



2003 results presentation

1 March 2004

2003

Increased earnings
Market share and efficiency gains

2004

Competitive and financial progress
Investment for...

2005+

Acceleration in earnings, cash and returns

Financial highlights

£m	2003	2002	<i>underlying change</i>	<i>constant currency change</i>
SALES	4,048	4,320	(4)%	(2)%
OPERATING PROFIT	490	493	0%	5%
OPERATING MARGIN	12.1%	11.4%		
FREE CASH FLOW	192	215		
ADJUSTED EARNINGS PER SHARE	32.0p	30.3p		11%
RETURN ON INVESTED CAPITAL	6.3%	6.0%		
DIVIDEND PER SHARE	24.2p	23.4p		



Financial performance

Financial headlines

- Underlying profit, earnings and margin improvement
- Good progress on cash
 - masked by TSA receivable and Penguin sales phasing
- ROIC improved

School (29% of sales)

£m	2003	2002	<i>underlying change</i>	<i>constant currency change</i>
SALES	1,176	1,151	1%	8%
PROFIT	127	115	13%	17%
MARGIN (%)	10.8	10.0		

- #1 in new adoptions: 29% share
- Digital learning businesses returned to profit
- \$300m+ of new testing contracts
- Entry into UK testing market

Higher Education (19% of sales)

£m	2003	2002	<i>underlying change</i>	<i>constant currency change</i>
SALES	772	775	6%	6%
PROFIT	148	142	11%	11%
MARGIN (%)	19.2	18.3		

- 6% growth in US vs. market growth of 3%
- Strong performance of 1st editions, custom, online learning

Professional (12% of sales)

£m	2003	2002	<i>underlying change</i>	<i>constant currency change</i>
SALES	503	784	(30)%	(32)%
PROFIT	38	81	(51)%	(52)%
MARGIN (%)	7.6	10.3		

- TSA absence reduces revenues by £250m
- Government Solutions revenues up 39%*
- Professional Testing revenues up 51%*
- Technology publishing maintains margins and gains share in declining market

*EXCLUDING TSA

Penguin (21% of sales)

£m	2003	2002	<i>underlying change</i>	<i>constant currency change</i>
SALES	840	838	2%	4%
PROFIT	91	87	2%	8%
MARGIN (%)	10.8	10.4		

- Pick-up at Penguin delivered
- US: strongest ever bestseller performance
backlist weak in tough retail market
- UK: Classics relaunch and 'Big Read' boost backlist

FT Group (19% of sales)

£m	Sales			Operating profit / (loss)		
	2003	2002	<i>underlying change</i>	2003	2002	<i>underlying change</i>
FT NEWSPAPER	203	224	(9)%	(32)	(23)	(37)%
OTHER FT PUBLISHING	112	105	(7)%	6	10	(42)%
RECOLETOS	169	148	4%	28	29	(11)%
IDC	273	249	2%	81	70	18%
ASSOCIATES & JVs	—	—	—	3	(6)	—
TOTAL	757	726	(3)%	86	80	8%

- IDC grows in declining market
- Double digit ad declines; first signs of improvement in H2
- Cost savings offset by product investment

Adjusted earnings per share

£m	2003	2002	var	headline change
OPERATING PROFIT	490	493	(3)	(1)%
INTEREST	(80)	(94)	14	15%
TAXATION	(128)	(131)	3	2%
PROFIT AFTER TAX	282	268	14	5%
MINORITIES	(28)	(27)	(1)	(4)%
ADJUSTED PROFIT	254	241	13	5%
ADJUSTED EARNINGS PER SHARE	32.0P	30.3P	1.7P	6%
DIVIDEND PER SHARE	24.2P	23.4P	0.8P	3%

BEFORE GOODWILL, INTEGRATION COSTS AND NON OPERATING ITEMS

\$ sensitivity

\$:£	2003	2002
Year end rate	1.79	1.61
Average rate	1.63	1.51

EPS 5¢ change in average rate = +/- 1p

ROIC $\frac{7\text{¢ weakening in average rate} = (0.2)\%}{7\text{¢ weakening in year end rate} = 0.2 \%}$

P&L - statutory

£m	2003	2002	var
OPERATING PROFIT	490	493	(3)
GOODWILL	(264)	(340)	76
INTEGRATION COSTS	—	(10)	10
TOTAL OPERATING PROFIT	226	143	83
NON OPERATING ITEMS	6	(37)	43
FINANCE COSTS	(80)	(131)	51
PROFIT / (LOSS) BEFORE TAXATION	152	(25)	177
TAXATION	(75)	(64)	(11)
MINORITIES	(22)	(22)	—
PROFIT / (LOSS)	55	(111)	166
PROFIT / (LOSS) PER SHARE	6.9P	(13.9)P	20.8P

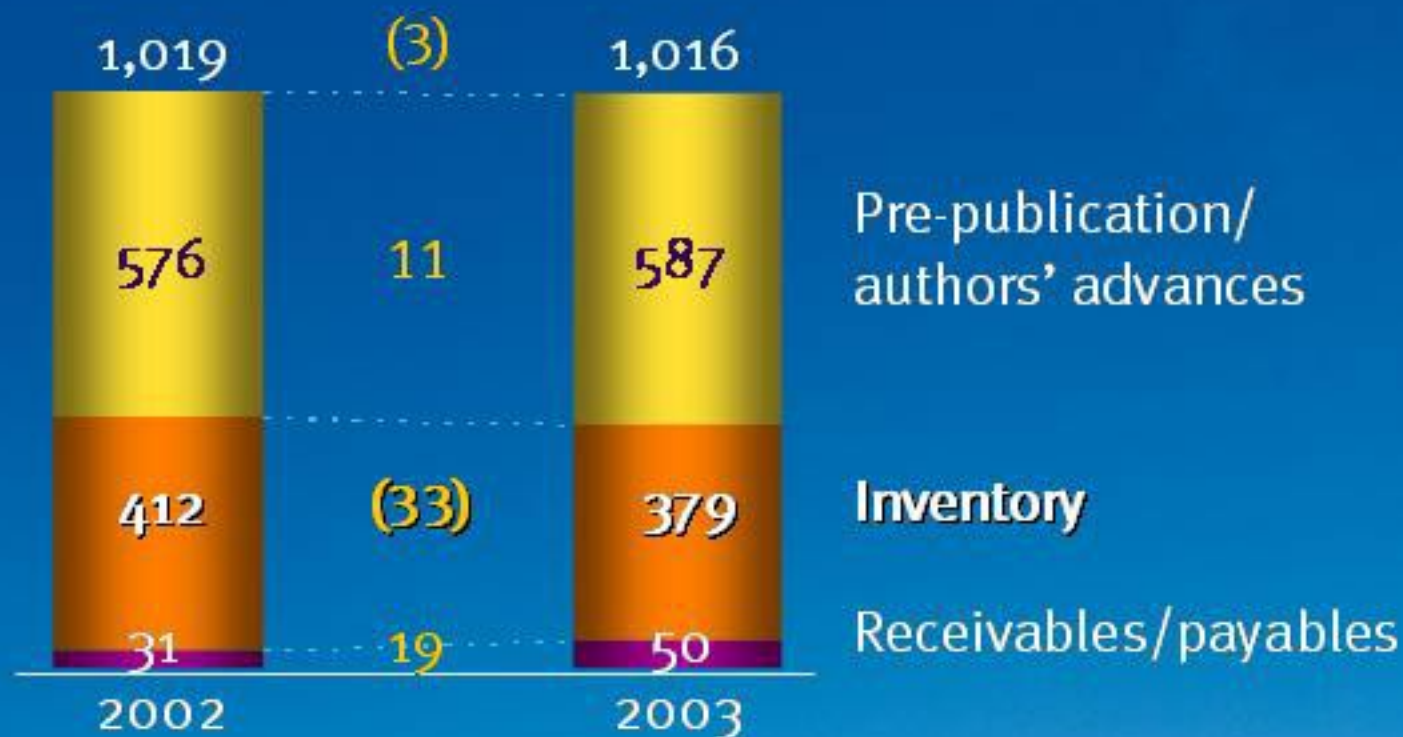
Free cash flow

£m	2003	2002	var
OPERATING PROFIT	490	493	(3)
WORKING CAPITAL	(136)	(4)	(132)
NET CAPITAL EXPENDITURE	(100)	(124)	24
DEPRECIATION	111	122	(11)
OTHER MOVEMENTS	(45)	(32)	(13)
OPERATING CASH FLOW*	320	455	(135)
CASH CONVERSION %	65%	92%	(27)%
OPERATING TAX PAID	(34)	(46)	12
OPERATING FINANCE CHARGES	(76)	(104)	28
OPERATING FREE CASH FLOW	210	305	(95)
NON OPERATING TAX PAID	(10)	(9)	(1)
NON OPERATING FINANCE CHARGES	--	(37)	37
INTEGRATION COSTS	(8)	(44)	36
TOTAL FREE CASH FLOW	192	215	(23)

* OPERATIONS BEFORE INTEGRATION COSTS

Average annual working capital

Pearson Education and Penguin, £m (excl. TSA)



30.7%

30.6%

% of sales

incl. TSA

30.3%

32.9%

% of sales

Balance sheet

£m	2003	2002	var
INTANGIBLE ASSETS	3,260	3,610	(350)
TANGIBLE ASSETS	468	503	(35)
OPERATING WORKING CAPITAL	851	811	40
OTHER NET ASSETS	(64)	5	(69)
NET TRADING ASSETS	4,515	4,929	(414)
SHAREHOLDERS' FUNDS	2,952	3,338	(386)
DEFERRED TAX	(145)	(174)	29
PROVISIONS	152	165	(13)
MINORITIES	195	192	3
NET DEBT	1,361	1,408	(47)
CAPITAL EMPLOYED	4,515	4,929	(414)

Return on invested capital

£m		2003	2002
RETURN:	OPERATING PROFIT	490	493
	LESS CASH TAX (15%)	(73)	(74)
		417	419
INVESTED CAPITAL:	GOODWILL		
	INTANGIBLES (NET)	3,260	3,642
	AMORTISATION / RESERVES	2,035	2,029
		5,295	5,671
	OPERATING ASSETS		
	TANGIBLE FIXED ASSETS	468	503
	OPERATING WORKING CAPITAL	851	811
	OTHER	(15)	(9)
		1,304	1,305
TOTAL INVESTED CAPITAL		6,599	6,976
RETURN ON INVESTED CAPITAL		6.3%	6.0%

2004 financial priorities

- Continue saving costs
- Manage cash tightly
- Work on ROIC
- Invest for 2005 and beyond



Why we will succeed

Outlook



Why we will succeed

LEADING BUSINESSES

LEANER OPERATIONS

STRONGER PRODUCTS

Leaner costs

- Taking out layers and integrating
- Using scale
- Sharing assets
- Working capital harder

Fatter margins

Operating margin %





Why we will succeed

LEADING BUSINESSES

LEANER OPERATIONS

STRONGER PRODUCTS

Stronger consumer publishing

- Major authors on long-term contracts
- Pipeline of new talent
- New imprints
- Home-grown content
- Channel innovations

Stronger school publishing

	Pearson position (total K-12 market)		subject as % of total '04 - '06 new adoptions
	1999	2003	
SOCIAL STUDIES	#3	#1	24%
READING / LITERATURE	#3	#1 / #2	19%
MATH	#1	#1	18%
SCIENCE	#2 / #3	#2	13%
MUSIC / ART	#1	#1	7%

PEARSON ESTIMATES

Stronger personalised education



#1 in basal publishing

18m US schoolchildren studying reading and math with one of our textbooks



#1 in instructional software

25,000 schools using our curriculum software

#1 in student data & reporting

30,000 schools using our enterprise software



#1 in assessment, scoring & data

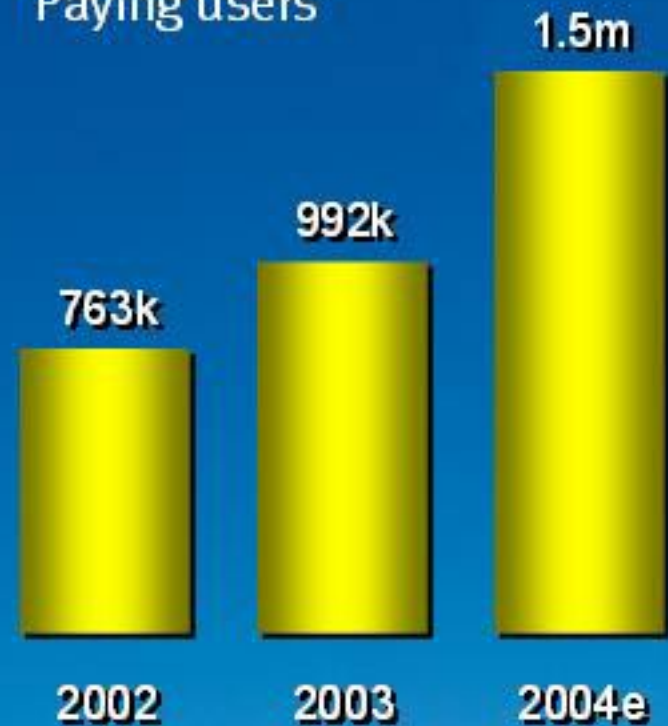
Testing for 20 states and US Dept of Education
40m exams & 80m essays marked each year

Stronger higher education instruction

Custom publishing
Sales \$m



Learning online
Paying users



*Faster growth than the industry
for five straight years*

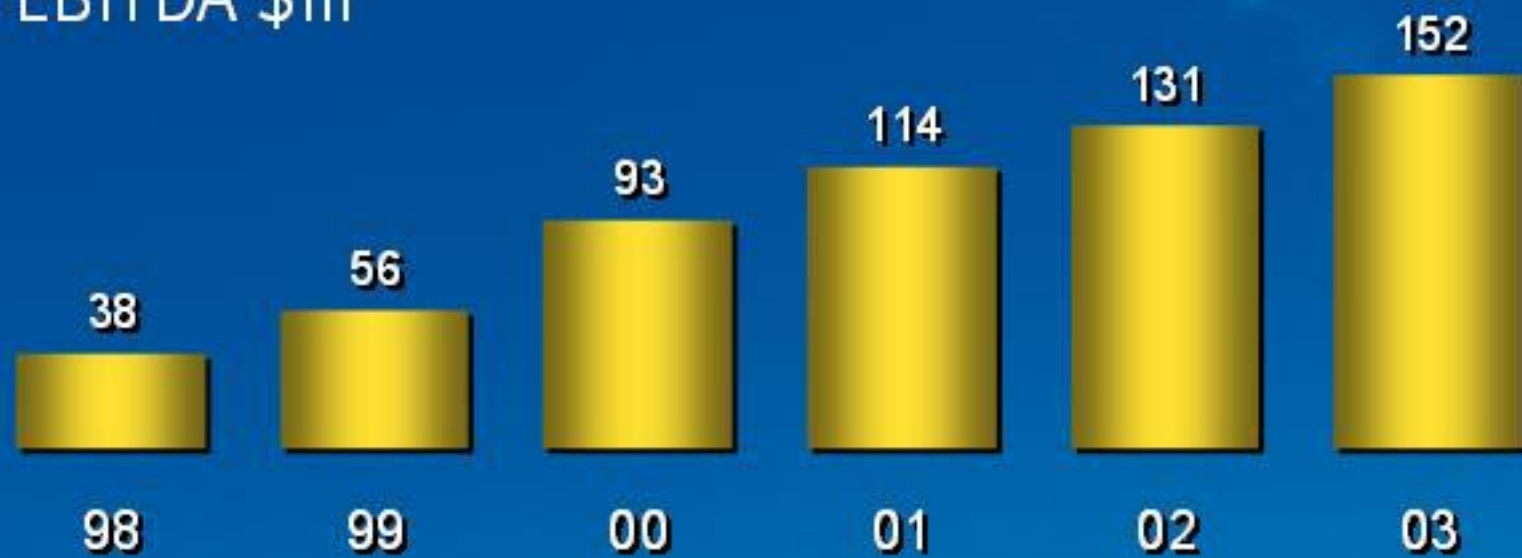
Stronger professional testing and certification

- Worldwide network of centres
- Professional certification
- Major '03 wins

\$100m revenues in '03
\$600m+ in new contracts

Stronger asset pricing

IDC EBITDA \$m



- Embedded relationships growing through:
 - adding new securities
 - organic product innovation
 - real-time content

Stronger business newspapers



Circulation up 4% since September relaunch



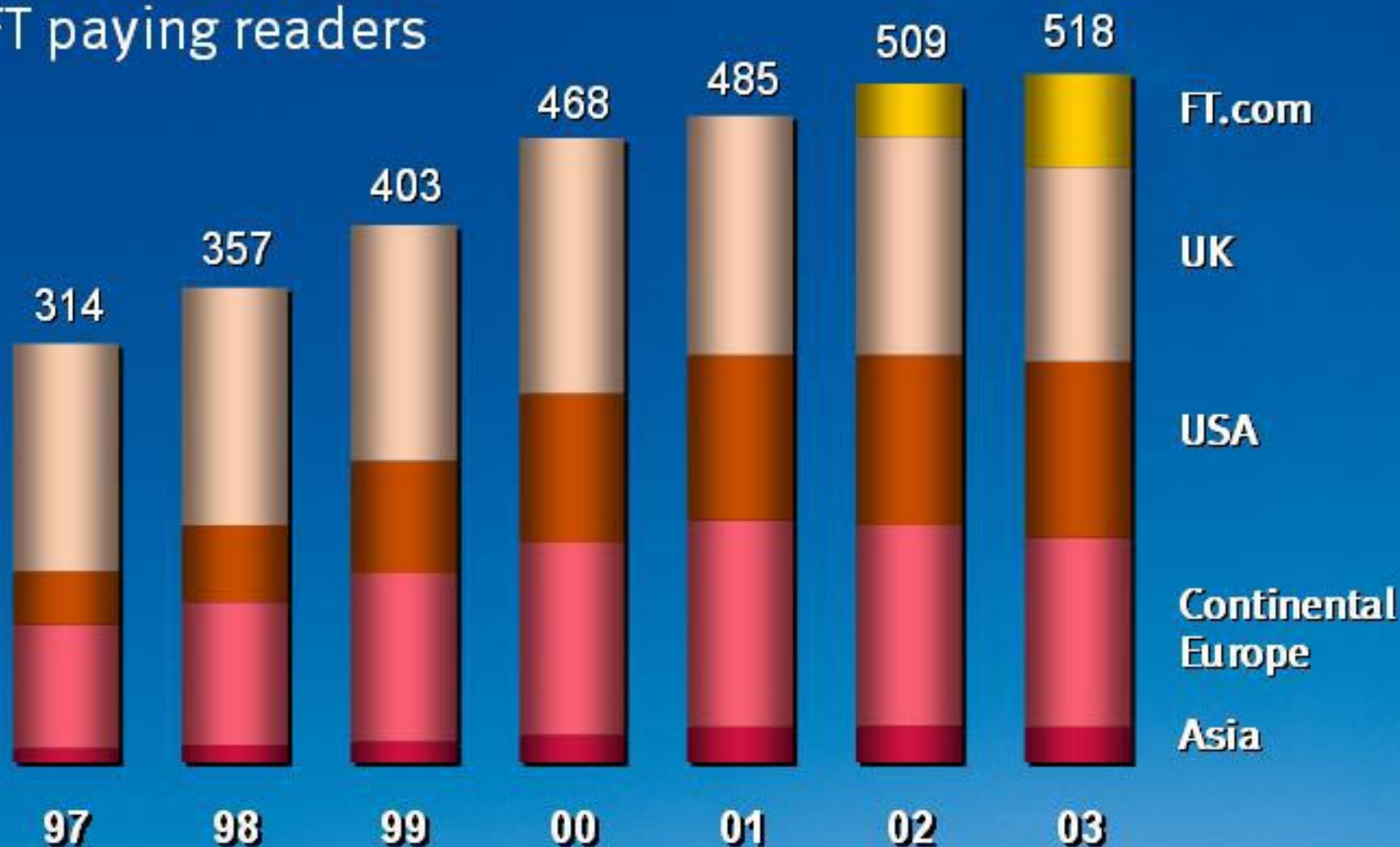
Growing readership and market share



Growing circulation, readership and ad revenues against declining market

Stronger global brand

FT paying readers



FT NEWSPAPER: AVERAGE CIRCULATION; FT.COM: SUBSCRIBERS



Why we will succeed

LEADING BUSINESSES

LEANER OPERATIONS

STRONGER PRODUCTS



Outlook

US School publishing

Leaner in 2004

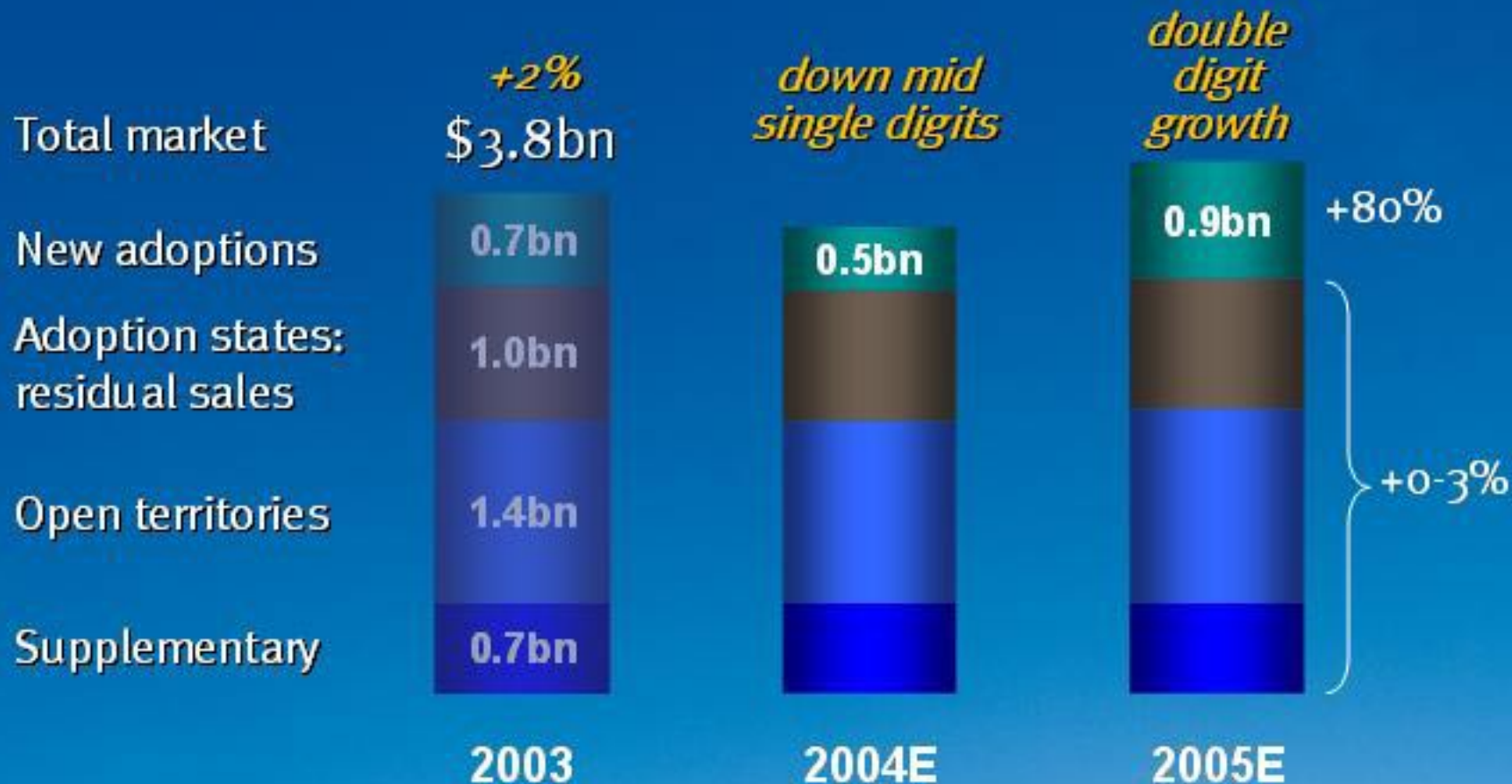




Outlook 2005 and beyond

US School publishing

Stronger in 2005



2005: contract wins surge

Business	contract wins 2003	typical contract term
GOVERNMENT SOLUTIONS	\$200M	5 – 10
PROFESSIONAL TESTING	\$600M+	7 – 9
SCHOOL TESTING	\$300M+	3 – 6

\$1bn+ in new contract wins in 2003

Leanness pays off

£m	est. gearing to revenue improvement
FT	80%
OTHER BUSINESS NEWSPAPERS	70%
TECHNOLOGY PUBLISHING	50%
SCHOOL DIGITAL LEARNING	80%

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