

## Consolidated Profit and Loss Account

for the year ended 31 December 2002

	-----2002-----			-----2001-----			
	Note	Results from oper- ations	Other items	Total	Results from oper- ations	Other items	Total
<i>all figures in £ millions</i>							
					(restated)		
<b>Sales (including share of joint ventures)</b>		<b>4,331</b>	-	<b>4,331</b>	4,240	-	4,240
Less: share of joint ventures		(11)	-	(11)	(15)	-	(15)
<b>Sales</b>	2a	<b>4,320</b>	-	<b>4,320</b>	4,225	-	4,225
<b>Group operating profit</b>		<b>496</b>	<b>(302)</b>	<b>194</b>	444	(424)	20
<b>Share of operating (loss)/profit of joint ventures and associates</b>	2c	<b>(3)</b>	<b>(48)</b>	<b>(51)</b>	19	(86)	(67)
<b>Total operating profit/(loss)</b>	2b	<b>493</b>	<b>(350)</b>	<b>143</b>	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)
<b>Non operating items</b>		-	<b>(37)</b>	<b>(37)</b>	-	(128)	(128)
<b>Profit/(loss) before interest and taxation</b>		<b>493</b>	<b>(387)</b>	<b>106</b>	463	(638)	(175)
Amounts written off investments		-	-	-	-	(92)	(92)
Net finance costs	6	(94)	(37)	(131)	(169)	-	(169)
<b>(Loss)/profit before taxation</b>		<b>399</b>	<b>(424)</b>	<b>(25)</b>	294	(730)	(436)
Taxation	8	(131)	67	(64)	(100)	133	33
<b>(Loss)/profit after taxation</b>		<b>268</b>	<b>(357)</b>	<b>(89)</b>	194	(597)	(403)
Equity minority interests		(27)	5	(22)	(24)	4	(20)
<b>(Loss)/profit for the financial year</b>		<b>241</b>	<b>(352)</b>	<b>(111)</b>	170	(593)	(423)
<b>Dividends on equity shares</b>	9			<b>(187)</b>			(177)
<b>Loss retained</b>				<b>(298)</b>			(600)
<b>Adjusted earnings per share</b>	7			<b>30.3p</b>			21.4p
<b>Loss per share</b>	7			<b>(13.9)p</b>			(53.2)p
<b>Diluted loss per share</b>	7			<b>(13.9)p</b>			(53.2)p
<b>Dividends per share</b>	9			<b>23.4p</b>			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

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

## Consolidated Statement of Cash Flows

for the year ended 31 December 2002

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

	2002	2001 (restated)
<i>all figures in £ millions</i>		
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)
<b>Total recognised losses relating to the year</b>	<b>(423)</b>	<b>(403)</b>
Prior year adjustment – FRS 19	209	
<b>Total recognised losses</b>	<b>(214)</b>	

## Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 31 December 2002

	2002	2001 (restated)
<i>all figures in £ millions</i>		
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
<b>Equity shareholders' funds at end of the year</b>	<b>3,338</b>	<b>3,797</b>

## 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

	2002			2001		
	Sales before internet enterprises	Internet enterprises	Sales	Sales before internet enterprises	Internet enterprises	Sales
<i>all figures in £ millions</i>						
<b>Business sectors</b>						
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
<b>Geographical markets supplied</b>						
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)

	2002						
	Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
<i>all figures in £ millions</i>							
<b>Business sectors</b>							
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						
<i>all figures in £ millions</i>		Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
<b>Geographical markets</b>								
<b>supplied</b>								
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)						
<i>all figures in £ millions</i>		Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
<b>Business sectors</b>								
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)
<b>Geographical markets</b>								
<b>supplied</b>								
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

<b>Joint ventures</b>		2002						
<i>all figures in £ millions</i>	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)	

<b>Joint ventures</b>		2001						
<i>all figures in £ millions</i>	Results from operations before internet enterprises	Internet enterprises	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit	
							restated	
Pearson Education	-	-	-	-	-	-	-	
FT Group	(20)	-	(20)	-	-	-	(20)	
The Penguin Group	1	-	1	-	-	-	1	
	(19)	-	(19)	-	-	-	(19)	

<b>Associates</b>		2002						
<i>all figures in £ millions</i>	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)	

<b>Associates</b>		2001						
<i>all figures in £ millions</i>	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

<i>all figures in £ millions</i>	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

<i>all figures in £ millions</i>	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

<i>all figures in £ millions</i>	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

<i>all figures in £ millions</i>	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	2001 (restated)
	£m	£m
<b>Loss for the financial year</b>	<b>(111)</b>	<b>(423)</b>
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)
<b>Adjusted earnings</b>	<b>241</b>	<b>170</b>
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	<b>30.3p</b>	21.4p
Loss per share	<b>(13.9)p</b>	(53.2)p
Diluted loss per share	<b>(13.9)p</b>	(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:

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

The taxation (charge)/benefit is analysed as:

	2002	2001 (restated)
<i>all figures in £ millions</i>		
Parent and subsidiaries	<b>(60)</b>	48
Joint ventures and associates	<b>(4)</b>	(15)
	<b>(64)</b>	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	<b>9.1</b>	<b>72</b>	8.7	68
Final proposed	<b>14.3</b>	<b>115</b>	13.6	109
Dividends for the year	<b>23.4</b>	<b>187</b>	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	<b>1.51</b>	1.44
Year end rate	<b>1.61</b>	1.46

## 11. Equity shareholders' funds

	(restated)			
	Share capital	Share premium	Profit and loss account	Total
<i>all figures in £ millions</i>				
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)
<b>At 31 December 2002</b>	<b>200</b>	<b>2,465</b>	<b>673</b>	<b>3,338</b>

## 12. Note to consolidated statement of cash flows

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