press release

PEARSON

3 March 2003

PEARSON PLC PRELIMINARY RESULTS
12 months ended 31 December 2002

	2002	2001	Change - underlying	Change - headline
Sales	**£4,320m**	£4,225m	6%	2%
Business performance				
Operating profit*	**£493m**	£426m	18%	16%
Profit before tax*	**£399m**	£294m		36%
Adjusted earnings per share	**30.3p**	21.4p		42%
Operating free cash flow	**£305m**	£236m		29%
Statutory results				
Operating profit/ (loss)	**£143m**	£(47)m		--
Loss before tax	**£(25)m**	£(436)m		--
Loss per share	**(13.9)p**	(53.2)p		--
Dividend per share	**23.4p**	22.3p		5%
Net borrowings	**£1,408m**	£2,379m		41%

**Continuing operations before goodwill, integration costs and non-operating items.*
Profit before tax includes discontinued operations.

Strong earnings rebound; good progress on cash and working capital

- Profit before tax up £105m as improved business performance and reduced internet losses more than offset impact of advertising and technology downturn and currency movements;
- Operating free cash flow up at £305m, boosted by working capital improvement in book publishing businesses; return on invested capital rises;
- Professional and Higher Education businesses help Pearson Education deliver 11% revenue growth and 22% profit growth in a slower year for school textbook adoptions. NCS Pearson benefits from major new business wins and establishes substantial pipeline of signed contracts;
- FT Group revenues 8% lower due to advertising downturn. Profits 8% higher with good contributions from IDC and Recoletos and lower internet losses;
- Penguin increases revenues by 5% and profits by 11%, with market share gains in UK and US and a £15m profit improvement from Dorling Kindersley.

Scope for further significant progress on earnings, cash and return on capital in 2003

- Good prospects for profit growth from Pearson Education, supported by better adoption opportunities for the School business;
- Outlook for the FT Group's non-advertising businesses remains positive; business newspapers face an uncertain advertising environment but are helped by further cost savings;
- Penguin expected to benefit from further profit improvement at Dorling Kindersley.

Throughout this statement (unless otherwise stated):

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1. *Growth rates are given on an underlying basis, excluding the impact of acquisitions, disposals and currency movements. In 2002, portfolio changes increased revenues by £10m and reduced profits by £26m;*
2. *Adjusted figures are presented as additional measures, to provide a better indicator of business performance. They are stated before goodwill, integration costs and non-operating items. Goodwill is amortised over no more than 20 years;*
3. *Figures are reported after internet enterprises;*
4. *2001 numbers have been restated for FRS19, the new accounting standard for deferred tax.*

Marjorie Scardino, chief executive, said:

"Last year we increased earnings, generated more cash and improved our return on capital, even though we faced an advertising recession far deeper than expected. Our broadly-based education business and Penguin recorded good growth. We performed competitively in each of our markets, while managing our costs tightly and investing in new products to increase sales and new systems to boost profits. While the economic environment is uncertain, we are confident we will make further progress on earnings, cash and returns this year."

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Pearson's preliminary results presentation for investors and analysts will be webcast live today from 0930 (GMT) and available for replay from 12 noon (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**.

Video interviews with Marjorie Scardino and Rona Fairhead, finance director, are also available at **www.pearson.com.**

High resolution photographs are available for the media at **www.newscast.co.uk.**

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2002 overview

In 2002 sales increased by 6% to £4,320m and operating profit improved by £67m to £493m, an increase of 18%. Adjusted earnings per share grew to 30.3p, a headline increase of 42%. Operating free cash flow improved by £69m to £305m. Average use of working capital improved by £53m in our book publishing businesses, even as we increased investment in new authors, titles and programmes.

On a statutory basis, Pearson reported a loss before tax for the year of £25m (a £436m loss in 2001) and generated a loss per share of 13.9p (a loss per share of 53.2p in 2001). The loss includes a (non cash) goodwill charge of £340m. Net borrowings fell by £971m to end the year at £1,408m. The board is recommending a 5% increase in the dividend to 23.4 pence per share.

Operational and strategic overview

All our businesses aim to prosper in an increasingly knowledge based economy by helping people get on in, and make the most of, their lives. We do this in two ways:

1. **Publishing.** We have market-leading businesses in educational, finance & business and trade publishing

2. **Services.** We offer services to our customers that make our publishing more valuable and take us into new, faster growing markets.

Each of our businesses has a sustainable market leading position. And each benefits from being part of Pearson because they share brands, content, technology, people, values and processes with other parts of the company.

Over the last few years, the transformation of Pearson has significantly increased the capital invested in the business (in the form of the goodwill associated with the acquisitions necessary to build our market leading businesses) and required substantial cash investment to integrate those acquisitions and to deliver an increasing proportion of our publishing and services online.

With that transformation now largely complete, we are in a strong position to deliver yearly progress in operating profit, operating free cash flow, and return on invested capital. In spite of a further significant deterioration in the global economy, which hit business and financial advertising particularly hard, we made steady progress on each measure in 2002.

That progress was possible for three reasons:

1. **Good competitive performances.** We made significant share gains in four of our biggest markets - college publishing, trade publishing, asset valuation and government services - and more modest gains in most of our other markets. The one exception was US school publishing, where the investment allocation decisions we made shaved around half a percentage point off our market share in 2002 but should enable us to gain a bigger market share, more profitably, in 2003.

2. **Tight cost controls.** We reduced costs across our company, especially in those markets (such as business & financial advertising and technology publishing) which are suffering most in the global slowdown. We also reduced losses from our internet enterprises by £78m.

3. **Strong cash management.** We maintained a high operating cash conversion of 92%, well ahead of our 80% target, and improved our cash utilisation by improving the management of our working capital throughout the year.

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At the same time, we ensured we could make further progress on our financial goals in future years by investing approximately £250m in new product development, which will sustain future top line growth, and a further £30m* in new back office systems and processes that will improve our bottom line.

** This investment was split £20m: £10m between Pearson Education and Penguin. We expect to expense a further £20 million through the P&L in 2003, delivering £20 million in annual cost savings from 2005.*

Operating review

Pearson Education

£ millions	**2002**	2001	Change - underlying	Change - headline
Sales				
School	**1,151**	1,266	(5)%	(9)%
Higher Education	**775**	721	13%	7%
Professional	**784**	558	48%	41%
FT Knowledge	**46**	59	(18)%	(22)%
Total	**2,756**	**2,604**	**11%**	**6%**
Operating profit/(loss)				
School	**140**	167	(15)%	(16)%
Higher Education	**142**	127	17%	12%
Professional	**81**	80	8%	1%
Internet enterprises	**(25)**	(77)	--	--
FT Knowledge	**(12)**	(23)	--	--
Total	**326**	**274**	**22%**	**19%**

Note: This is a revised segmental analysis for Pearson Education, aimed at making it easier for investors to track the performance of our largest division. We will now report sales and profit on the basis of our three major global markets – School, Higher Education and Professional – rather than on a geographical basis. This year, we are also reporting the 2002 revenues in the 'old' segmental analysis, presented below:

£ millions	**2002**	2001	Change - underlying	Change - headline
Sales				
US School	**892**	986	(6)%	(10)%
US College	**624**	574	14%	9%
US Professional	**645**	417	79%	55%
International	**549**	568	(3)%	(3)%
FT Knowledge	**46**	59	(18)%	(22)%
Total	**2,756**	**2,604**	**11%**	**6%**

Underlying sales at Pearson Education increased 11% and profits 22%. Profits were helped by a £52 million reduction in internet losses but offset by Pearson Education's £20 million share of investment in new back-office systems and processes and an £11m increase in pension contributions. **NCS Pearson** is now an integral part of Pearson Education. On a standalone basis, revenues increased 42% to £843m and profits increased 46% to £92m.

In our **School** business (27% of Pearson's total revenues in 2002), sales were down 5% and operating profits down 15%. In the US, our School business includes publishing, testing and software operations. School publishing revenues were down 6% due to the slower adoption cycle* and our decision to compete for just 65% of the available new adoption dollars. Our school imprints, Scott Foresman and Prentice Hall, took a 23% share of the total new adoption market and a 36% share of the adoptions in

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which we participated. We maintained our share of open territory sales, which were down a little on the previous year. Overall, our share of the US School publishing market was 24% (24.5% in 2001).

** 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 that buy textbooks on an as-needed basis rather than on a published adoption schedule.*

After 13% growth in 2001, our school testing business grew by a further 3%. It renewed and expanded two of its largest multi-year statewide contracts – California and Ohio – as well as the National Assessment of Educational Progress contract from the US Department of Education. It won new contracts in California and six other states that will start to contribute to revenues in 2003. Revenues were down 12% at our school software business, primarily due to the deferral of a number of contracts into 2003, but losses fell as we outsourced more of our software development needs. Late in the year we launched Concert, our integrated curriculum and enterprise software platform for schools.

Outside the US, our school publishing businesses performed strongly in Hong Kong, Japan, Singapore and Spain. Strong growth in English Language Teaching sales in Europe and Asia was partially offset by some weakness in US and Latin American markets.

Our **Higher Education** business (18% of Pearson's 2002 revenues) increased revenues by 13% and operating profits by 17%. In the US the Higher Education publishing business grew its revenues by 14%, ahead of market growth of 10% (8% excluding Pearson). The business benefited from a booming college population, its publishing and salesforce strength and its lead in making online services an integral part of its products. These online services helped us continue to take share from the used book market, increasing retention rates – the proportion of backlist sales of a title we make compared to sales in its copyright year – by several percentage points. Our custom publishing business, which produces text books and course materials custom-made for individual college professors, continued its rapid growth, with sales up 50% in the year (and 300% over the past three years). Around the world, our Higher Education operations benefited from the same trends we saw in the US, with a particularly strong performance in Europe where revenues were up in double digits.

The **Professional** business (18% of 2002 revenues) increased sales by 48% and profits by 8%. A major investment in 200 professional certification centres across the US, along with a further decline in our higher-margin technology publishing businesses, meant that profits grew considerably slower than revenues. In the US, we helped the newly-formed Transportation Security Administration to recruit 64,000 security personnel for US airports, a one-year contract worth more than $300 million in revenues to our Government Solutions business. A series of smaller, longer-term contract wins – with the Immigration and Naturalization Service, the Department of Health and Human Services and the US Department of Defense – give the business a strong pipeline for 2003 and future years. Our professional certification centres opened for business in the fourth quarter, with contracts to manage professional examinations for nurses and clinical pathologists. With IT and technology markets continuing to be bleak, sales at our technology publishing arm were down 12% in the US (following a 20% fall in 2001) and margins declined, although due to further cost actions they were still in double digits. In Europe, where technology publishing sales were down more than 20% in 2002, we have taken similar actions to reduce costs.

Industry conditions for **FT Knowledge** were particularly tough as major corporations continued to cut back their training budgets. Though sales were down 18%, losses were reduced by £11 million as we scaled back the business. We have now restructured FT Knowledge, integrating its financial training business within the FT Group; combining its customized learning operations with our government solutions business; and selling its remaining training arm early in 2003. These changes resulted in a non-cash non-operating charge of £40 million in 2002.

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The Penguin Group

£ millions	2002	2001	Change - underlying	Change - headline
Sales	**838**	820	5%	2%
Operating profit	**87**	80	11%	9%

The Penguin Group (19% of Pearson's 2002 revenues) increased sales by 5% and operating profits by 11%, in spite of Penguin's £10 million share of our £30 million investment in new back office systems and processes.

In the US, Penguin published 24 titles that became New York Times number one bestsellers, more than any other publisher and a 25% increase on 2001. In the UK, Penguin posted its best performance on the bestseller lists for a decade as 45 titles reached the Neilsen Bookscan top 15, a 10% increase on 2001. This strong performance enabled Penguin to gain share in both the US and the UK.

Dorling Kindersley increased sales by 8% and profits by £15 million as it benefited from its integration within Penguin, the revitalisation of DK's creative style and our investment in a stronger frontlist of key titles.

Pearson is now, by some distance, the world's largest book publisher and Pearson Education and Penguin are working on a number of initiatives to maximise the scale advantages that this brings.

At the start of 2003, we moved our Alpha imprint, publisher of the Idiot Guides and other consumer-related titles from Pearson Education to Penguin. This transfers approximately £19m of revenues and £8m of profits to Penguin.

Financial Times Group

£ millions	2002	2001	Change - underlying	Change - headline
Sales				
FT Newspaper	**202**	250	(19)%	(19)%
Other FT publishing (Les Echos & FT Business)	**102**	138	(14)%	(26)%
Internet enterprises*	**48**	51	(5)%	(6)%
Recoletos	**148**	150	(4)%	(1)%
Interactive Data Corporation	**226**	212	7%	7%
Total	**726**	801	(8)%	(9)%
Operating profit / (loss)				
FT Newspaper	**1**	31	(92)%	(97)%
Other FT publishing (Les Echos & FT Business)	**13**	21	(39)%	(38)%
Associates & Joint Ventures	**(3)**	(10)	65%	70%
Internet enterprises*	**(34)**	(60)	46%	43%
Recoletos	**29**	23	21%	26%
Interactive Data Corporation	**74**	67	12%	10%
Total	**80**	72	8%	11%

** The FT Group's internet enterprises include online businesses related to the FT, Les Echos, Recoletos, FT Deutschland, The Economist, IDC and CBSMarketWatch.*

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The **Financial Times Group** (17% of 2002 revenues) saw revenues fall £75 million (8%) as the global economic downturn continued to hit advertising revenues and, to a much lesser extent, newsstand sales. Despite the revenue decline, operating profits increased 8% to £80 million due to double digit profit growth at IDC and Recoletos (the FT Group's two businesses least affected by the downturn), successful cost reduction programmes across the group, and sharply lower internet losses of £34 million (down from £60 million in 2001). Excluding the benefit of lower internet losses, the FT Group's profits declined by 14% to £114 million.

The ***Financial Times*** newspaper and its internet partner, **FT.com**, are now fully integrated. A 14% reduction in their combined cost base mitigated – but could not offset – a sharp reduction in advertising revenues at the newspaper. A further advertising deterioration in the second half, together with some one-off costs, meant that, although the newspaper remained in profit for the full year, it operated at a loss in the second half. Industry conditions remained tough for FT's major advertising categories, including financial services, technology and business to business. Advertising volumes fell by 24% (on top of a 29% fall in 2001) and advertising revenues by 23% (after a 20% decline in 2001). The newspaper ended the year with average daily circulation of 473,587, a decline of 6% on the previous year primarily due to lower sales in the UK.

FT.com broke even in the fourth quarter of 2002. Revenues were up 9% to £25 million. Despite the introduction of paid-for elements of the site, FT.com's popularity continued to grow, up 30% to a record 3.5 million unique monthly users in January 2003.

Les Echos made a profit of £7 million (down 34% on 2001) as advertising revenues fell sharply. Average daily circulation was 121,000, a 6% decline, but well ahead of its market. **FT Business** delivered double digit margins as its major titles – *Investors Chronicle*, *The Banker* and *Financial Adviser* – all strengthened their market positions.

Losses from the FT's **associates and joint ventures** were less than half the level of the previous year due to continued progress at ***FT Deutschland*,** our joint venture with Gruner + Jahr. Despite the tough German advertising market, *FT Deutschland* grew its advertising revenues slightly and increased its circulation by 14% to 89,000 at the end of the year. **The Economist Group**, in which Pearson owns a 50% interest, offset falling advertising revenues with tight cost controls. *The Economist's* worldwide weekly circulation grew by 6% to 881,259.

Recoletos (Bolsa Madrid: REC), our Spanish media group, increased profits by 21%, benefiting from actions taken in 2001 to reduce costs. After a successful re-launch *Marca*, Spain's leading sports newspaper, grew its circulation by 2% to 382,000 and increased advertising revenues and profits. Circulation at business newspaper *Expansion* was 9% lower and advertising revenues 25% lower.

Interactive Data Corporation (NYSE: IDC), our 60%-owned asset pricing business, increased revenues by 7% as contract renewal rates in its institutional business – which accounts for 90% of revenues – continued to run at 95%. IDC also benefited from the launch of several new products and the integration of Merrill Lynch's Securities Pricing business, the latest in a series of successful bolt-on acquisitions. In January 2003, IDC announced the acquisition of S&P Comstock, which adds real-time pricing to IDC's existing end-of-day services.

<u>Outlook</u>

In 2003 we expect to make further significant progress in improving adjusted earnings per share (even at current exchange rates*), operating free cash flow and return on invested capital.

Clearly, some caution would be necessary in the event of further substantial deterioriation in the global economy. At this stage, the outlook for our major businesses is:

- In **Pearson Education**, we expect further progress on profits in 2003 as our School business returns to growth (helped by the fact that it is competing for over 80% of the adoption market,

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compared to 65% in 2002) and our Higher Education business continues to gain share of a growing market. We expect revenues to fall at our Professional business, due to the absence of the one-year TSA contract.

- **Penguin** aims to grow underlying revenues a little ahead of its market and improve its margins, even though it faces tough comparisons after a record year in 2002.

- At the **FT Group**, we are managing our business newspapers on the basis that there will be no advertising recovery in 2003. We will continue to benefit from the actions taken to reduce costs and will make some modest investments to ensure that our business newspapers are well positioned to benefit from any advertising upturn. We expect IDC to deliver substantial revenue and profit growth.

** Pearson generates approximately 70% of its revenues in the US, and a five cent change in the average exchange rate for the full year (which in 2002 was £1:$1.51) will have an impact of approximately 1p on reported adjusted earnings per share.*

Financial review

Revenues increased 2% to £4,320m – an increase of 6% on an underlying basis - even though the advertising recession drove sales from our business newspapers down a further £70m.

Operating profits from continuing operations in 2002 increased to £493m, an underlying growth rate of 18%.

Loss before tax
Almost entirely as a result of our (non-cash) goodwill amortisation charge, we continue to show an overall loss for the financial year of £25m, an improvement of £411m on 2001.

Operating free cash flow improved by £69m to £305m, helped by a £18m improvement from operating businesses and £51m from lower tax and interest charges. Cash conversion – the proportion of our operating profit we turn into cash - was 92%, above our 80% target.

Goodwill amortisation
Goodwill is a balance sheet item which represents the difference between the price paid for acquisitions and the fair value of the assets acquired. Pearson amortises goodwill to the profit and loss account over the estimated useful life of the acquisition or a period of 20 years whichever is the shorter. The goodwill amortisation charge fell by £45m last year to £330m, reflecting the impact of the RTL disposal.

Goodwill impairment
Goodwill is subject to an impairment review at the end of the first full year following an acquisition and at any other time if events or changes in circumstances indicate that the carrying value may not be recoverable. In 2002 we took a £10 million impairment charge relating to a subsidiary of Recoletos in Argentina.

Integration costs
Integration costs are the one-off costs of integrating significant recent acquisitions into our existing businesses. In 2002 £3m was incurred in integrating Dorling Kindersley into the Penguin Group (compared to £45m in 2001) and £7m related to the integration of NCS into Pearson Education (compared to £29m in 2001). This expenditure was in line with our forecasts at the time of the transactions and there will be no further charges in respect of these acquisitions in 2003. All other restructuring and related costs are expensed through the P&L as part of the ongoing operations of our businesses.

Non-operating items
In 2002, we took a charge of £37m for non-operating items relating to losses on the sale or closure of businesses and fixed assets. The principal items are a profit of £18m relating to the completion of the sale of RTL in January 2002 and a provision of £40m for the loss on sale of our Forum business, which completed in January 2003. This provision largely relates to unamortised goodwill at the balance sheet date. Other items include a loss on sale of PH Direct of £8m, a profit of £3m on finalisation of the sale of *Journal of Commerce* by the Economist and various smaller losses on investments and property.

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Amounts written off investments
In 2002, we continued to review our fixed asset investments and concluded that there have been no further material impairments. This compares to a charge of £92m taken in 2001 relating to the carrying value of Pearson shares held to secure employee share option plans and equity investments in a number of internet businesses.

Interest
Net interest charges fell by £75m to £94m, with average net debt decreasing by £748m following the receipt of proceeds from the RTL disposal. Interest was further reduced by the effect of a general fall in interest rates during the year. The weighted average three month LIBOR rate, reflecting the Group's borrowings in US dollars, euros, and sterling, fell by 160 basis points, or 1.6%. The effect of these falls was mitigated by our existing portfolio of interest rate swaps, which converted over half our variable rate commercial paper and bank debt to a fixed rate basis. As a result, the Group's net interest rate payable averaged approximately 5.0%, falling 1.4% from the previous year. During 2002 we took an additional one off charge of £37m for cancellation of certain swap contracts and the early repayment of debt following re-balancing of the group's debt portfolio on the receipt of the RTL proceeds.

Taxation
The Group recorded a total pre-tax loss of £25m in 2002 but there was a tax charge for the year of £64m. This situation reflects the fact that there is only limited tax relief available for the goodwill amortisation charged in the accounts. The total tax charge was in fact reduced by a non-operating credit of £45m attributable to the resolution of the tax position on the disposal of the group's remaining interest in BSkyB.

The tax charge reflects the adoption of FRS 19 "Deferred Tax". FRS 19 requires full provisioning for deferred tax and this has had a significant effect on Pearson's effective tax rate. This is mainly because Pearson has recognised a deferred tax asset in respect of US tax losses and other timing differences. Previously the tax benefit of US tax losses was accounted for as the losses were utilised. FRS 19 has been adopted in these accounts and the comparative figures have been restated.

The tax rate on adjusted earnings, after restating for FRS 19, decreased from 34.0% to 32.8%. The decrease was attributable to two main factors. There was a more favourable mix of profits between higher and lower tax regimes than in 2001; in addition there was a benefit from prior year adjustments.

Minority interests
Minority interests include a 40% minority share in IDC and a 21% minority share in Recoletos.

Dividends
The dividend payment of £187m which we are recommending in respect of 2002 represents 23.4p per share - a 5% increase on 2001. The dividend is covered 1.3 times by adjusted earnings, and 1.6 times by operating free cash flow. The company seeks to maintain a balance between the requirements of our shareholders, including our many private shareholders, for a rising stream of dividend income and the re-investment opportunities that we see across the Group. This balance has been expressed in recent years as a commitment to increase our annual dividend faster than the prevailing rate of inflation while progressively reinvesting a higher proportion of our distributable earnings in our business. While this commitment remains unchanged, we believe that the income requirements of our shareholders should take priority over reinvestment this year.

Pensions
Pearson operates a variety of pension schemes. Of the schemes, the UK fund is the most significant. In 2001, after a full actuarial valuation, the company resumed cash contributions to its UK Pension Fund (a £1bn fund) following a prolonged 'holiday' period. At that time, this resulted in the scheme having a small surplus of £40m. Although the next full actuarial valuation is not due until 2004, the funding level is kept under regular review by the company and the Fund trustees. After an informal indication in 2002, and taking account of current stock market conditions, the company decided to increase contributions by £5m to £25m in 2003 ahead of the full valuation in 2004. This was designed to keep the scheme fully funded.

We have included additional disclosure in respect of FRS 17 (Retirement Benefits) for pensions and other post retirement benefits in accordance with that standard. The mandatory implementation of FRS 17 has been postponed and is now not required to be implemented before adoption of International Accounting Standards in 2005. FRS 17 approaches pension cost accounting from a balance sheet perspective with the net surplus or deficit in Pearson's pension schemes being incorporated into the balance sheet. Changes in this surplus or deficit will flow through the profit and loss account and the statement of total recognised gains and losses.

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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.

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Consolidated Profit and Loss Account
for the year ended 31 December 2002

		2002			2001 (restated)		
all figures in £ millions	Note	**Results from oper-ations**	**Other items**	**Total**	Results from oper-ations	Other items	Total
Sales (including share of joint ventures)		**4,331**	**-**	**4,331**	4,240	-	4,240
Less: share of joint ventures		**(11)**	**-**	**(11)**	(15)	-	(15)
Sales	2a	**4,320**	**-**	**4,320**	4,225	-	4,225
Group operating profit		**496**	**(302)**	**194**	444	(424)	20
Share of operating (loss)/profit of joint ventures and associates	2c	**(3)**	**(48)**	**(51)**	19	(86)	(67)
Total operating profit/(loss)	2b	**493**	**(350)**	**143**	463	(510)	(47)
Loss on sale of fixed assets and investments	3	**-**	**(13)**	**(13)**	-	(12)	(12)
Loss on sale of subsidiaries and associates	4	**-**	**(27)**	**(27)**	-	(63)	(63)
Profit/(loss) on sale of subsidiaries and associates by an associate	5	**-**	**3**	**3**	-	(53)	(53)
Non operating items		**-**	**(37)**	**(37)**	-	(128)	(128)
Profit/(loss) before interest and taxation		**493**	**(387)**	**106**	463	(638)	(175)
Amounts written off investments		**-**	**-**	**-**	-	(92)	(92)
Net finance costs	6	**(94)**	**(37)**	**(131)**	(169)	-	(169)
(Loss)/profit before taxation		**399**	**(424)**	**(25)**	294	(730)	(436)
Taxation	8	**(131)**	**67**	**(64)**	(100)	133	33
(Loss)/profit after taxation		**268**	**(357)**	**(89)**	194	(597)	(403)
Equity minority interests		**(27)**	**5**	**(22)**	(24)	4	(20)
(Loss)/profit for the financial year		**241**	**(352)**	**(111)**	170	(593)	(423)
Dividends on equity shares	9			**(187)**			(177)
Loss retained				**(298)**			(600)

Adjusted earnings per share	7	**30.3p**	21.4p
Loss per share	7	**(13.9)p**	(53.2)p
Diluted loss per share	7	**(13.9)p**	(53.2)p
Dividends per share	9	**23.4p**	22.3p

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

The 2001 comparatives have been restated for the adoption of FRS19 (see note 8).

Consolidated Balance Sheet
as at 31 December 2002

all figures in £ millions	Note	**2002**	2001 (restated)
Fixed assets			
Intangible assets		**3,610**	4,193
Tangible assets		**503**	542
Investments: joint ventures			
Share of gross assets		**7**	8
Share of gross liabilities		**-**	(1)
		7	7
Investments: associates		**106**	893
Investments: other		**84**	84
		4,310	5,719
Current assets			
Stocks		**734**	849
Debtors		**1,057**	1,005
Deferred taxation		**174**	272
Investments		**2**	3
Cash at bank and in hand		**575**	393
		2,542	2,522
Creditors – amounts falling due within one year			
Short term borrowing		**(249)**	(165)
Other creditors		**(1,114)**	(1,203)
		(1,363)	(1,368)
Net current assets		**1,179**	1,154
Total assets less current liabilities		**5,489**	6,873
Creditors – amounts falling due after more than one year			
Medium and long term borrowing		**(1,734)**	(2,607)
Other creditors		**(60)**	(54)
		(1,794)	(2,661)
Provisions for liabilities and charges		**(165)**	(239)
Net assets		**3,530**	3,973
Capital and reserves			
Called up share capital	11	**200**	200
Share premium account	11	**2,465**	2,459
Profit and loss account	11	**673**	1,138
Equity shareholders' funds		**3,338**	3,797
Equity minority interests		**192**	176
		3,530	3,973

Consolidated Statement of Cash Flows

for the year ended 31 December 2002

all figures in £ millions	Note	2002	2001
Net cash inflow from operating activities	12	**529**	490
Dividends from joint ventures and associates		**6**	25
Interest received		**11**	31
Interest paid		**(151)**	(187)
Debt issue costs		**-**	(1)
Dividends paid to minority interests		**(1)**	(9)
Returns on investments and servicing of finance		**(141)**	(166)
Taxation		**(55)**	(71)
Purchase of tangible fixed assets		**(126)**	(165)
Sale of tangible fixed assets		**7**	36
Purchase of investments		**(21)**	(35)
Sale of investments		**3**	22
Capital expenditure and financial investment		**(137)**	(142)
Purchase of subsidiary undertakings		**(87)**	(128)
Net cash acquired with subsidiary undertakings		**1**	83
Purchase of joint ventures and associates		**(40)**	(26)
Sale of subsidiary undertakings		**3**	41
Net cash disposed with subsidiary undertakings		**(1)**	-
Sale of associates		**920**	1
Acquisitions and disposals		**796**	(29)
Equity dividends paid		**(181)**	(174)
Net cash inflow/(outflow) before management of liquid resources and financing		**817**	(67)
Liquid resources acquired		**(65)**	(48)
Collateral deposit reimbursed		**22**	47
Management of liquid resources		**(43)**	(1)
Issue of equity share capital		**6**	20
Capital element of finance lease rentals		**(5)**	(7)
Loan facility repaid		**(507)**	(521)
Bonds (repaid)/advanced		**(167)**	507
Collateral deposit reimbursed		**17**	-
Net movement in other borrowings		**(7)**	3
Financing		**(663)**	2
Increase/(decrease) in cash in the year		**111**	(66)

2002 results

The preliminary results for the year ended 31 December 2002 have been extracted from audited accounts which have not yet been delivered to the Registrar of Companies. The 2001 accounts carry an unqualified audit report and have been so delivered. The 2002 Annual Report will be posted to shareholders on Tuesday 25 March 2003.

Dividend

The directors recommend a final dividend of 14.3p per share, payable on Friday 9 May 2003 to shareholders on the register at the close of business on Friday 14 March 2003.

Annual General Meeting

The AGM will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE, at 12 noon on Friday 25 April 2003.

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2002

all figures in £ millions	**2002**	2001 (restated)
Loss for the financial year	**(111)**	(423)
Other net gains and losses recognised in reserves:		
Currency translation differences	**(317)**	26
Taxation on currency translation differences - UK	**5**	(6)
Total recognised losses relating to the year	**(423)**	(403)
Prior year adjustment – FRS 19	**209**	
Total recognised losses	**(214)**	

Reconciliation of Movements in Equity Shareholders' Funds
for the year ended 31 December 2002

all figures in £ millions	**2002**	2001 (restated)
Loss for the financial year	**(111)**	(423)
Dividends on equity shares	**(187)**	(177)
	(298)	(600)
Currency translation differences (net of taxation)	**(312)**	20
Goodwill written back on sale of subsidiary undertakings and associates	**144**	37
Goodwill written back on sale of subsidiary undertakings and associates by an associate	**-**	36
Shares issued	**6**	18
Replacement options granted on acquisition of subsidiary	**1**	2
Net movement for the year	**(459)**	(487)
Equity shareholders' funds at beginning of the year	**3,797**	4,044
Prior period adjustment – FRS 19	**-**	240
Equity shareholders' funds at end of the year	**3,338**	3,797

Notes to the 2002 Results
for the year ended 31 December 2002

1. Basis of preparation

The results for the year ended 31 December 2002 have been prepared in accordance with the accounting policies set out in the 2001 Annual Report, except that FRS19 'Deferred Tax' has been adopted. The effect of this change in accounting policy is disclosed in note 8.

2a. Sector analysis – sales

all figures in £ millions	2002			2001		
	Sales before internet enterprises	**Internet enterprises**	**Sales**	Sales before internet enterprises	Internet enterprises	Sales
Business sectors						
Pearson Education	**2,752**	**4**	**2,756**	2,596	8	2,604
FT Group	**678**	**48**	**726**	750	51	801
The Penguin Group	**838**	**-**	**838**	820	-	820
Continuing operations	**4,268**	**52**	**4,320**	4,166	59	4,225
Geographical markets supplied						
United Kingdom	**395**	**16**	**411**	423	10	433
Continental Europe	**413**	**6**	**419**	438	8	446
North America	**3,110**	**29**	**3,139**	2,936	39	2,975
Asia Pacific	**248**	**1**	**249**	239	2	241
Rest of world	**102**	**-**	**102**	130	-	130
Continuing operations	**4,268**	**52**	**4,320**	4,166	59	4,225

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

all figures in £ millions	2002						
	Results from operations before internet enterprises	**Internet enterprises**	**Results from operations**	**Integration costs**	**Goodwill amortisation**	**Goodwill impairment**	**Operating profit**
Business sectors							
Pearson Education	**351**	**(25)**	**326**	**(7)**	**(244)**	**-**	**75**
FT Group	**114**	**(34)**	**80**	**-**	**(65)**	**(10)**	**5**
The Penguin Group	**87**	**-**	**87**	**(3)**	**(18)**	**-**	**66**
Continuing operations	**552**	**(59)**	**493**	**(10)**	**(327)**	**(10)**	**146**
Discontinued operations	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
	552	**(59)**	**493**	**(10)**	**(330)**	**(10)**	**143**

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

	2002						
all figures in £ millions	**Results from operations before internet enterprises**	**Internet enterprises**	**Results from operations**	**Integration costs**	**Goodwill amortisation**	**Goodwill impairment**	**Operating profit**
Geographical markets supplied							
United Kingdom	**(37)**	**(35)**	**(72)**	**(5)**	**(25)**	**-**	**(102)**
Continental Europe	**41**	**(1)**	**40**	**-**	**(8)**	**-**	**32**
North America	**518**	**(23)**	**495**	**(5)**	**(288)**	**-**	**202**
Asia Pacific	**31**	**-**	**31**	**-**	**(6)**	**-**	**25**
Rest of world	**(1)**	**-**	**(1)**	**-**	**-**	**(10)**	**(11)**
Continuing operations	**552**	**(59)**	**493**	**(10)**	**(327)**	**(10)**	**146**
Discontinued operations	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
	552	**(59)**	**493**	**(10)**	**(330)**	**(10)**	**143**

	2001 (restated)						
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)	(254)	(8)	(17)
FT Group	132	(60)	72	-	(67)	(3)	2
The Penguin Group	80	-	80	(45)	(19)	(50)	(34)
Continuing operations	563	(137)	426	(74)	(340)	(61)	(49)
Discontinued operations	37	-	37	-	(35)	-	2
	600	(137)	463	(74)	(375)	(61)	(47)
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)	(302)	(3)	51
Asia Pacific	24	-	24	-	(4)	-	20
Rest of world	(2)	(1)	(3)	-	(1)	(3)	(7)
Continuing operations	563	(137)	426	(74)	(340)	(61)	(49)
Discontinued operations	37	-	37	-	(35)	-	2
	600	(137)	463	(74)	(375)	(61)	(47)

Note: Internet enterprises consist of the Group's discrete internet operations, including FT.com and Family Education Network. Integration costs in 2002 and 2001 include costs in respect of the Dorling Kindersley and National Computer Systems acquisitions. In 2002, the goodwill impairment charge of £10m relates to the impairment of goodwill arising on acquisition of subsidiaries. Discontinued operations relate to the withdrawal of the Group from the television business following the disposal of its 22% interest in the RTL Group in January 2002. Analyses of the profits of joint ventures and associates are shown in note 2c.

2c. Sector analysis – share of operating loss of joint ventures and associates

Joint ventures — 2002

all figures in £ millions	**Results from operations before internet enterprises**	**Internet enterprises**	**Results from operations**	**Integration costs**	**Goodwill amortisation**	**Goodwill impairment**	**Operating profit**
Pearson Education	**(1)**	**-**	**(1)**	**-**	**-**	**-**	**(1)**
FT Group	**(13)**	**-**	**(13)**	**-**	**-**	**-**	**(13)**
The Penguin Group	**1**	**-**	**1**	**-**	**-**	**-**	**1**
	(13)	**-**	**(13)**	**-**	**-**	**-**	**(13)**

Joint ventures — 2001 restated

all figures in £ millions	Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Pearson Education	-	-	-	-	-	-	-
FT Group	(20)	-	(20)	-	-	-	(20)
The Penguin Group	1	-	1	-	-	-	1
	(19)	-	(19)	-	-	-	(19)

Associates — 2002

all figures in £ millions	**Results from operations before internet enterprises**	**Internet enterprises**	**Results from operations**	**Integration costs**	**Goodwill amortisation**	**Goodwill impairment**	**Operating profit**
Pearson Education	**3**	**-**	**3**	**-**	**(1)**	**-**	**2**
FT Group	**10**	**(3)**	**7**	**-**	**(44)**	**-**	**(37)**
The Penguin Group	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Continuing operations	**13**	**(3)**	**10**	**-**	**(45)**	**-**	**(35)**
Discontinued operations	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
	13	**(3)**	**10**	**-**	**(48)**	**-**	**(38)**

Associates — 2001

all figures in £ millions	Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Pearson Education	3	-	3	-	(1)	(3)	(1)
FT Group	8	(10)	(2)	-	(47)	-	(49)
Continuing operations	11	(10)	1	-	(48)	(3)	(50)
Discontinued operations	37	-	37	-	(35)	-	2
	48	(10)	38	-	(83)	(3)	(48)

3. Loss on sale of fixed assets and investments

all figures in £ millions	**2002**	2001
Continuing operations:		
Net loss on sale of property	**(3)**	(2)
Net loss on sale of investments	**(10)**	(10)
	(13)	(12)
Taxation	**6**	1

4. Loss on sale of subsidiaries and associates

all figures in £ millions	**2002**	2001 (restated)
Continuing operations:		
Loss on sale of Forum	**(40)**	**-**
Loss on sale of PH Direct	**(8)**	-
Loss on sale of iForum	**-**	(27)
Net profit/(loss) on sale of other businesses and associates	**3**	(36)
	(45)	(63)
Discontinued operations:		
Profit on sale of the RTL Group	**18**	-
	(27)	(63)
Taxation	**(6)**	4

5. Profit/(loss) on sale of subsidiaries and associates by an associate

all figures in £ millions	**2002**	2001
Continuing operations:		
Profit/(loss) on sale of Journal of Commerce	**3**	(36)
	3	(36)
Discontinued operations:		
Loss on sale of subsidiaries and associates by the RTL Group	**-**	(17)
	3	(53)

6. Net finance costs

all figures in £ millions	**2002**	2001
Net interest payable	**(94)**	(169)
Early repayment of debt and termination of swap contracts	**(37)**	-
	(131)	(169)

7. Earnings/(loss) per share

In order to show results from operating activities on a comparable basis, an adjusted earnings per share is presented which excludes certain 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.

	2002 £m	2001 (restated) £m
Loss for the financial year	**(111)**	(423)
Adjustments:		
Non operating items	**37**	128
Goodwill amortisation	**330**	375
Goodwill impairment	**10**	61
Integration costs	**10**	74
Amounts written off investments	**-**	92
Other net finance costs	**37**	-
Taxation on above items	**(67)**	(133)
Minority interest share of above items	**(5)**	(4)
Adjusted earnings	**241**	170
Weighted average number of shares (millions)		
- for earnings and adjusted earnings	**796.3**	795.4
Effect of dilutive share options	**-**	**-**
Weighted average number of shares (millions)		
- for diluted earnings	**796.3**	795.4
Adjusted earnings per share	**30.3p**	21.4p
Loss per share	**(13.9)p**	(53.2)p
Diluted loss per share	**(13.9)p**	(53.2)p

In 2002 and 2001 the Group made a loss for the financial year (after taking into account goodwill amortisation), consequently the effect of share options is anti-dilutive and there is no difference between the loss per share and the diluted loss per share.

8. Taxation

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

all figures in percentages	**2002**	2001 (restated)
United Kingdom tax rate	**30.0**	30.0
Effect of overseas tax rates	**2.8**	4.5
Other items	**-**	(0.5)
Tax rate reflected in adjusted earnings	**32.8**	34.0

The taxation (charge)/benefit is analysed as:

all figures in £ millions	**2002**	2001 (restated)
Parent and subsidiaries	**(60)**	48
Joint ventures and associates	**(4)**	(15)
	(64)	33

Note: FRS 19 'Deferred Tax' has been adopted for the first time in these financial statements. Pearson previously provided deferred tax using the liability method under SSAP 15 and only recognised deferred tax liabilities to the extent that it was probable that the liabilities would crystallise. Deferred tax assets were only recognised to the extent that their recoverability was assured beyond reasonable doubt. Under FRS 19 the recognition criteria for deferred tax assets has changed with the result that Pearson has recognised a deferred tax asset in respect of US tax losses and other timing differences that are regarded as recoverable against future taxable profits. The adoption of FRS19 has also had an impact on capitalised goodwill since the restatement of deferred tax balances acquired has had a corresponding effect upon the goodwill recognised on those acquisitions. A prior year adjustment has been made in these financial statements to reflect the adoption of FRS 19 and comparative figures have been restated. The impact on the profit and loss account for the year ended December 2002 has been to increase the loss after taxation by £45 million (£50 million relating to the tax charge and £5 million reduction to goodwill amortisation) and to increase opening shareholders' funds by £209 million. The effect on the loss after taxation for the year ended December 2001 was to increase the loss by £32 million.

9. Dividends

	2002 Pence per share	**2002 £m**	2001 Pence per share	2001 £m
Interim paid	**9.1**	**72**	8.7	68
Final proposed	**14.3**	**115**	13.6	109
Dividends for the year	**23.4**	**187**	22.3	177

10. 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$ -----	
	2002	2001
Average for operating profits	**1.51**	1.44
Year end rate	**1.61**	1.46

11. Equity shareholders' funds

all figures in £ millions	Share capital	Share premium	(restated) Profit and loss account	Total
At 31 December 2001	200	2,459	929	3,588
Prior year adjustment	-	-	209	209
	200	2,459	1,138	3,797
Exchange differences	-	-	(312)	(312)
Premium on issue of shares	-	6	-	6
Goodwill written back on disposal of subsidiary undertakings and associates	-	-	144	144
Replacement options granted on acquisition of subsidiary	-	-	1	1
Loss retained for the year	-	-	(298)	(298)
At 31 December 2002	**200**	**2,465**	**673**	**3,338**

12. Note to consolidated statement of cash flows

all figures in £ millions	**2002**	2001 (restated)
Reconciliation of operating profit/(loss) to net cash inflow from operating activities		
Operating profit/(loss) – total	**143**	(47)
Share of loss of joint ventures and associates	**51**	67
Depreciation charge	**122**	125
Goodwill amortisation and impairment	**292**	350
Decrease/(increase) in stocks	**43**	(6)
(Increase)/decrease in debtors	**(111)**	102
Increase/(decrease) in creditors	**64**	(103)
(Decrease)/increase in operating provisions	**(50)**	3
Other and non-cash items	**(25)**	(1)
Net cash inflow from operating activities	**529**	490
Dividends from joint ventures and associates	**6**	25
Purchase of tangible fixed assets	**(126)**	(165)
Capital element of finance leases	**(5)**	(7)
Proceeds from sale of tangible fixed assets	**7**	36
Add back: Non operating fixed asset disposal proceeds	**-**	(11)
Add back: Cash spent against integration and fair value provisions	**44**	69
Operating cashflow	**455**	437
Operating tax paid	**(46)**	(44)
Operating finance charges	**(104)**	(157)
Operating free cashflow	**305**	236