press release

PEARSON

1 March 2004

PEARSON PLC PRELIMINARY RESULTS

12 months ended 31 December 2003

	2003	2003	2002	2002	Change – underlying	Change – constant currency	Change – headline
Sales	£4,048m	$7,246m	£4,320m	$7,733m	(4)%	(2)%	(6)%
Business performance*							
Operating profit	£490m	$877m	£493m	$882m	0%	5%	(1)%
Profit before tax	£410m	$734m	£399m	$714m		8%	3%
Adjusted earnings per share	32.0p	57.3¢	30.3p	54.2¢		11%	6%
Operating free cash flow	£210m	$376m	£305m	$546m			(31)%
Free cash flow	£192m	$344m	£215m	$385m			(11)%
Operating margin	12.1%		11.4%				
Return on invested capital	6.3%		6.0%				
Statutory results							
Operating profit	£226m	$405m	£143m	$256m			58%
Profit/ (loss) before tax	£152m	$272m	£(25)m	$(45)m			--
Basic earnings/ (loss) per share	6.9p	12.4¢	(13.9)p	(24.9)¢			--
Dividend per share	24.2p	43.3¢	23.4p	41.9¢			3%
Net borrowings	£1,361m	$2,436m	£1,408m	$2,520m			(3)%

** Continuing operations before goodwill (2003: £(264)m ($(473)m; 2002: £(340)m ($(609)m), integration costs (2003: £nil ($nil); 2002: £(10)m ($(18)m), non operating items (2003: £6m ($11m); 2002: £(37)m ($(66)m) and net finance costs (2003: £nil ($nil); 2002: £(37)m ($(66)m).*

Constant currency growth rates are calculated using constant 2002 exchange rates. In 2003, currency movements reduced revenues by £181m ($324m) and profits by £27m ($48m). Underlying growth rates exclude the impact of currency movements and portfolio changes. In 2003, portfolio changes increased revenues by £89m ($159m) and profits by £24m ($43m). Throughout this statement, we refer to business performance measures and growth rates on an underlying basis unless otherwise stated.

2003: market share and efficiency gains bring improvements in operating margin, adjusted earnings per share and return on invested capital;

2004: underlying progress on earnings, cash and returns expected, despite a weak school calendar and investments to gain share and accelerate organic growth;

2005: acceleration in earnings, cash and returns, with the strengthening of the US School industry, $1bn of multi-year contract wins in 2003 and lower costs in advertising and technology-related businesses.

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Marjorie Scardino, chief executive, said:

"In the face of a tough business environment over the past few years we have improved our market positions through operating efficiency and product quality. We are now leaner, stronger and more ready for the better conditions we're beginning to see ahead.

"In 2004 we expect to make further underlying progress toward our financial goals, and in 2005 we see a very strong performance from our whole company. That will be underpinned by US school publishing and the contracts we already have in-house. Any recovery in our cyclical businesses would be a further benefit."

2003 highlights: strong competitive performances and further efficiency gains

- School sales up 1% and profit up 13%. US basal publishing up 4% (against market growth of 1%); digital learning business returns to profit despite lower sales; testing business wins $300m of new contracts;
- Higher Education sales up 6% and profit up 11%. US Higher Education business up 6% (against market up 3%) in fifth straight year of market share gains;
- Professional sales and profits lower due to impact of the 2002 TSA contract. Technology publishing business maintains margins and gains share in a declining market; Professional Testing and Government Solutions win $800m of new long-term contracts;
- FT Group profits up 8% despite tough market for business advertising; first signs of improvements in advertising trends in the second half of the year. IDC increases profits by 18% and business newspapers invest to strengthen competitive positions;
- Penguin increases revenues and profits by 2% for another record year. Strong publishing offsets industry-wide backlist softness.

Outlook

At this early stage in the year, we continue to expect further underlying progress on earnings, cash and returns in 2004. Pearson generates approximately two thirds of its revenues in the US and a five cent change in the average exchange rate for the full year (which in 2003 was £1:$1.63) will have an impact of approximately 1p (1.8¢) on adjusted earnings per share. Our outlook is:

- We expect revenues at our School business to be broadly in line with 2003, as growth in testing and digital learning offset lower sales in US school publishing, where we expect the industry to decline in the mid-single digits. We expect our US publishing margins to ease by 1 – 2% points but expect margin progress elsewhere in the School business. We are continuing to invest in our programmes in key subjects and in 2005, based on the current adoption schedule, we expect revenues at our US School publishing business to grow in double digits, with a margin recovery. Full implementation of No Child Left Behind from 2005 and improving state budgets should benefit our testing and digital learning businesses;
- In 2004, we expect our US Higher Education business to grow in the 4-6% range, gaining share with a strong publishing schedule, our online services and custom publishing;
- We expect our Professional businesses to show revenue and profit growth in 2004, even as we invest in our new professional testing centres;

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- Penguin faces tough revenue and profit comparisons after another record year in 2003, but we expect to grow faster than the consumer publishing market with another strong publishing schedule. This year, Penguin will increase investment in its publishing and in initiatives to reach new readers.

- We expect Penguin to deliver a good cash performance, even though its publishing schedule will again be concentrated in the fourth quarter;

Advertising trends at our business newspapers have continued to improve in the first two months of the year. Advertising revenues at the Financial Times, which were 18% lower in the first half of 2003 and 12% lower in the second half, are 4% lower in the year to date. Forward bookings are running a little ahead of last year at all our business newspapers. Although the outlook for our business newspapers remains uncertain, we expect the cost actions we have taken to reduce losses at the *Financial Times* by approximately £20m ($36m) this year even without any advertising recovery. Once again, we expect IDC to deliver good results, with profit growth

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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 1000 (EST)/1500 (GMT) To participate in the conference call or to listen to the audiocast, please register at www.pearson.com.

Video interviews with Marjorie Scardino, chief executive, and Rona Fairhead, chief financial officer, are also available at www.pearson.com.

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

For the complete release including all financial detail, please access www.pearson.com

Throughout this statement (unless otherwise stated):

1. *Adjusted figures are stated before goodwill, integration costs and non operating items. Goodwill is amortised over no more than 20 years;*

2. *The 'business performance' measures, which Pearson uses alongside other measures to track performance, are non-GAAP measures for both US and UK reporting. Reconciliations of operating profit, adjusted earnings per share and operating free cash flow to the equivalent statutory heading under UK GAAP are included in notes 2, 5 and 10.*

3. *All US dollar equivalents have been converted at a rate of $1.79:£1 for illustrative purposes only.*

Operating review

2003 overview

In 2003, sales declined by 4%. Strong competitive performances in our book businesses could not offset the absence of the one-off Transportation Security Administration (TSA) contract, which contributed some £250m to our sales in 2002, and tough trading conditions for our advertising and technology-related businesses. The impact of the £272m sales decline was almost entirely offset by cost reductions, so that operating profit was £3m lower at £490m and profit before tax improved to £410m (£399m in 2002). Operating margins improved from 11.4% to 12.1%. Adjusted earnings per share grew to 32.0p, an increase of 6%.

Operating free cash flow was £210m (£305m in 2002) and free cash flow was £192m (£215m in 2002). Two major factors, both timing-related, masked an otherwise strong performance. Penguin's publishing schedule was particularly concentrated in the fourth quarter, pushing collections into 2004, and the TSA has not yet paid some $151m relating to the 2002 contract. We held capital expenditure below the level of depreciation and, stripping out the TSA impact, average use of working capital improved slightly on 2002, even as we increased investment in new authors, titles and programmes. We reduced our cash spend on integration, finance charges and tax from £240m in 2002 to £128m in 2003.

On a statutory basis, Pearson reported a profit before tax for the year of £152m (a £25m loss in 2002) and generated earnings per share of 6.9p (a loss per share of 13.9p in 2002). Net borrowings fell a further 3% to end the year at £1,361m. The board is recommending a 3.4% increase in the dividend to 24.2p per share.

Pearson Education

£ millions	**2003**	**2002**	**Change – underlying**	**Change – constant currency**	**Change – headline**
Sales					
School	1,176	1,151	1%	8%	2%
Higher Education	772	775	6%	6%	0%
Professional	503	784	(30)%	(32)%	(36)%
FT Knowledge	-	46	-	-	-
Pearson Education	**2,451**	**2,756**	**(6)%**	**(5)%**	**(11)%**
Operating profit					
School	127	115	13%	17%	10%
Higher Education	148	142	11%	11%	4%
Professional	38	81	(51)%	(52)%	(53)%
FT Knowledge	-	(12)	-	-	-
Pearson Education	**313**	**326**	**(2)%**	**2%**	**(4)%**

Sales at **Pearson Education** were 6% lower than in 2002, as good growth in our School and Higher Education businesses could not fill the gap left by the absence of the £250m TSA contract. Profits were 2% lower, as progress in School and Higher Education largely offset a 51% decline in our Professional operations. Margins improved as we benefited from sales growth, operating efficiencies and the 2002 disposal of FT Knowledge.

In our **School** business, sales were 1% higher and operating profits up 13%. In the US, our textbook publishing business grew 2% as our basal imprints Scott Foresman and Prentice Hall increased revenues by 4% against basal market growth of some 1%. Our new elementary social studies programme took a market share of more than 50% in adoption states, helping Pearson to take the leading position in new adoptions with a share of approximately 29%.

Sales at our supplementary publishing business were lower than in 2002 as we discontinued some unprofitable product lines and were affected by industry-wide weakness in state budgets. Although the same pressures reduced sales at our School digital learning business, strong cost management enabled it to return to a small profit. In School testing, 2003 revenues were a little ahead of the previous year and we won more than $300m worth of new multi-year contracts which will boost sales from 2005, when the Federal Government's No Child Left Behind accountability measures become mandatory.

Outside the US, revenues were up 7% with good growth in English Language Teaching and in our School publishing operations in Hong Kong, South Africa, the UK and the Middle East. Our UK testing business, London Qualifications, contributed revenues of £89m.

Our **Higher Education** business increased revenues by 6% and operating profits by 11%. In the US the Higher Education publishing business grew its revenues by 6%. Excluding Pearson, the market grew by 3%. This comes on top of 14% revenue growth in 2002 and marks our fifth straight year of market share gains. Though industry growth slowed a little in 2003, the long-term fundamentals of growing enrolments, a boom in community colleges and a strong demand for post-secondary qualifications more than offset the impact of state budget weaknesses and rising tuition fees.

Our business benefited from a strong schedule of first editions including Faigley's *Penguin Handbook* in English Composition, Wood & Wood's *Mastering World Psychology* and Jones & Wood's *Created Equal* in American History. The use of technology continues to distinguish our learning programmes, with almost one million students now following their courses through our paid-for online sites, an increase of 30% on last year, and a further 1.4 million using our free online services. Our market-leading custom publishing business, which creates personalised textbooks and online packages for individual professors and faculties, grew revenues by 35%, with sales exceeding $100m for the first time.

Outside the US, our Higher Education imprints grew 7%, helped by strong growth in key markets including Europe and Canada, solid local publishing and the introduction of our custom publishing model.

Revenues and profits were significantly lower in our **Professional** business, caused by both the absence of the TSA contract and the associated close-out costs. The $151m receivable from the TSA remains outstanding, and we are discussing with the TSA the post-contract audit and payment. We expect this process to be completed in 2004, and that we will receive payment of the amount due, although the timing of the receipt remains uncertain.

TSA apart, our Government Solutions business grew by 39%, benefiting from new contracts with the Department of Health and the USAC. The Professional Testing business, which had revenues of approximately $100m in 2003, 51% higher than in 2002 excluding TSA, won more than $600m of new long-term contracts. These include testing learner drivers for the UK's Driving Standards Agency, business school applicants for the Graduate Management Admissions Test and securities professionals for the National Association of Securities Dealers. In 2004 we will invest in the expansion of our international network of testing centres to support these contracts, from which we expect to generate significant revenue and profit growth from 2005.

Our worldwide technology publishing operations maintained margins despite a 12% drop in revenues. After a severe three-year technology recession, in which our publishing revenues have fallen by 36%, the rate of decline now appears to be slowing, particularly in the US.

The Penguin Group

£ millions	2003	2002	Change – underlying	Change – constant currency	Change – headline
Sales	840	838	2%	4%	0%
Operating profit	91	87	2%	8%	5%

Note: *At the beginning of 2003 we transferred our Alpha consumer technology publishing business from Pearson Education's Professional division to Penguin. Our calculation of Penguin's underlying growth includes Alpha for both 2002 and 2003.*

Penguin increased revenues and profits by 2%. In the US, our largest market, accounting for around two-thirds of sales, our best ever schedule of new titles enabled Penguin to grow ahead of the industry despite tough conditions for backlist publishing. In the UK our backlist performed well, helped by the relaunch of Penguin Classics and BBC's *The Big Read*.

Penguin's best-selling books included Sue Monk Kidd's debut novel *The Secret Life of Bees* (2.3m copies sold) John Steinbeck's *East of Eden* (1.5m), Al Franken's *Lies and the Lying Liars Who Tell Them* (1.1m), Scott Berg's *Kate Remembered* (0.5m), Paul Burrell's *A Royal Duty* (0.9m), Madonna's *The English Roses* and *Mr Peabody's Apples* (0.9m) and Michael Moore's *Stupid White Men* (0.8m). Dorling Kindersley faced a tough backlist market but benefited from three major new titles: *America 24/7*, Tom Peters' *Re-Imagine!* and an *e-Encyclopaedia* published in association with Google.

We increased spending on authors' advances as we invested in a number of new imprints including Portfolio (business books), Gotham (non-fiction), and The Penguin Press (non-fiction), which has already signed almost 100 authors, including Alexandra Fuller, Ron Chernow and John Berendt. We signed new multi-book deals with a number of our most successful authors including Catherine Coulter and Nora Roberts, whose books have spent a total of 71 weeks at number one on the *New York Times* bestseller list. In the year ahead we will also be investing in channel initiatives to build the Penguin and DK brands and to reach new consumers. These include Penguin TV, which will commission non-fiction and children's programmes based on DK and Penguin books, and a pilot direct selling programme in the US.

Pearson is the world's largest book publisher and last year we continued to integrate our book publishing operations around the world. In Australia and Canada, the first two markets where we combined Penguin and Pearson Education into one company, profits were up 17% and 12% respectively. In the UK, we are shortly to move the two businesses to a single shared warehousing and distribution centre and in the US we have begun to consolidate central functions. The costs of these integration moves were absorbed in the operating profits of Pearson Education and Penguin in 2002 and 2003, and we continue to expect them to deliver some £20m of annual cost savings from 2005.

Financial Times Group

£ millions	2003	2002	Change – underlying	Change – constant currency	Change – headline
Sales					
Financial Times	203	224	(9)%	(9)%	(9)%
Other FT publishing	112	105	(7)%	0%	7%
Recoletos	169	148	4%	4%	14%
IDC	273	249	2%	15%	10%
Total	**757**	**726**	**(3)%**	**3%**	**4%**
Operating profit / (loss)					
Financial Times	(32)	(23)	(37)%	(37)%	(39)%
Other FT publishing	6	10	(42)%	(45)%	(40)%
Associates & Joint Ventures	3	(6)	--	--	--
Recoletos	28	29	(11)%	(11)%	(3)%
IDC	81	70	18%	24%	16%
Total	**86**	**80**	**8%**	**13%**	**8%**

The **Financial Times Group** increased profits by 8% despite a 3% revenue decline as IDC, our asset pricing business, posted an 18% profit increase (before the benefits of Comstock, acquired last January). For our business newspapers, 2003 was the third year of a savage corporate advertising recession which has seen advertising volumes at the *Financial Times* fall almost two-thirds since their peak in 2000. Over the same period, we have reduced the FT's cost base by more than £100 million.

Losses at the *Financial Times* were £9m higher than in 2002 as advertising revenues fell by £23m and we invested some £10m in the newspaper's continued expansion around the world. Advertising revenues were down 15% as industry conditions remained tough for the FT's key advertising categories of corporate finance, technology and business to business. The advertising declines were significantly worse immediately before and during the war in Iraq, but the rate of decline began to narrow towards the end of the year, helped by growth in US, online and recruitment advertising. The newspaper's circulation in the six months to January 2004 was 433,000, 4% lower than in the same period last year, although FT.com's subscribers are some 50% higher at 74,000. The launch of our Asian edition in September completed the FT's global network of four regional newspaper editions, backed up by a single editorial, commercial and technology infrastructure and by FT.com.

Profits at *Les Echos* were behind last year, reflecting continuing declines in advertising revenues and investment in the newspaper's relaunch. Average circulation for the year was down 4% to 116,400, but the September relaunch generated a positive response, with newsstand sales in the final quarter up 4% against a market decline of 6%. Despite a continued decline in the advertising market, FT Business posted profit growth, due to tight cost management.

The FT's associates and joint ventures returned to profit (£6m loss in 2002) with good progress at *FT Deutschland*, our joint venture with Gruner + Jahr, and at the Economist Group, in which Pearson owns a 50% interest. *FT Deutschland's* average circulation for 2003 was 92,000, an increase of 9% on the previous year and advertising revenues increased in a declining market. The Economist Group increased its operating profit despite further revenue declines, reflecting additional measures to reduce costs. *The Economist's* circulation growth continued, with average weekly circulation 3% higher at 908,000.

Revenues at **Recoletos** (Bolsa Madrid: REC), our 79%-owned Spanish media group, were up 4% as its consumer titles, including sports newspaper *Marca*, performed strongly, more than offsetting further advertising revenue decline at business newspaper *Expansión*. Profits were 11% lower as Recoletos invested in existing and new titles. Average circulation at *Marca* increased 3% to 391,000, and at Expansión fell 3% to 46,000.

Interactive Data Corporation (NYSE: IDC), our 61%-owned asset pricing business, grew its underlying revenues in a declining market for the fourth consecutive year. Revenues increased by 2% and profits by 18%, despite continuing weakness in the market for financial services as institutions focused on containing costs. It was helped by strong institutional renewal rates, which continue to run at more than 95%, the addition of new asset classes to its core pricing services, and the successful launch of our Fair Value Pricing service, which is now installed in 35 leading institutions. IDC continued to extend its range of services through new products such as e-Finance Solutions, enhancements of existing products such as BondEdge and eSignal and bolt-on acquisitions including Comstock, a real-time financial data service, and Hyperfeed Technologies.

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Financial review

Profit before tax

In 2003 we report a profit before tax of £152m against a loss of £25m in 2002 as acquisition integration charges ceased and the goodwill amortisation charge reduced.

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 whichever is the shorter of the estimated useful life of the acquisition and a period of 20 years. The goodwill amortisation charge fell by £66m last year to £264m, mainly due to Family Education Network and CBS Marketwatch, where the final amortisation charges were incurred in the first half of 2003.

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 2003 no impairment charges were necessary.

Integration costs

Integration costs are the one-off costs of integrating significant recent acquisitions into our existing businesses. The last of these significant acquisitions occurred in 2000 and the final costs of integration were incurred in 2002. In 2003 there were no integration charges and all other restructuring and related costs have been expensed through the profit and loss account as part of the ongoing operations of our businesses.

Non operating items

Non operating items relate to gains and losses on the sale or closure of businesses and on the sale of fixed assets. In 2003 we had an overall profit on non operating items of £6m, mainly relating to the sale of an associate investment in Unidesa by Recoletos.

Interest

Net operating interest fell by £14m to £80m, with average net debt decreasing by £157m. 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 75 basis points, or 0.75%. The impact of these falls was dampened by our treasury policy of having 40 – 65% of net debt at fixed interest rates. As a result, the Group's net interest rate payable averaged approximately 4.6%, improving from 5.0% in the previous year.

Taxation

The tax charge for the year was £75m. As in previous years, this high rate of tax has come about mainly because there is only very limited tax relief available for the goodwill amortisation charged in the accounts. The total tax charge of £75m includes credits of £56 million relating to prior year items; these reflect a combination of settlements with Revenue authorities and changes to deferred tax balances.

The tax rate on adjusted earnings fell from 32.8% in 2002 to 31.2% in 2003. This decline reflects the factors above, the impact of the dollar exchange rate, and a more favorable mix of profits between higher and lower tax rate jurisdictions.

Minority interests

Minority interests include a 39% minority share in IDC and a 21% minority share in Recoletos.

Dividends

The dividend payment of £192m which we are recommending in respect of 2003 represents 24.2p per share – a 3.4% increase on 2002. The dividend is covered 1.3 times by adjusted earnings, and 1.1 times by operating free cash flow. The company seeks to maintain a balance between the requirements of our

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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.

Pensions

Pearson operates a variety of pension schemes. Our UK fund is by far the largest and we also have some smaller defined benefit funds in the US and Canada. Outside the UK, most of our people operate 401K (essentially defined contribution) plans. Our most recent full valuation of the UK Pension Fund was in 2001 and the next full valuation will be completed during 2004. The pension 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 increased contributions by £5m to £25m in 2003 and has taken an additional £6m charge to the profit and loss account, ahead of the full valuation in 2004. The additional contributions were designed to keep the scheme fully funded and bridge the gap between the 2001 valuation and current expectations.

Except for the historical information contained herein, the matters discussed in this preliminary announcement 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 and US 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.