

Consolidated Profit and Loss Account

for the year ended 31 December 2003

	----- 2003 -----			----- 2002 -----			
	Note	Results from oper- ations	Other items	Total	Results from oper- ations	Other items	Total
<i>all figures in £ millions</i>							
Sales (including share of joint ventures)		4,066	-	4,066	4,331	-	4,331
Less: share of joint ventures		(18)	-	(18)	(11)	-	(11)
Sales	2a	4,048	-	4,048	4,320	-	4,320
Group operating profit		483	(257)	226	496	(302)	194
Share of operating profit/(loss) of joint ventures and associates	2c	7	(7)	-	(3)	(48)	(51)
Total operating profit	2b	490	(264)	226	493	(350)	143
Loss on sale of fixed assets and investments	3a	-	(2)	(2)	-	(13)	(13)
Profit/(loss) on sale of subsidiaries and associates	3b	-	8	8	-	(27)	(27)
Profit on sale of subsidiaries by an associate	3c	-	-	-	-	3	3
Non operating items		-	6	6	-	(37)	(37)
Profit before interest and taxation		490	(258)	232	493	(387)	106
Net finance costs	4	(80)	-	(80)	(94)	(37)	(131)
Profit/(loss) before taxation		410	(258)	152	399	(424)	(25)
Taxation	6	(128)	53	(75)	(131)	67	(64)
Profit/(loss) after taxation		282	(205)	77	268	(357)	(89)
Equity minority interests		(28)	6	(22)	(27)	5	(22)
Profit/(loss) for the financial year		254	(199)	55	241	(352)	(111)
Dividends on equity shares	7			(192)			(187)
Loss retained				(137)			(298)
Adjusted earnings per share	5			32.0p			30.3p
Basic earnings/(loss) per share	5			6.9p			(13.9)p
Diluted earnings/(loss) per share	5			6.9p			(13.9)p
Dividend per share	7			24.2p			23.4p

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

Consolidated Balance Sheet

as at 31 December 2003

<i>all figures in £ millions</i>	Note	2003	2002
Fixed assets			
Intangible assets		3,260	3,610
Tangible assets		468	503
Investments: joint ventures			
Share of gross assets		7	7
Share of gross liabilities		(1)	-
		6	7
Investments: associates		58	106
Investments: other		80	84
		3,872	4,310
Current assets			
Stocks		683	734
Debtors		1,132	1,057
Deferred taxation		145	174
Investments		2	2
Cash at bank and in hand		561	575
		2,523	2,542
Creditors – amounts falling due within one year			
Short-term borrowing		(575)	(249)
Other creditors		(1,129)	(1,114)
		(1,704)	(1,363)
Net current assets		819	1,179
Total assets less current liabilities		4,691	5,489
Creditors – amounts falling due after more than one year			
Medium and long-term borrowing		(1,347)	(1,734)
Other creditors		(45)	(60)
		(1,392)	(1,794)
Provisions for liabilities and charges		(152)	(165)
Net assets		3,147	3,530
Capital and reserves			
Called up share capital	9	201	200
Share premium account	9	2,469	2,465
Profit and loss account	9	282	673
Equity shareholders' funds		2,952	3,338
Equity minority interests		195	192
		3,147	3,530

Consolidated Cash Flow Statement

for the year ended 31 December 2003

<i>all figures in £ millions</i>	Note	2003	2002
Net cash inflow from operating activities	10	359	529
Dividends from joint ventures and associates		9	6
Interest received		11	11
Interest paid		(86)	(151)
Debt issue costs		(1)	-
Dividends paid to minority interests		(19)	(1)
Returns on investments and servicing of finance		(95)	(141)
Taxation		(44)	(55)
Purchase of tangible fixed assets		(105)	(126)
Sale of tangible fixed assets		8	7
Purchase of investments		(4)	(21)
Sale of investments		-	3
Capital expenditure and financial investment		(101)	(137)
Purchase of subsidiaries		(94)	(87)
Net cash acquired with subsidiaries		34	1
Purchase of joint ventures and associates		(5)	(40)
Sale of subsidiaries		(4)	3
Net overdrafts/(cash) disposed with subsidiaries		1	(1)
Sale of associates		57	920
Acquisitions and disposals		(11)	796
Equity dividends paid		(188)	(181)
Net cash (outflow)/inflow before management of liquid resources and financing		(71)	817
Liquid resources acquired		(85)	(65)
Collateral deposit reimbursed		-	22
Management of liquid resources		(85)	(43)
Issue of equity share capital		5	6
Capital element of finance leases		(3)	(5)
Loan facility advanced/(repaid)		1	(507)
Bonds advanced		180	-
Bonds repaid		(159)	(167)
Collateral deposit received		54	17
Net movement in other borrowings		(13)	(7)
Financing		65	(663)
(Decrease)/increase in cash in the year		(91)	111

2003 results

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

Dividend

The directors recommend a final dividend of 14.8p per share, payable on Friday 7 May 2004 to shareholders on the register at the close of business on Tuesday 13 April 2004.

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 30 April 2004.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2003

<i>all figures in £ millions</i>	2003	2002
Profit/(loss) for the financial year	55	(111)
Other net gains and losses recognised in reserves:		
Currency translation differences	(254)	(317)
Taxation on currency translation differences	-	5
Total recognised gains and losses relating to the year	(199)	(423)
Prior year adjustment – FRS 19	-	209
Total recognised gains and losses	(199)	(214)

Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 31 December 2003

<i>all figures in £ millions</i>	2003	2002
Profit/(loss) for the financial year	55	(111)
Dividends on equity shares	(192)	(187)
	(137)	(298)
Currency translation differences (net of taxation)	(254)	(312)
Goodwill written back on sale of subsidiaries and associates	-	144
Shares issued	5	6
Replacement options granted on acquisition of subsidiary	-	1
Net movement for the year	(386)	(459)
Equity shareholders' funds at beginning of the year	3,338	3,797
Equity shareholders' funds at end of the year	2,952	3,338

Notes to the 2003 Results

for the year ended 31 December 2003

1. Basis of preparation

The results for the year ended 31 December 2003 have been prepared in accordance with the accounting policies set out in the 2002 Annual Report, except that the amendment to FRS 5 – Application Note G ‘Revenue recognition’ has been applied in respect of multiple element arrangements, which has not given rise to a material adjustment.

2a. Analysis of sales

<i>all figures in £ millions</i>	2003	2002
Business sectors		
Pearson Education	2,451	2,756
FT Group	757	726
The Penguin Group	840	838
Continuing operations	4,048	4,320
Geographical markets supplied		
United Kingdom	474	411
Continental Europe	463	419
North America	2,742	3,139
Asia Pacific	255	249
Rest of World	114	102
Continuing operations	4,048	4,320

2b. Analysis of total operating profit

<i>all figures in £ millions</i>	2003				
	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Business sectors					
Pearson Education	313	-	(207)	-	106
FT Group	86	-	(36)	-	50
The Penguin Group	91	-	(21)	-	70
Continuing operations	490	-	(264)	-	226

2b. Analysis of total operating profit (continued)

<i>all figures in £ millions</i>	2003				
	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Geographical markets supplied					
United Kingdom	(46)	-	(31)	-	(77)
Continental Europe	29	-	(10)	-	19
North America	466	-	(218)	-	248
Asia Pacific	33	-	(5)	-	28
Rest of World	8	-	-	-	8
Continuing operations	490	-	(264)	-	226

<i>all figures in £ millions</i>	2002				
	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Business sectors					
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

Geographical markets supplied					
United Kingdom	(72)	(5)	(25)	-	(102)
Continental Europe	40	-	(8)	-	32
North America	495	(5)	(288)	-	202
Asia Pacific	31	-	(6)	-	25
Rest of World	(1)	-	-	(10)	(11)
Continuing operations	493	(10)	(327)	(10)	146
Discontinued operations	-	-	(3)	-	(3)
	493	(10)	(330)	(10)	143

Note: Analyses of the profits and losses of joint ventures and associates are shown in note 2c.

2c. Share of operating loss of joint ventures and operating profit/(loss) of associates

Joint ventures

----- 2003 -----					
<i>all figures in £ millions</i>	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
Business sectors					
Pearson Education	-	-	-	-	-
FT Group	(11)	-	-	-	(11)
The Penguin Group	1	-	-	-	1
Continuing operations	(10)	-	-	-	(10)

----- 2002 -----					
<i>all figures in £ millions</i>	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
Business sectors					
Pearson Education	(1)	-	-	-	(1)
FT Group	(13)	-	-	-	(13)
The Penguin Group	1	-	-	-	1
Continuing operations	(13)	-	-	-	(13)

Associates

----- 2003 -----					
<i>all figures in £ millions</i>	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
Business sectors					
Pearson Education	1	-	-	-	1
FT Group	16	-	(7)	-	9
The Penguin Group	-	-	-	-	-
Continuing operations	17	-	(7)	-	10

----- 2002 -----					
<i>all figures in £ millions</i>	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
Business sectors					
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)

3a. Loss on sale of fixed assets and investments

<i>all figures in £ millions</i>	2003	2002
Net loss on sale of property	(1)	(3)
Net loss on sale of investments	(1)	(10)
Continuing operations	(2)	(13)
Taxation	-	6

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

<i>all figures in £ millions</i>	2003	2002
Profit on sale of Unidesa	12	-
Loss on sale of Forum	(1)	(40)
Loss on sale of PH Direct	-	(8)
Net (loss)/profit on sale of other businesses and associates	(3)	3
Continuing operations	8	(45)
Profit on sale of the RTL Group – discontinued operations	-	18
	8	(27)
Taxation	(3)	(6)

3c. Profit on sale of subsidiaries by an associate

<i>all figures in £ millions</i>	2003	2002
Profit on sale of Journal of Commerce by the Economist – continuing operations	-	3

4. Net finance costs

<i>all figures in £ millions</i>	2003	2002
Net interest payable	(80)	(94)
Early repayment of debt and termination of swap contracts	-	(37)
	(80)	(131)

5. 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.

<i>All figures in £ millions</i>	2003	2002
Profit/(loss) for the financial year	55	(111)
Adjustments:		
Non operating items	(6)	37
Integration costs	-	10
Goodwill amortisation	264	330
Goodwill impairment	-	10
Other net finance costs	-	37
Taxation on above items	(53)	(67)
Minority interest share of above items	(6)	(5)
Adjusted earnings	254	241
Weighted average number of shares (millions)		
- for basic earnings and adjusted earnings	794.4	796.3
Effect of dilutive share options	0.9	-
Weighted average number of shares (millions)		
- for diluted earnings	795.3	796.3
Adjusted earnings per share	32.0p	30.3p
Basic earnings/(loss) per share	6.9p	(13.9)p
Diluted earnings/(loss) per share	6.9p	(13.9)p

Note: In 2002 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.

6. Taxation

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

<i>all figures in percentages</i>	2003	2002
United Kingdom tax rate	30.0	30.0
Effect of overseas tax rates	1.3	2.8
Other items	(0.1)	-
Tax rate reflected in adjusted earnings	31.2	32.8

The taxation charge is analysed as:

<i>all figures in £ millions</i>	2003	2002
Parent and subsidiaries	(70)	(60)
Joint ventures and associates	(5)	(4)
	(75)	(64)

7. Dividends

	2003	2003	2002	2002
	Pence per	£m	Pence per	£m
	share		share	
Interim paid	9.4	73	9.1	72
Final proposed	14.8	119	14.3	115
Dividends for the year	24.2	192	23.4	187

8. 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\$ ----	
	2003	2002
Average rate for the year	1.63	1.51
Year end rate	1.79	1.61

9. Equity shareholders' funds

<i>all figures in £ millions</i>	Share capital	Share premium	Profit and loss account	Total
At 31 December 2002	200	2,465	673	3,338
Exchange differences	-	-	(254)	(254)
Equity shares issued	1	-	-	1
Premium on issue of equity shares	-	4	-	4
Loss retained for the year	-	-	(137)	(137)
At 31 December 2003	201	2,469	282	2,952

10. Note to consolidated statement of cash flows

<i>all figures in £ millions</i>	2003	2002
Reconciliation of operating profit to net cash inflow from operating activities		
Total operating profit	226	143
Share of loss of joint ventures and associates	-	51
Depreciation	111	122
Goodwill amortisation and impairment	257	292
(Increase)/decrease in stocks	(8)	43
Increase in debtors	(96)	(111)
(Decrease)/increase in creditors	(68)	64
Decrease in operating provisions	(20)	(50)
Other and non-cash items	(43)	(25)
Net cash inflow from operating activities	359	529
Dividends from joint ventures and associates	9	6
Purchase of tangible fixed assets	(105)	(126)
Capital element of finance leases	(3)	(5)
Sale of tangible fixed assets	8	7
Add back: cash received relating to acquired deferred income	42	-
Add back: non operating capital expenditure	2	-
Add back: integration costs	8	44
Operating cash flow	320	455
Operating tax paid	(34)	(46)
Operating finance charges	(76)	(104)
Operating free cash flow	210	305
Non operating tax paid	(10)	(9)
Non operating finance charges	-	(37)
Integration costs	(8)	(44)
Total free cash flow	192	215
Dividends paid (including minorities)	(207)	(182)
Net movement of funds from operations	(15)	33
Acquisitions of businesses and investments	(112)	(124)
Disposals of businesses, investments and property	52	930
New equity	5	6
Other non operating items	-	(5)
Net movement of funds	(70)	840
Exchange movements on net debt	117	131
Total movement in net debt	47	971