other FT publishing	3	6	(50)%	(54)%	10
Recoletos	14	14	0%	(9)%	29
IDC	41	35	17%	21%	70
Associate and joint ventures	0	(6)	--	--	(6)
Total	43	38	13%	17%	80

Note: In February 2003, IDC acquired S&P Comstock, a real-time pricing business. In the first half of the year, Comstock contributed £13m of revenues to IDC.

Sales at the **FT Group** were 5% lower as the deep recession in corporate and financial advertising continued to hit our business newspapers. Profits were up 17%, helped by lower internet losses, additional cost savings and further progress at IDC.

Advertising revenues at the **Financial Times** continued to decline, falling 18% in the first half of the year. Average daily sales of the *Financial Times* for the six months to June were 461,000, a decline of 5% on the previous year. Although FT.com also felt the effects of the advertising downturn, its revenues were level with last year as paid subscribers grew to 57,000 (against 16,000 a year ago). FT.com's audience continued to grow with 3.5m unique monthly users in June, up from 2.8m a year ago.

The UK edition of the *Financial Times* has been successfully revamped with more UK business news, improved design and a new weekend magazine. The FT's UK circulation was 6% higher in May and June than in the four months before the revamp (though still lower than in the previous year), and the magazine is attracting new consumer advertising campaigns. We will launch a new Asian edition of the FT in the Autumn, completing our global coverage. We have continued to reduce costs at the FT, more than funding our investments in the newspaper through £13m of further cost savings this year. We are taking additional cost measures, including integrating our UK and European commercial operations, which we expect to generate approximately £15m of cost savings in 2004.

The advertising recession also reduced profits at **Les Echos** and **FT Business**. Average daily circulation at Les Echos was 117,000, a 3% decline that was significantly better than the overall newspaper industry in France. In September we will launch Les Echos in a new format, broadening its appeal to readers and advertisers. At **FT Business**, advertising volumes were approximately 20% lower but a series of cost reduction measures enabled us to maintain double digit margins.

At **Recoletos** (Bolsa Madrid: REC), our 79%-owned Spanish media company, sales were level with last year. Advertising revenues were down 3% overall and 14% in Recoletos' business and finance division. Circulation at sports newspaper *Marca* increased a further 4% to 378,000, but declined 6% to 46,000 at *Expansion*, Spain's leading business newspaper. All of Recoletos' major titles are gaining readership share.

Interactive Data Corporation (NYSE: IDC), our 60%-owned asset pricing business, increased revenues by 3% and operating profit by 21%. It is benefiting from the complete integration of the Merrill Lynch pricing business; its latest acquisition, real-time pricing service Comstock; and good growth from its high value pricing services. Although revenue growth has been dampened by tough conditions in the financial services industry, renewal rates in IDC's institutional business have remained high at 95%.

The FT Group's **Associates and Joint Ventures** broke even in the first half (against a loss of £6m in the first half of 2002). **FT Deutschland**, our joint venture with Gruner + Jahr, grew circulation 11% to 91,000 and increased advertising revenues, and we are considering further expansion. **The Economist Group**, in which Pearson owns a 50% stake, increased profits despite the difficult advertising market, with weekly circulation at *The Economist* up to more than 900,000 (from 838,000 in the first half of 2002).

The Penguin Group

£ millions	Half year 2003	Half year 2002	Change – as reported	Change – underlying	Full year 2002
Sales	368	394	(7)%	(3)%	838
Operating profit	21	38	(45)%	(45)%	87

Note: At the start of 2003, we moved our Alpha publishing imprint from Pearson Education's Professional division to Penguin.

The Penguin Group's revenues and profits declined, as expected, in the first half of the year. Our schedule of major frontlist titles is strongly weighted to the second half and the war in Iraq dampened US consumer spending in general and backlist sales in particular in April and May. Penguin's US sales were down 4% in the first half, in line with the overall US consumer publishing industry. Sales were up 4% in the UK, with strong performance from non-fiction titles including Michael Moore's million copy selling *Stupid White Men*, Antony Beevor's *Berlin* and Ellen MacArthur's *Taking on the World*.

Though the industry remains soft, we have seen a pick-up in June and July, with Penguin making an excellent start to the second half of the year. John Steinbeck's *East of Eden* has sold 1.2 million copies in the four weeks since it was selected for Oprah Winfrey's Book Club. *Kate Remembered*, Scott Berg's account of 20 years of conversations with Katharine Hepburn, was published in mid-July and we have already shipped more than 680,000 copies in hardback.

Penguin's second-half publishing list is its strongest ever. Many of our most popular and consistent best-selling authors have major books scheduled for publication in the Autumn. In the US, they include Patricia Cornwell, Nora Roberts, John Sandford, Nathaniel Philbrick, Amy Tan, Jan Karon, Garrison Keillor and Terry McMillan; and in the UK, Michael Moore, Simon Jenkins, Griff Rhys Jones, Pat Barker, Lisa Jewell and Lesley Pearse. Penguin is publishing new books by Tom Clancy and Clive Cussler in both markets. In September *The English Roses*, the first of five illustrated children's books by Madonna, will be published in 42 language editions in 100 countries. Penguin is the distributor in the US and publisher in other English language markets worldwide. Dorling Kindersley is also on track for a strong second half, led by Tom Peters' new-style business book *Re-Imagine*, *Earth*, the definitive family reference book on the planet, and *America 24/7*, which captures more than 1200 images documenting the lives of people in every US state in a single week.

Penguin and Pearson Education continue to collaborate on joint publishing initiatives and programmes to capitalize on the scale they enjoy as the world's largest book publisher. Having successfully integrated Pearson Education and Penguin in Australia and Canada, we are now moving to shared back offices, technology, warehousing and distribution in the UK. This integration programme, which will cost £20m in 2003, will generate £20m of annual cost savings worldwide from 2005, shared between Penguin and Pearson Education.

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 six months to 30 June 2003

<i>all figures in £ millions</i>	Note	2003 half year	2002 half year	2002 full year
Sales (including share of joint ventures)		1,673	1,819	4,331
Less: share of joint ventures		(8)	(6)	(11)
Sales	2a	1,665	1,813	4,320
Group operating (loss) / profit		(105)	(79)	194
Share of operating loss of joint ventures and associates	2c / d	(5)	(32)	(51)
Total operating (loss) / profit	2b	(110)	(111)	143
Total operating (loss) / profit analysed between :				
Operating profit before goodwill amortisation, goodwill impairment and integration costs		38	76	493
Goodwill amortisation and impairment		(148)	(182)	(340)
Integration costs		-	(5)	(10)
Total operating (loss) / profit	2b	(110)	(111)	143
Loss on sale of fixed assets and investments		(1)	-	(13)
Profit / (loss) on sale of subsidiaries and associates	3	12	7	(27)
Profit on sale of subsidiaries and associates by an associate		-	3	3
Non operating items		11	10	(37)
(Loss) / profit before interest and taxation		(99)	(101)	106
Net finance costs	4	(39)	(87)	(131)
Loss before taxation	5	(138)	(188)	(25)
Taxation	7	(9)	(6)	(64)
Loss after taxation		(147)	(194)	(89)
Equity minority interests		(13)	(13)	(22)
Loss for the financial period		(160)	(207)	(111)
Dividends on equity shares	8	(74)	(73)	(187)
Retained loss		(234)	(280)	(298)
Adjusted (loss) / earnings per share	6	(2.3)p	0.5p	30.3p
Loss per share	6	(20.1)p	(26.0)p	(13.9)p
Diluted loss per share	6	(20.1)p	(26.0)p	(13.9)p
Dividend per share	8	9.4p	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>	2003 half year	2002 half year	2002 full year
Fixed assets			
Intangible assets	3,560	3,939	3,610
Tangible assets	498	528	503
Investments: joint ventures			
Share of gross assets	1	4	7
Share of gross liabilities	-	-	-
	1	4	7
Investments: associates	62	107	106
Investments: other	85	83	84
	4,206	4,661	4,310
Current assets			
Stocks	792	848	734
Debtors	1,240	1,073	1,057
Deferred taxation	180	280	174
Investments	2	3	2
Cash at bank and in hand	229	542	575
	2,443	2,746	2,542
Creditors – amounts falling due within one year			
Short-term borrowing	(206)	(57)	(249)
Other creditors	(1,046)	(995)	(1,114)
	(1,252)	(1,052)	(1,363)
Net current assets	1,191	1,694	1,179
Total assets less current liabilities	5,397	6,355	5,489
Creditors – amounts falling due after more than one year			
Medium and long-term borrowing	(1,920)	(2,442)	(1,734)
Other creditors	(41)	(41)	(60)
	(1,961)	(2,483)	(1,794)
Provisions for liabilities and charges	(148)	(174)	(165)
Net assets	3,288	3,698	3,530
Capital and reserves			
Called up share capital	200	200	200
Share premium account	2,466	2,460	2,465
Profit and loss account	411	849	673
Equity shareholders' funds	3,077	3,509	3,338
Equity minority interests	211	189	192
	3,288	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
Net cash (outflow) / inflow from operating activities	10	(293)	(193)	529
Dividends from joint ventures and associates		1	1	6
Interest received		8	6	11
Interest paid		(44)	(99)	(151)
Debt issue costs		(1)	-	-
Dividends paid to minority interests		(2)	(1)	(1)
Returns on investments and servicing of finance		(39)	(94)	(141)
Taxation		(1)	(35)	(55)
Purchase of tangible fixed assets		(56)	(71)	(126)
Sale of tangible fixed assets		3	-	7
Purchase of investments		(3)	(3)	(21)
Sale of investments		-	-	3
Capital expenditure and financial investment		(56)	(74)	(137)
Purchase of subsidiaries		(87)	(38)	(87)
Net cash acquired with subsidiaries		1	-	1
Purchase of joint ventures and associates		(2)	(9)	(40)
Sale of subsidiaries		-	8	3
Net cash disposed with subsidiaries		-	-	(1)
Sale of associates		56	921	920
Acquisitions and disposals		(32)	882	796
Equity dividends paid		(113)	(108)	(181)
Net cash (outflow) / inflow before management of liquid resources and financing		(533)	379	817
Liquid resources acquired		(112)	(82)	(65)
Collateral deposit (placed) / reclaimed		-	(29)	22
Management of liquid resources		(112)	(111)	(43)
Issue of equity share capital		1	1	6
Capital element of finance lease rentals		(2)	(2)	(5)
Loan facility advanced / (repaid)		326	(59)	(507)
Bonds advanced / (repaid)		164	(156)	(167)
Collateral deposit reimbursed		45	-	17
Net movement in other borrowings		(5)	7	(7)
Financing		529	(209)	(663)
(Decrease) / increase in cash in the period		(116)	59	111

Statement of Total Recognised Gains and Losses

for the six months ended 30 June 2003

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

Reconciliation of Movements in Equity Shareholders' Funds

for the six months ended 30 June 2003

<i>all figures in £ millions</i>	2003	2002	2002
	half year	half year	full year
Loss for the financial period	(160)	(207)	(111)
Dividends on equity shares	(74)	(73)	(187)
	(234)	(280)	(298)
Currency translation differences (net of taxation)	(29)	(153)	(312)
Goodwill written back on sale of subsidiaries and associates	-	144	144
Shares issued	1	1	6
Replacement options granted on acquisition of subsidiary	1	-	1
Net movement for the period	(261)	(288)	(459)
Equity shareholders' funds at beginning of the period	3,338	3,797	3,797
Equity shareholders' funds at end of the period	3,077	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>	2003 half year	2002 half year	2002 full year
Pearson Education	927	1,049	2,756
FT Group	370	370	726
The Penguin Group	368	394	838
	1,665	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>	2003 half year	2002 half year	2002 full year
Pearson Education	-	-	(1)
FT Group	(4)	(7)	(13)
The Penguin Group	-	-	1
	(4)	(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>	Results from operations	Goodwill amortisation	Operating loss
Pearson Education	1	-	1
FT Group	6	(8)	(2)
The Penguin Group	-	-	-
Continuing operations	7	(8)	(1)
Discontinued operations	-	-	-
	7	(8)	(1)

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

<i>all figures in £ millions</i>	Results from operations	Goodwill amortisation	Operating loss
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>	Results from operations	Goodwill amortisation	Operating loss
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

<i>all figures in £ millions</i>	2003	2002	2002
	half year	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	12	-	3
Continuing operations	12	(10)	(45)
Profit on sale of RTL Group – discontinued operations	-	17	18
Profit / (loss) on sale of subsidiaries and associates	12	7	(27)
Taxation	(11)	(11)	(6)

4. Net finance costs

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

5. (Loss) / profit before taxation

<i>all figures in £ millions</i>	2003	2002	2002
	half year	half year	full year
Loss before taxation	(138)	(188)	(25)
Goodwill amortisation	148	172	330
Goodwill impairment	-	10	10
Integration costs	-	5	10
Non operating items	(11)	(10)	37
Early repayment of debt and termination of swap contracts	-	37	37
(Loss) / profit before taxation (before goodwill amortisation and other items)	(1)	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>	2003	2002	2002
	half year	half year	full year
Loss for the financial period	(160)	(207)	(111)
Adjustments:			
- Non operating items	(11)	(10)	37
- Integration costs	-	5	10
- Goodwill amortisation	148	172	330
- Goodwill impairment	-	10	10
- Early repayment of debt and termination of swap contracts	-	37	37
Taxation on above items	9	(3)	(67)
Minority interest share of above items	(4)	-	(5)
Adjusted (loss) / earnings	(18)	4	241
Weighted average number of shares (millions)			
- for earnings and adjusted earnings	797.1	795.9	796.3
Effect of dilutive share options	-	-	-
Weighted average number of shares (millions)			
- for diluted loss	797.1	795.9	796.3
Adjusted (loss) / earnings per share	(2.3)p	0.5p	30.3p
Loss per share	(20.1)p	(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:

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

The taxation charge is analysed as:

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

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:

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

10. Note to consolidated statement of cash flows

<i>all figures in £ millions</i>	2003 half year	2002 half year	2002 full year
Reconciliation of operating (loss) / profit to net cash (outflow) / inflow from operating activities			
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)
Net cash (outflow) / inflow from operating activities	(293)	(193)	529
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
Pearson operating cashflow	(338)	(229)	455
Operating tax paid	(1)	(19)	(46)
Operating finance charges	(36)	(56)	(104)
Operating free cashflow	(375)	(304)	305
Non operating tax paid	-	(16)	(9)
Non operating finance charges	-	(37)	(37)
Integration and fair value spend	(6)	(32)	(44)
Total free cashflow	(381)	(389)	215
Dividends paid (including minorities)	(115)	(109)	(182)
Net movement of funds from operations	(496)	(498)	33
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)
Net movement of funds	(503)	378	840
Exchange movements on net debt	14	44	131
Total movement in net debt	(489)	422	971