### Consolidated profit and loss account

#### year ended 31 Dec 2002

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002 Results from operations</th>
<th>Other items</th>
<th>Total</th>
<th>2001 (restated) Results from operations</th>
<th>Other items</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (including share of joint ventures)</td>
<td>4,331</td>
<td>–</td>
<td>4,331</td>
<td>4,240</td>
<td>–</td>
<td>4,240</td>
</tr>
<tr>
<td>Less: share of joint ventures</td>
<td>(11)</td>
<td>–</td>
<td>(11)</td>
<td>(15)</td>
<td>–</td>
<td>(15)</td>
</tr>
<tr>
<td>Sales</td>
<td>4,320</td>
<td>–</td>
<td>4,320</td>
<td>4,225</td>
<td>–</td>
<td>4,225</td>
</tr>
<tr>
<td>Group operating profit</td>
<td>496</td>
<td>(302)</td>
<td>194</td>
<td>444</td>
<td>(424)</td>
<td>20</td>
</tr>
<tr>
<td>Share of operating (loss)/profit of joint ventures and associates</td>
<td>(3)</td>
<td>(48)</td>
<td>(51)</td>
<td>19</td>
<td>(86)</td>
<td>(67)</td>
</tr>
<tr>
<td>Total operating profit/(loss)</td>
<td>493</td>
<td>(350)</td>
<td>143</td>
<td>463</td>
<td>(510)</td>
<td>(47)</td>
</tr>
<tr>
<td>Loss on sale of fixed assets and investments</td>
<td>–</td>
<td>(13)</td>
<td>(13)</td>
<td>–</td>
<td>(12)</td>
<td>(12)</td>
</tr>
<tr>
<td>Loss on sale of subsidiaries and associates</td>
<td>–</td>
<td>(27)</td>
<td>(27)</td>
<td>–</td>
<td>(63)</td>
<td>(63)</td>
</tr>
<tr>
<td>Profit/(loss) on sale of subsidiaries and associates by an associate</td>
<td>–</td>
<td>3</td>
<td>3</td>
<td>–</td>
<td>(53)</td>
<td>(53)</td>
</tr>
<tr>
<td>Non operating items</td>
<td>–</td>
<td>(37)</td>
<td>(37)</td>
<td>–</td>
<td>(128)</td>
<td>(128)</td>
</tr>
<tr>
<td>Profit/(loss) before interest and taxation</td>
<td>493</td>
<td>(387)</td>
<td>106</td>
<td>463</td>
<td>(638)</td>
<td>(175)</td>
</tr>
<tr>
<td>Amounts written off investments</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(92)</td>
<td>(92)</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(94)</td>
<td>(37)</td>
<td>(131)</td>
<td>(169)</td>
<td>–</td>
<td>(169)</td>
</tr>
<tr>
<td>(Loss)/profit before taxation</td>
<td>399</td>
<td>(424)</td>
<td>(25)</td>
<td>294</td>
<td>(730)</td>
<td>(436)</td>
</tr>
<tr>
<td>Taxation</td>
<td>(131)</td>
<td>67</td>
<td>(64)</td>
<td>(100)</td>
<td>133</td>
<td>33</td>
</tr>
<tr>
<td>(Loss)/profit after taxation</td>
<td>268</td>
<td>(357)</td>
<td>(89)</td>
<td>194</td>
<td>(597)</td>
<td>(403)</td>
</tr>
<tr>
<td>Equity minority interests</td>
<td>(27)</td>
<td>5</td>
<td>(22)</td>
<td>(24)</td>
<td>4</td>
<td>(20)</td>
</tr>
<tr>
<td>(Loss)/profit for the financial year</td>
<td>241</td>
<td>(352)</td>
<td>(111)</td>
<td>170</td>
<td>(593)</td>
<td>(423)</td>
</tr>
<tr>
<td>Dividends on equity shares</td>
<td>–</td>
<td>(187)</td>
<td>–</td>
<td>–</td>
<td>(177)</td>
<td>–</td>
</tr>
<tr>
<td>Loss retained</td>
<td>(298)</td>
<td>–</td>
<td>(298)</td>
<td>–</td>
<td>(600)</td>
<td>–</td>
</tr>
<tr>
<td>Adjusted earnings per share</td>
<td>30.3p</td>
<td>–</td>
<td>30.3p</td>
<td>–</td>
<td>21.4p</td>
<td>–</td>
</tr>
<tr>
<td>Loss per share</td>
<td>(13.9)p</td>
<td>–</td>
<td>(13.9)p</td>
<td>–</td>
<td>(53.2)p</td>
<td>–</td>
</tr>
<tr>
<td>Diluted loss per share</td>
<td>(13.9)p</td>
<td>–</td>
<td>(13.9)p</td>
<td>–</td>
<td>(53.2)p</td>
<td>–</td>
</tr>
<tr>
<td>Dividends per share</td>
<td>23.4p</td>
<td>–</td>
<td>23.4p</td>
<td>–</td>
<td>22.3p</td>
<td>–</td>
</tr>
</tbody>
</table>

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 FRS 19 (see note 21).
## Consolidated balance sheet

as at 31 Dec 2002

<table>
<thead>
<tr>
<th>NOTE</th>
<th>2002</th>
<th>2001 RESTATED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>11</td>
<td>3,610</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>12</td>
<td>503</td>
</tr>
<tr>
<td>Investments: joint ventures</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Share of gross assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Share of gross liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments: associates</td>
<td>14</td>
<td>106</td>
</tr>
<tr>
<td>Investments: other</td>
<td>15</td>
<td>84</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>16</td>
<td>734</td>
</tr>
<tr>
<td>Debtors</td>
<td>17</td>
<td>1,057</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>21</td>
<td>174</td>
</tr>
<tr>
<td>Investments</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>18</td>
<td>575</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Creditors – amounts falling due within one year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowing</td>
<td>19</td>
<td>(249)</td>
</tr>
<tr>
<td>Other creditors</td>
<td>20</td>
<td>(1,114)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>1,179</td>
<td>1,154</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td>5,489</td>
<td>6,873</td>
</tr>
<tr>
<td><strong>Creditors – amounts falling due after more than one year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium and long-term borrowing</td>
<td>19</td>
<td>(1,734)</td>
</tr>
<tr>
<td>Other creditors</td>
<td>20</td>
<td>(60)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Provisions for liabilities and charges</strong></td>
<td>22</td>
<td>(165)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>3,530</td>
<td>3,973</td>
</tr>
</tbody>
</table>

The 2001 comparatives have been restated for the adoption of FRS 19 (see note 21).

The company balance sheet is shown in note 32.

The financial statements were approved by the board of directors on 3 March 2003 and signed on its behalf by

DENNIS STEVENSON • RONA FAIRHEAD
### Consolidated statement of cash flows

**year ended 31 Dec 2002**

<table>
<thead>
<tr>
<th>Description</th>
<th>NOTE</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td></td>
<td>529</td>
<td>490</td>
</tr>
<tr>
<td>Dividends from joint ventures and associates</td>
<td></td>
<td>6</td>
<td>25</td>
</tr>
<tr>
<td>Interest received</td>
<td></td>
<td>11</td>
<td>31</td>
</tr>
<tr>
<td>Interest paid</td>
<td></td>
<td>(151)</td>
<td>(187)</td>
</tr>
<tr>
<td>Debt issue costs</td>
<td></td>
<td>–</td>
<td>(1)</td>
</tr>
<tr>
<td>Dividends paid to minority interests</td>
<td></td>
<td>(1)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Returns on investments and servicing of finance</strong></td>
<td></td>
<td>(141)</td>
<td>(166)</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>(55)</td>
<td>(71)</td>
</tr>
<tr>
<td>Purchase of tangible fixed assets</td>
<td></td>
<td>(126)</td>
<td>(165)</td>
</tr>
<tr>
<td>Sale of tangible fixed assets</td>
<td></td>
<td>7</td>
<td>36</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td></td>
<td>(21)</td>
<td>(35)</td>
</tr>
<tr>
<td>Sale of investments</td>
<td></td>
<td>3</td>
<td>22</td>
</tr>
<tr>
<td><strong>Capital expenditure and financial investment</strong></td>
<td></td>
<td>(137)</td>
<td>(142)</td>
</tr>
<tr>
<td>Purchase of subsidiaries</td>
<td>25</td>
<td>(87)</td>
<td>(128)</td>
</tr>
<tr>
<td>Net cash acquired with subsidiaries</td>
<td></td>
<td>1</td>
<td>83</td>
</tr>
<tr>
<td>Purchase of joint ventures and associates</td>
<td></td>
<td>(46)</td>
<td>(26)</td>
</tr>
<tr>
<td>Sale of subsidiaries</td>
<td>26</td>
<td>3</td>
<td>41</td>
</tr>
<tr>
<td>Net cash disposed with subsidiaries</td>
<td></td>
<td>(1)</td>
<td>–</td>
</tr>
<tr>
<td>Sale of associates</td>
<td>14</td>
<td>920</td>
<td>1</td>
</tr>
<tr>
<td><strong>Acquisitions and disposals</strong></td>
<td></td>
<td>796</td>
<td>(29)</td>
</tr>
<tr>
<td>Equity dividends paid</td>
<td></td>
<td>(181)</td>
<td>(174)</td>
</tr>
<tr>
<td><strong>Net cash inflow/(outflow) before management of liquid resources and financing</strong></td>
<td></td>
<td>817</td>
<td>(67)</td>
</tr>
<tr>
<td>Liquid resources acquired</td>
<td></td>
<td>(65)</td>
<td>(48)</td>
</tr>
<tr>
<td>Collateral deposit reimbursed</td>
<td></td>
<td>22</td>
<td>47</td>
</tr>
<tr>
<td><strong>Management of liquid resources</strong></td>
<td>27</td>
<td>(43)</td>
<td>(1)</td>
</tr>
<tr>
<td>Issue of equity share capital</td>
<td></td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Capital element of finance leases</td>
<td></td>
<td>(5)</td>
<td>(7)</td>
</tr>
<tr>
<td>Loan facility repaid</td>
<td></td>
<td>(507)</td>
<td>(521)</td>
</tr>
<tr>
<td>Bonds (repaid)/advanced</td>
<td></td>
<td>(167)</td>
<td>507</td>
</tr>
<tr>
<td>Collateral deposit reimbursed</td>
<td></td>
<td>17</td>
<td>–</td>
</tr>
<tr>
<td>Net movement in other borrowings</td>
<td></td>
<td>(7)</td>
<td>3</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td>(663)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Increase/(decrease) in cash in the year</strong></td>
<td>27</td>
<td>111</td>
<td>(66)</td>
</tr>
</tbody>
</table>
Statement of total recognised gains and losses
year ended 31 Dec 2002

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001 RESTATEd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss for the financial year</td>
<td>(111)</td>
<td>(423)</td>
</tr>
<tr>
<td>Other net gains and losses recognised in reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>(317)</td>
<td>26</td>
</tr>
<tr>
<td>Taxation on currency translation differences</td>
<td>5</td>
<td>(6)</td>
</tr>
<tr>
<td>Total recognised gains and losses relating to the year</td>
<td>(423)</td>
<td>(403)</td>
</tr>
<tr>
<td>Prior year adjustment – FRS 19</td>
<td>21</td>
<td>209</td>
</tr>
<tr>
<td>Total recognised gains and losses</td>
<td></td>
<td>(214)</td>
</tr>
</tbody>
</table>

Reconciliation of movements in equity shareholders’ funds
year ended 31 Dec 2002

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001 RESTATEd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss for the financial year</td>
<td>(111)</td>
<td>(423)</td>
</tr>
<tr>
<td>Dividends on equity shares</td>
<td>(187)</td>
<td>(177)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(298)</td>
</tr>
<tr>
<td>Currency translation differences (net of taxation)</td>
<td>(312)</td>
<td>20</td>
</tr>
<tr>
<td>Goodwill written back on sale of subsidiaries and associates</td>
<td>144</td>
<td>37</td>
</tr>
<tr>
<td>Goodwill written back on sale of subsidiaries and associates by an associate</td>
<td>–</td>
<td>36</td>
</tr>
<tr>
<td>Shares issued</td>
<td>6</td>
<td>18</td>
</tr>
<tr>
<td>Replacement options granted on acquisition of subsidiary</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Net movement for the year</td>
<td>(459)</td>
<td>(487)</td>
</tr>
<tr>
<td>Equity shareholders’ funds at beginning of the year</td>
<td>3,797</td>
<td>4,044</td>
</tr>
<tr>
<td>Prior period adjustment – FRS 19</td>
<td>–</td>
<td>240</td>
</tr>
<tr>
<td>Equity shareholders’ funds at end of the year</td>
<td>3,338</td>
<td>3,797</td>
</tr>
</tbody>
</table>
Independent auditors’ report to the members of Pearson plc

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated statement of cash flows, the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders’ funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7a to the Companies Act 1985, contained in the report on directors’ remuneration (‘the auditable part’).

Respective responsibilities of directors and auditors - The directors’ responsibilities for preparing the annual report, the report on directors’ remuneration, and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors’ responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the report on directors’ remuneration in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, have been prepared for and only for, the company’s members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the report on directors’ remuneration have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors’ report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the financial highlights, the chairman’s statement, the chief executive's review, the ‘Pearson goals’ section, the ‘business highlights’ section, the operating review, the financial review, the board of directors, the directors’ report and the unaudited part of the report on directors’ remuneration.

We review whether the corporate governance statement within the directors’ report reflects the group's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board’s statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion - We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the report on directors’ remuneration. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the report on directors’ remuneration are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion - In our opinion

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2002 and the result and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the report on directors’ remuneration required by Part 3 of Schedule 7a to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PRICERWATERHOUSECOOPERS LLP • CHARTERED ACCOUNTANTS AND REGISTERED AUDITORS • LONDON 3 MARCH 2003

Notes

The maintenance and integrity of the Pearson Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.
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Notes to the accounts

1 ACCOUNTING POLICIES

Accounting policies have been consistently applied except that FRS 19 'Deferred tax' has been adopted and hence comparative figures have been restated. The effect of this change in accounting policy is disclosed in note 21. The transitional arrangements of FRS 17 'Retirement benefits' have been adopted which require additional disclosures in respect of retirement benefits, as set out in note 10.

a. Basis of accounting - The accounts are prepared under the historical cost convention and in accordance with the Companies Act and applicable accounting standards. A summary of the significant accounting policies is set out below.

b. Basis of consolidation - The consolidated accounts include the accounts of all subsidiaries made up to 31 December. Where companies have become or ceased to be subsidiaries or associates during the year, the Group results include results for the period during which they were subsidiaries or associates.

The results of the Group includes the Group's share of the results of joint ventures and associates, and the consolidated balance sheet includes the Group's interest in joint ventures and associates at the book value of attributable net assets and attributable goodwill.

c. Goodwill - From 1 January 1998 goodwill, being either the net excess of the cost of shares in subsidiaries, joint ventures and associates over the value attributable to their net assets on acquisition or the cost of other goodwill by purchase, is capitalised and amortised through the profit and loss account on a straight-line basis over its estimated useful life not exceeding 20 years. Estimated useful life is determined after taking into account such factors as the nature and age of the business and the stability of the industry in which the acquired business operates, as well as typical life spans of the acquired products to which the goodwill attaches. 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. Goodwill arising on acquisitions before 1 January 1998 has been deducted from reserves and is charged or credited to the profit and loss account on disposal or closure of the business to which it relates.

d. Sales - Sales represent the amount of goods and services, net of value added tax and other sales taxes, and excluding trade discounts and anticipated returns, provided to external customers and associates.

Revenue from the sale of books is recognised when the goods are shipped. Anticipated returns are based primarily on historical return rates. Circulation and advertising revenue is recognised when the newspaper or other publication is published. Subscription revenue is recognised on a straight-line basis over the life of the subscription.

Revenue from long-term contracts, such as contracts to process qualifying tests for individual professions and government departments, is recognised over the contract term based on the percentage of services provided during the period, compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognised in the period in which the loss first becomes probable and reasonably estimable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

e. Pension costs - The regular pension cost of the Group's defined benefit pension schemes is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the schemes. Variations arising from a significant reduction in the number of employees are adjusted in the profit and loss account to the extent that the year's regular pension cost, reduced by other variations, exceeds contributions payable for that year. Other variations are apportioned over the expected service lives of current employees in the schemes. The pension cost of the Group's defined contribution schemes is the amount of contributions payable for the year.

f. Post-retirement benefits other than pensions - Post-retirement benefits other than pensions are accounted for on an accruals basis to recognise the obligations over the expected service lives of the employees concerned.

g. Tangible fixed assets - The cost of tangible fixed assets other than freehold land is depreciated over estimated economic lives in equal annual amounts. Generally, freeholds are depreciated at 1% to 5% per annum, leaseholds at 2% per annum, or over the period of the lease if shorter, and plant and equipment at various rates between 5% and 33% per annum.

h. Leases - Finance lease rentals are capitalised at the net present value of the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated in accordance with policy g above. Finance charges are written off over the period of the lease in reducing amounts in relation to the written down carrying cost. Operating lease rentals are expensed as incurred.

i. Fixed asset investments - Fixed asset investments are stated at cost less provisions for diminution in value.
j. Share schemes - Shares held by employee share ownership trusts are shown at cost less any provision for permanent diminution in value. The costs of funding and administering the trusts are charged to the profit and loss account in the period to which they relate. The cost of shares acquired by the trusts or the fair market value of the shares at the date of the grant, less any consideration to be received from the employee, is charged to the profit and loss account over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continued employment) an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period and an appropriate provision made.

k. Stocks - Stocks and work in progress are stated at the lower of cost and net realisable value.

l. Pre-publication costs - Pre-publication costs represent direct costs incurred in the development of titles prior to their publication. These costs are carried forward in stock where the title to which they relate has a useful life in excess of one year. These costs are amortised upon publication of the title over estimated economic lives of five years or less, being an estimate of the expected life cycle of the title, with a higher proportion of the amortisation taken in the earlier years.

m. Royalty advances - Advances of royalties to authors are included within debtors when the advance is paid less any provision required to bring the amount down to its net realisable value. The royalty advance is expensed at the contracted royalty rate as the related revenues are earned.

n. Newspaper development costs - Revenue investment in the development of newspaper titles consists of measures to increase the volume and geographical spread of circulation. These measures include additional and enhanced editorial content, extended distribution and remote printing. These extra costs arising are expensed as incurred.

o. Deferred taxation - Provision is made in full for deferred tax that arises from timing differences that have originated but not reversed by the balance sheet date on transactions or events that result in an obligation to pay more tax in the future. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted. No deferred tax is provided in respect of any future remittance of earnings of foreign subsidiaries or associates where no commitment has been made to remit such earnings.

p. Financial instruments - The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate swaps, currency swaps and forward currency contracts. Amounts payable or receivable in respect of interest rate derivatives are accrued with net interest payable over the period of the contract. Where the derivative instrument is terminated early, the gain or loss is spread over the remaining maturity of the original instrument. Where the underlying exposure ceases to exist, any termination gain or loss is taken to the profit and loss account. Foreign currency borrowings and their related derivatives are carried in the balance sheet at the relevant exchange rates at the balance sheet date. Gains or losses in respect of the hedging of overseas subsidiaries are taken to reserves. Gains or losses arising from foreign exchange contracts are taken to the profit and loss account in line with the transactions which they are hedging. Premiums paid on contracts designed to manage currency exposure on specific acquisitions or disposals are charged to the profit and loss account.

The company participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

q. Foreign currencies - Profit and loss accounts in overseas currencies are translated into sterling at average rates. Balance sheets are translated into sterling at the rates ruling at 31 December. Exchange differences arising on consolidation are taken directly to reserves. Other exchange differences are taken to the profit and loss account where they relate to trading transactions and directly to reserves where they relate to investments.

The principal overseas currency for the Group is the US dollar. The average rate for the year against sterling was $1.51 (2001: $1.44) and the year end rate was $1.61 (2001: $1.46).

r. Liquid resources - Liquid resources comprise short-term deposits of less than one year and investments which are readily realisable and held on a short-term basis.

s. Retained profits of overseas subsidiaries and associates - No provision is made for any additional taxation, less double taxation relief, which would arise on the remittance of profits retained where there is no intention to remit such profits.
## 2a Analysis of Sales

All figures in £ millions

<table>
<thead>
<tr>
<th>Business sectors</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales Before Internet Enterprises</td>
<td>Internet Enterprises</td>
</tr>
<tr>
<td>Pearson Education</td>
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<td>4</td>
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<td>FT Group</td>
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<td>48</td>
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<tr>
<td>The Penguin Group</td>
<td>838</td>
<td>–</td>
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<tr>
<td>Continuing operations</td>
<td>4,268</td>
<td>52</td>
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<table>
<thead>
<tr>
<th>Geographical markets supplied</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total By Source</td>
<td>Inter-Regional</td>
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<td>United Kingdom</td>
<td>644</td>
<td>(25)</td>
</tr>
<tr>
<td>Continental Europe</td>
<td>304</td>
<td>(4)</td>
</tr>
<tr>
<td>North America</td>
<td>3,144</td>
<td>(36)</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>226</td>
<td>(2)</td>
</tr>
<tr>
<td>Rest of world</td>
<td>69</td>
<td>–</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>4,387</td>
<td>(67)</td>
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</table>

**Note:** The table above analyses sales by the geographical region from which the products and services originate. Inter-regional sales are those made between Group companies in different regions.

## 2b Analysis of Total Operating Profit/(Loss)

All figures in £ millions

<table>
<thead>
<tr>
<th>Business sectors</th>
<th>Results from Operations Before Internet Enterprises</th>
<th>Internet Enterprises</th>
<th>Results from Operations</th>
<th>Integration Costs</th>
<th>Goodwill Amortisation</th>
<th>Goodwill Impairment</th>
<th>Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td>351</td>
<td>(25)</td>
<td>326</td>
<td>(7)</td>
<td>(244)</td>
<td>–</td>
<td>75</td>
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<tr>
<td>FT Group</td>
<td>114</td>
<td>(34)</td>
<td>80</td>
<td>–</td>
<td>(65)</td>
<td>(10)</td>
<td>5</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>87</td>
<td>–</td>
<td>87</td>
<td>(3)</td>
<td>(18)</td>
<td>–</td>
<td>66</td>
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<tr>
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<td>(59)</td>
<td>493</td>
<td>(10)</td>
<td>(327)</td>
<td>(10)</td>
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<tr>
<td>Discontinued operations</td>
<td>–</td>
<td>–</td>
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<td>(3)</td>
<td>–</td>
<td>(3)</td>
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<tr>
<td></td>
<td>552</td>
<td>(59)</td>
<td>493</td>
<td>(10)</td>
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<td>(10)</td>
<td>143</td>
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### Analysis of Operating Profit/(Loss) Continued

#### Geographical markets supplied

<table>
<thead>
<tr>
<th>Geographical markets supplied</th>
<th>2002</th>
<th>2001 Restated</th>
</tr>
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<tbody>
<tr>
<td></td>
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<tr>
<td></td>
<td>results from operations before internet enterprises</td>
<td>internet enterprises</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>(37)</td>
<td>(35)</td>
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<td>Continental Europe</td>
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<td>(23)</td>
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<tr>
<td>Asia Pacific</td>
<td>31</td>
<td>–</td>
</tr>
<tr>
<td>Rest of world</td>
<td>(1)</td>
<td>–</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>552</td>
<td>(59)</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>–</td>
<td>–</td>
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<td></td>
<td>552</td>
<td>(59)</td>
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#### Business sectors

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<tr>
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<th>2001 Restated</th>
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<tr>
<td></td>
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<td>internet enterprises</td>
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<tr>
<td>Pearson Education</td>
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<td>(77)</td>
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<tr>
<td>FT Group</td>
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<td>(60)</td>
</tr>
<tr>
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<td>80</td>
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</tr>
<tr>
<td>Continuing operations</td>
<td>563</td>
<td>(137)</td>
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<td>37</td>
<td>–</td>
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<tr>
<td></td>
<td>600</td>
<td>(137)</td>
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#### Geographical markets supplied

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<thead>
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<tr>
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<tr>
<td></td>
<td>results from operations before internet enterprises</td>
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</tr>
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<tr>
<td>Rest of world</td>
<td>(2)</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>563</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>600</td>
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</table>

**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, of the goodwill impairment charge, £10m (2001: £58m) relates to the impairment of goodwill arising on acquisition of subsidiaries (see note 11) and £nil (2001: £3m) relates to the impairment of goodwill arising on acquisition of associates. Integration costs, goodwill amortisation and goodwill impairment are included as other items in the profit and loss account. Discontinued operations relate to the withdrawal of the Group from the television business following the disposal of its 22% interest in the RTL Group on 30 January 2002.
### 2c Share of Operating Loss of Joint Ventures

<table>
<thead>
<tr>
<th></th>
<th>RESULTS FROM OPERATIONS BEFORE ENTERPRISES</th>
<th>RESULT FROM OPERATIONS</th>
<th>INTEGRATION COSTS</th>
<th>GOODWILL AMORTISATION</th>
<th>GOODWILL IMPAIRMENT</th>
<th>OPERATING LOSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td>(1)</td>
<td>(1)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(1)</td>
</tr>
<tr>
<td>FT Group</td>
<td>(13)</td>
<td>(13)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(13)</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>1</td>
<td>1</td>
<td>–</td>
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<table>
<thead>
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<th></th>
<th>RESULTS FROM OPERATIONS BEFORE ENTERPRISES</th>
<th>RESULT FROM OPERATIONS</th>
<th>INTEGRATION COSTS</th>
<th>GOODWILL AMORTISATION</th>
<th>GOODWILL IMPAIRMENT</th>
<th>OPERATING LOSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>FT Group</td>
<td>(20)</td>
<td>(20)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(20)</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>1</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1</td>
</tr>
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</table>

### 2d Share of Operating Loss of Associates

<table>
<thead>
<tr>
<th></th>
<th>RESULTS FROM OPERATIONS BEFORE ENTERPRISES</th>
<th>RESULT FROM OPERATIONS</th>
<th>INTEGRATION COSTS</th>
<th>GOODWILL AMORTISATION</th>
<th>GOODWILL IMPAIRMENT</th>
<th>OPERATING LOSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td>3</td>
<td>3</td>
<td>–</td>
<td>(1)</td>
<td>–</td>
<td>2</td>
</tr>
<tr>
<td>FT Group</td>
<td>10</td>
<td>(3)</td>
<td>7</td>
<td>(44)</td>
<td>–</td>
<td>(37)</td>
</tr>
<tr>
<td>The Penguin Group</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<tr>
<td>Continuing operations</td>
<td>13</td>
<td>(3)</td>
<td>10</td>
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<td>(35)</td>
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<td>–</td>
<td>(3)</td>
<td>–</td>
<td>(3)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>RESULTS FROM OPERATIONS BEFORE ENTERPRISES</th>
<th>RESULT FROM OPERATIONS</th>
<th>INTEGRATION COSTS</th>
<th>GOODWILL AMORTISATION</th>
<th>GOODWILL IMPAIRMENT</th>
<th>OPERATING LOSS</th>
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<td>(3)</td>
<td>(1)</td>
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<td>(10)</td>
<td>(2)</td>
<td>(47)</td>
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<td>(49)</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>11</td>
<td>(10)</td>
<td>1</td>
<td>(48)</td>
<td>(3)</td>
<td>(50)</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>37</td>
<td>37</td>
<td>–</td>
<td>(35)</td>
<td>–</td>
<td>2</td>
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<table>
<thead>
<tr>
<th></th>
<th>RESULTS FROM OPERATIONS BEFORE ENTERPRISES</th>
<th>RESULT FROM OPERATIONS</th>
<th>INTEGRATION COSTS</th>
<th>GOODWILL AMORTISATION</th>
<th>GOODWILL IMPAIRMENT</th>
<th>OPERATING LOSS</th>
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</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td>3</td>
<td>3</td>
<td>–</td>
<td>(1)</td>
<td>(3)</td>
<td>(1)</td>
</tr>
<tr>
<td>FT Group</td>
<td>8</td>
<td>(10)</td>
<td>(2)</td>
<td>(47)</td>
<td>–</td>
<td>(49)</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
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<td>Continuing operations</td>
<td>11</td>
<td>(10)</td>
<td>1</td>
<td>(48)</td>
<td>(3)</td>
<td>(50)</td>
</tr>
<tr>
<td>Discontinued operations</td>
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<td>37</td>
<td>–</td>
<td>(35)</td>
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## 2e Analysis of Capital Employed

<table>
<thead>
<tr>
<th>Business sectors</th>
<th>2002</th>
<th>2001</th>
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<tbody>
<tr>
<td>Pearson Education</td>
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<td><strong>4,929</strong></td>
<td><strong>5,556</strong></td>
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<tr>
<td><strong>Discontinued operations</strong></td>
<td>–</td>
<td>763</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,929</strong></td>
<td><strong>6,319</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographical location</th>
<th>2002</th>
<th>2001</th>
</tr>
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<tr>
<td>United Kingdom</td>
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<tr>
<td>Continental Europe</td>
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<tr>
<td>North America</td>
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<td>4,628</td>
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<tr>
<td>Asia Pacific</td>
<td>125</td>
<td>139</td>
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<tr>
<td>Rest of world</td>
<td>18</td>
<td>30</td>
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<tr>
<td><strong>Continuing operations</strong></td>
<td><strong>4,929</strong></td>
<td><strong>5,556</strong></td>
</tr>
<tr>
<td><strong>Discontinued operations</strong></td>
<td>–</td>
<td>763</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,929</strong></td>
<td><strong>6,319</strong></td>
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</table>

### Reconciliation of capital employed to net assets

<table>
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<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital employed</td>
<td>4,929</td>
<td>6,319</td>
</tr>
<tr>
<td>Add: deferred taxation</td>
<td>174</td>
<td>272</td>
</tr>
<tr>
<td>Less: provisions for liabilities and charges</td>
<td>(165)</td>
<td>(239)</td>
</tr>
<tr>
<td>Less: net debt excluding finance leases</td>
<td>(1,408)</td>
<td>(2,379)</td>
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<tr>
<td><strong>Net assets</strong></td>
<td><strong>3,530</strong></td>
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## 3 Analysis of Consolidated Profit and Loss Account

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<td>2,256</td>
<td>2,323</td>
</tr>
<tr>
<td>Distribution costs</td>
<td>(197)</td>
<td>(200)</td>
</tr>
<tr>
<td>Administration and other expenses</td>
<td>(1,924)</td>
<td>(2,169)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>59</td>
<td>66</td>
</tr>
<tr>
<td><strong>Net operating expenses</strong></td>
<td><strong>(2,062)</strong></td>
<td><strong>(2,303)</strong></td>
</tr>
</tbody>
</table>

Analysed as:

- Net operating expenses – before other items:  
  - Integration costs: (10) (74)
  - Goodwill amortisation: (282) (292)
  - Goodwill impairment: (10) (58)

**Net operating expenses**: (2,062) (2,303)

*Note:* Other items are all included in administration and other expenses.
### 3 Analysis of Consolidated Profit and Loss Account Continued

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other operating income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from other investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unlisted</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other operating income (mainly royalties, rights and commission income)</td>
<td>57</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>59</td>
<td>66</td>
</tr>
<tr>
<td><strong>Loss before taxation is stated after charging:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortisation of pre-publication costs</td>
<td>170</td>
<td>161</td>
</tr>
<tr>
<td>Depreciation</td>
<td>122</td>
<td>125</td>
</tr>
<tr>
<td>Operating lease rentals:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Plant and machinery</td>
<td>11</td>
<td>31</td>
</tr>
<tr>
<td>– Properties</td>
<td>101</td>
<td>99</td>
</tr>
<tr>
<td>– Other</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Auditors’ remuneration:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit (Company £20,000; 2001: £20,000)</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Non-audit – UK (Company £231,000; 2001: £nil)</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Non-audit – Overseas</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Non-audit services were as follows:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US reporting, due diligence and other related work</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Taxation advice</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Acquisition related work</td>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>

*note* • There were no fees capitalised in 2002 or 2001.

### 4a Loss on Sale of Fixed Assets and Investments

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss on sale of property</td>
<td>(3)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net loss on sale of investments</td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>(13)</td>
<td>(12)</td>
</tr>
<tr>
<td>Taxation</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

### 4b Loss on Sale of Subsidiaries and Associates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>NOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2001 RESTATED</td>
<td></td>
</tr>
<tr>
<td>Loss on sale of Forum</td>
<td>(40)</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Loss on sale of PH Direct</td>
<td>(8)</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Loss on sale of iForum</td>
<td>–</td>
<td>(27)</td>
<td></td>
</tr>
<tr>
<td>Net profit/(loss) on sale of other subsidiaries and associates</td>
<td>3</td>
<td>(36)</td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>(45)</td>
<td>(63)</td>
<td></td>
</tr>
<tr>
<td>Profit on sale of the RTL Group – discontinued operations</td>
<td>18</td>
<td>(27)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(63)</td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>(6)</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>
4C PROFIT/(LOSS) ON SALE OF SUBSIDIARIES AND ASSOCIATES BY AN ASSOCIATE

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) on sale of Journal of Commerce by the Economist – continuing operations</td>
<td>3</td>
<td>(36)</td>
</tr>
<tr>
<td>Loss on sale of subsidiaries and associates by the RTL Group – discontinued operations</td>
<td>–</td>
<td>(17)</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>(53)</td>
</tr>
</tbody>
</table>

5 NET FINANCE COSTS

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>(94)</td>
</tr>
<tr>
<td>– Associates</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Early repayment of debt and termination of swap contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>–</td>
<td>(37)</td>
</tr>
<tr>
<td>Total net finance costs</td>
<td>(94)</td>
<td>(37)</td>
</tr>
</tbody>
</table>

6 NET INTEREST PAYABLE – GROUP

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable and similar charges:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans, overdrafts and commercial paper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On borrowing repayable wholly within five years not by instalments</td>
<td>(54)</td>
<td>(100)</td>
</tr>
<tr>
<td>On borrowing repayable wholly or partly after five years</td>
<td>(51)</td>
<td>(72)</td>
</tr>
<tr>
<td>Other borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On borrowing repayable wholly within five years not by instalments</td>
<td>–</td>
<td>(16)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(105)</td>
</tr>
<tr>
<td>Interest receivable and similar income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On deposits and liquid funds</td>
<td>11</td>
<td>23</td>
</tr>
<tr>
<td>Amortisation of swap proceeds</td>
<td>–</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>25</td>
</tr>
<tr>
<td>Net interest payable</td>
<td>(94)</td>
<td>(163)</td>
</tr>
</tbody>
</table>
TAXATION

Analysis of benefit/(charge) in the year:

Current taxation
- UK corporation tax for the year: 11 (28)
- Adjustments in respect of prior periods: 58 (147)
  - Over £ millions
  - 69 119

Overseas tax for the year: (63) (43)
- Joint ventures: – (6)
- Associates: (4) (9)
  - 2 61

Deferred taxation
- Origination and reversal of timing differences:
  - UK: (11) 4
  - Overseas: (56) (32)
  - Adjustments in respect of prior periods: 1 –
  - 21 (66) (28)

Taxation
- (64) 33

The tax for the year is different than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Loss before tax: (25) (436)
- Expected benefit at UK corporation tax rate of 30% (2001: 30%): 8 131
- Effect of overseas tax rates: 11 37
- Effect of tax losses: (7) (1)
- Other timing differences: 55 (98)
- Non-deductible goodwill amortisation: (111) (149)
- US state taxes: (10) (6)
- Adjustments in respect of prior periods: 56 147

Current tax benefit for the year: 2 61

Tax rate reconciliation
- UK 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

Note - Included in the adjustment in respect of prior periods in 2002 is a tax benefit of £45m (2001: £143m) relating to a prior period disposal of a subsidiary and a fixed asset investment.

Both the current and the total tax charge on profit (or loss) before tax will continue to be affected by the fact that there is only very limited tax relief available on the goodwill amortisation charged in the accounts.

The current tax charge will continue to be affected by the utilisation of tax losses and by the impact of other timing differences, in both cases mainly in the United States. Following the adoption of FRS 19 these factors will have only a very limited impact on the total tax rate; as shown in note 21, the Group has recognised a total deferred tax asset of £174m at 31 December 2002 (2001: £272m).

In both 2002 and 2001 the tax charge was materially affected by prior year adjustments; it is not practicable to forecast the possible effect of such items in future years as this will depend on progress in agreeing the Group’s tax returns with the tax authorities.

The total charge in future periods will also be affected by any changes to corporation tax rates and/or any other relevant legislative changes in the jurisdictions in which the Group operates. It will also be affected by the mix of profits between the different jurisdictions.
## 8 Dividends on Equity Shares

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th></th>
<th>2001</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pence per share £m</td>
<td></td>
<td>Pence per share £m</td>
<td></td>
</tr>
<tr>
<td>Interim paid</td>
<td>9.1</td>
<td>72</td>
<td>8.7</td>
<td>68</td>
</tr>
<tr>
<td>Final proposed</td>
<td>14.3</td>
<td>115</td>
<td>13.6</td>
<td>109</td>
</tr>
<tr>
<td>Dividends for the year</td>
<td>23.4</td>
<td>187</td>
<td>22.3</td>
<td>177</td>
</tr>
</tbody>
</table>

Note: Dividends in respect of the company’s shares held by employee share trusts (see note 15) have been waived.

## 9 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.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th></th>
<th>2001 restated</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Note</td>
<td>£m</td>
<td>Earnings/(loss) per share (p)</td>
<td>£m</td>
</tr>
<tr>
<td>Loss for the financial year</td>
<td>(111)</td>
<td>(13.9)</td>
<td>(423)</td>
<td>(53.2)</td>
</tr>
<tr>
<td>Adjustments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Non operating items</td>
<td></td>
<td>37</td>
<td>4.6</td>
<td>128</td>
</tr>
<tr>
<td>– Integration costs 2b</td>
<td></td>
<td>10</td>
<td>1.3</td>
<td>74</td>
</tr>
<tr>
<td>– Goodwill amortisation 2b</td>
<td></td>
<td>330</td>
<td>41.4</td>
<td>375</td>
</tr>
<tr>
<td>– Goodwill impairment 2b</td>
<td></td>
<td>10</td>
<td>1.3</td>
<td>61</td>
</tr>
<tr>
<td>– Amounts written off investments</td>
<td></td>
<td>–</td>
<td>–</td>
<td>92</td>
</tr>
<tr>
<td>– Other net finance costs 5</td>
<td></td>
<td>37</td>
<td>4.6</td>
<td>–</td>
</tr>
<tr>
<td>Taxation on above items</td>
<td>(67)</td>
<td>(8.4)</td>
<td>(133)</td>
<td>(16.7)</td>
</tr>
<tr>
<td>Minority interest share of above items</td>
<td>(5)</td>
<td>(0.6)</td>
<td>(6)</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td>241</td>
<td>30.3</td>
<td>170</td>
<td>21.4</td>
</tr>
</tbody>
</table>

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 loss 796.3 795.4

Note: 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.
10a  EMPLOYEE INFORMATION

The details of the emoluments of the directors of Pearson plc are shown on pages 46 to 60 and form part of these audited financial statements.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Staff costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>1,106</td>
<td>1,090</td>
</tr>
<tr>
<td>Social security costs</td>
<td>106</td>
<td>104</td>
</tr>
<tr>
<td>Post-retirement costs</td>
<td>59</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>1,271</td>
<td>1,233</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>US</th>
<th>OTHER</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average number employed 2002</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Education</td>
<td>1,326</td>
<td>14,459</td>
<td>4,250</td>
<td>20,035</td>
</tr>
<tr>
<td>FT Group</td>
<td>1,914</td>
<td>1,140</td>
<td>2,169</td>
<td>5,223</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>1,305</td>
<td>2,167</td>
<td>890</td>
<td>4,362</td>
</tr>
<tr>
<td>Other</td>
<td>204</td>
<td>534</td>
<td>1</td>
<td>739</td>
</tr>
<tr>
<td></td>
<td>4,749</td>
<td>18,300</td>
<td>7,310</td>
<td>30,359</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>US</th>
<th>OTHER</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average number employed 2001</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Education</td>
<td>1,505</td>
<td>12,610</td>
<td>4,344</td>
<td>18,459</td>
</tr>
<tr>
<td>FT Group</td>
<td>2,075</td>
<td>1,121</td>
<td>2,340</td>
<td>5,536</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>1,333</td>
<td>2,293</td>
<td>768</td>
<td>4,394</td>
</tr>
<tr>
<td>Other</td>
<td>193</td>
<td>444</td>
<td>1</td>
<td>638</td>
</tr>
<tr>
<td></td>
<td>5,106</td>
<td>16,468</td>
<td>7,453</td>
<td>29,027</td>
</tr>
</tbody>
</table>

10b  PENSIONS

The Group operates a number of pension schemes throughout the world, the principal ones being in the UK and US. The major schemes are self-administered with the schemes’ assets being held independently of the Group. Pension costs are assessed in accordance with the advice of independent qualified actuaries. The UK is a hybrid scheme with both defined benefit and defined contribution sections but, predominantly consisting of defined benefit liabilities. There are a number of defined contribution schemes, principally overseas. The cost of the schemes is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK Group scheme</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular pension cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Defined benefit sections</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>– Defined contribution sections</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Amortisation of surplus</td>
<td>–</td>
<td>(5)</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Other schemes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defined benefit schemes</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Defined contribution schemes</td>
<td>30</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>54</td>
<td>35</td>
</tr>
</tbody>
</table>

- **Note:** During 2001, the main defined benefit scheme for US employees was closed to the majority of active members. The UK Group scheme will only offer defined contribution benefits to new joiners from 1 January 2003. The changes to these schemes will give rise to a reduction in defined benefit and an increase in defined contribution costs, the impact taking effect in 2002 in the US and 2003 in the UK.

Included in note 22, there is a pension provision of £36m (2001: £61m) as measured in accordance with SSAP 24.
10b **PENSIONS CONTINUED**

The most recent full actuarial valuation of the UK Group scheme was performed as at 1 January 2001, using the projected unit method of valuation. It is this valuation that Pearson uses to determine its cash contributions with the goal of remaining fully funded. The market value of the assets of the scheme at this date was £1,166m. The major assumptions used to determine the SSAP 24 charge and level of funding are as follows:

<table>
<thead>
<tr>
<th>all figures in percentages</th>
<th>UK GROUP SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>3.0</td>
</tr>
<tr>
<td>Rate of increase in salaries</td>
<td>5.0</td>
</tr>
<tr>
<td>Rate of increase for pensions in payment and deferred pensions</td>
<td>3.0</td>
</tr>
<tr>
<td>Return on investments</td>
<td>7.0</td>
</tr>
<tr>
<td>Rate of increase in dividends</td>
<td>4.3</td>
</tr>
<tr>
<td>Level of funding</td>
<td>104.0</td>
</tr>
</tbody>
</table>

The funding policy differs from the accounting policy to the extent that more conservative assumptions are used for funding purposes. The SSAP 24 funding level of 104% is based on the last formal valuation of the UK Group scheme at 1 January 2001. However, the UK Group scheme actuaries have estimated that the surplus arising at 1 January 2001 had been substantially eliminated by 1 January 2002, primarily due to adverse market movements in 2001. The Group has therefore not recognised any amortisation of the surplus for the year ended 31 December 2002. The next full triennial valuation is due to take place in January 2004.

The date of the most recent valuation of the US plan was 31 December 2001.

The disclosures required under the transitional arrangements of FRS 17 for the Group’s defined benefit schemes and the UK Group hybrid scheme are set out below. The disclosures for the UK Group hybrid scheme are in respect of both the defined benefit and defined contribution sections.

For the purpose of these disclosures, the valuations of the UK Group scheme and other schemes have been updated by independent actuaries to 31 December 2002. The assumptions used are shown below. Weighted average assumptions have been shown for the other schemes.

<table>
<thead>
<tr>
<th>all figures in percentages</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UK GROUP SCHEME</td>
<td>OTHER SCHEMES</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25</td>
<td>3.00</td>
</tr>
<tr>
<td>Rate of increase in salaries</td>
<td>4.25</td>
<td>4.50</td>
</tr>
<tr>
<td>Rate of inflation linked increase for pensions in payment and deferred pensions</td>
<td>2.25</td>
<td>–</td>
</tr>
<tr>
<td>Rate used to discount scheme liabilities</td>
<td>5.70</td>
<td>6.75</td>
</tr>
</tbody>
</table>

The assets of the UK Group scheme and the expected rate of return on these assets, and the assets of the other defined benefit schemes and the expected rate of return on these assets shown as a weighted average, are as follows:

<table>
<thead>
<tr>
<th>UK GROUP SCHEME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LONG-TERM RATE OF RETURN EXPECTED AT 31 DEC 2002 %</strong></td>
</tr>
<tr>
<td>Equities</td>
</tr>
<tr>
<td>Bonds</td>
</tr>
<tr>
<td>Properties</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total market value of assets</td>
</tr>
<tr>
<td>Present value of scheme liabilities</td>
</tr>
<tr>
<td>Deficit in the scheme</td>
</tr>
<tr>
<td>Related deferred tax asset</td>
</tr>
<tr>
<td>Net pension liability</td>
</tr>
<tr>
<td>Scheme</td>
</tr>
<tr>
<td>--------------------------------</td>
</tr>
<tr>
<td>Equities</td>
</tr>
<tr>
<td>Bonds</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total Market Value of Assets</td>
</tr>
<tr>
<td>Present Value of Scheme Liabilities</td>
</tr>
<tr>
<td>Deficit in the schemes</td>
</tr>
<tr>
<td>Related Deferred Tax Asset</td>
</tr>
<tr>
<td>Net Pension Liability</td>
</tr>
</tbody>
</table>

**Note:** The measurement of the deficit in the scheme for FRS 17 follows a different approach to SSAP 24. The FRS 17 measurement date is 31 December 2002. The fall in stock markets in 2002 reduced the market value of the UK Group scheme assets and the fall in bond yields (the discount rate) has acted to increase the present value of the UK Group scheme liabilities. This has resulted in an increased deficit in the UK Group scheme under FRS 17.

<table>
<thead>
<tr>
<th>Operating charge</th>
<th>UK Group Scheme</th>
<th>Defined Benefit Other</th>
<th>Total</th>
<th>Defined Contribution</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>(19)</td>
<td>(3)</td>
<td>(22)</td>
<td>(30)</td>
<td>(52)</td>
</tr>
<tr>
<td>Past service cost</td>
<td>–</td>
<td>(1)</td>
<td>(1)</td>
<td>–</td>
<td>(1)</td>
</tr>
<tr>
<td>Total operating charge</td>
<td>(19)</td>
<td>(4)</td>
<td>(23)</td>
<td>(30)</td>
<td>(53)</td>
</tr>
</tbody>
</table>

| Other finance income/(charge)  |                 |                       |       |                      |       |
| Expected return on pension scheme assets | 73    | 5                    | 78    | –                    | 78    |
| Interest on pension scheme liabilities | (68)  | (6)                  | (74)  | –                    | (74)  |
| Net income/(charge)            | 5             | 1                    | 6     | –                    | 4     |
| Net profit and loss impact     | (14)          | (5)                  | (19)  | (30)                 | (49)  |

| Statement of total recognised gains and losses |             |                       |       |                      |       |
| Actual return less expected return on pension scheme assets | (165) | (11)                  | (176) |                      |       |
| Experience gains and (losses) arising on the scheme liabilities | 17    | (1)                  | 16    |                      |       |
| Changes in assumptions underlying the present value of the scheme liabilities | 3     | (4)                  | 1     |                      |       |
| Exchange differences            | –             | 2                    | 2     |                      |       |
| Actuarial loss                  | (145)         | (14)                 | (159) |                      |       |

| Movement in deficit during the year |             |                       |       |                      |       |
| Deficit in scheme at beginning of the year | (73) | (34)                  | (107) |                      |       |
| Current service cost             | (19)         | (3)                  | (22)  |                      |       |
| Past service cost                | –             | (1)                  | (1)   |                      |       |
| Contributions                    | 19            | 14                   | 33    |                      |       |
| Other finance income/(charge)    | 5             | (1)                  | 4     |                      |       |
| Actuarial loss                   | (145)         | (14)                 | (159) |                      |       |
| Deficit in scheme at end of the year | (213) | (39)                 | (252) |                      |       |

| Related deferred tax asset      | 64            | 14                   | 78    |                      |       |
| Net pension deficit             | (149)         | (25)                 | (174) |                      |       |

The contribution rate for 2002 for the UK Group scheme was 17.1% of pensionable salaries. It has been agreed with the Trustees that the contribution rate for 2003 will be 17.1% of pensionable salaries plus a one-off contribution of £5m. This is designed to ensure that the UK Group scheme is fully funded.
The experience gains and losses of both the UK Group scheme and other schemes are shown below:

<table>
<thead>
<tr>
<th>History of experience gains and losses</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference between the actual and expected return on scheme assets</td>
<td>(176)m</td>
<td></td>
</tr>
<tr>
<td>As a percentage of year end assets</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>Experience gains and (losses) on scheme liabilities</td>
<td>16m</td>
<td></td>
</tr>
<tr>
<td>As a percentage of year end liabilities</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Total amount recognised in statement of total recognised gains and losses</td>
<td>(159)m</td>
<td></td>
</tr>
<tr>
<td>As a percentage of year end liabilities</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2002 would be as follows:

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets excluding pension liability (see note below)</td>
<td>3,566</td>
<td>4,034</td>
</tr>
<tr>
<td>FRS 17 pension liability</td>
<td>(174)</td>
<td>(73)</td>
</tr>
<tr>
<td>Net assets including FRS 17 pension liability</td>
<td>3,392</td>
<td>3,961</td>
</tr>
<tr>
<td>Profit and loss reserve excluding pension reserve (see note below)</td>
<td>709</td>
<td>1,199</td>
</tr>
<tr>
<td>FRS 17 pension reserve</td>
<td>(174)</td>
<td>(73)</td>
</tr>
<tr>
<td>Profit and loss reserve including FRS 17 pension reserves</td>
<td>535</td>
<td>1,126</td>
</tr>
</tbody>
</table>

*note* - The net assets and profit and loss reserve exclude the pension liability of £36m (2001: £61m) included within provisions (see note 22).

The Group provides certain healthcare and life assurance benefits principally for retired US employees and their dependents. These plans are unfunded. Retirees are eligible for participation in the plans if they meet certain age and service requirements. Plans that are available vary depending on the business division in which the retiree worked. Plan choices and retiree contributions are dependent on retirement date, business division, option chosen and length of service. The valuation and costs relating to other post-retirement benefits are assessed in accordance with the advice of independent qualified actuaries.

The cost of the benefits and the major assumptions used, based on a measurement date of 31 December 2001, are as follows:

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other post-retirement benefits</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>all figures in percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
</tr>
<tr>
<td>Rate of increase in healthcare rates</td>
</tr>
<tr>
<td>Rate used to discount scheme liabilities</td>
</tr>
</tbody>
</table>

Included in note 22, there is a post-retirement medical benefits provision of £56m (2001: £62m). In accordance with UITF 6, the cost of post-retirement benefits, and related provisions, are based on the equivalent US GAAP standard, FAS 106.

The disclosures required under the transitional arrangements of FRS 17 are set out below.
For the purpose of these disclosures the valuation of the schemes has been updated to 31 December 2002 using the assumptions listed below.

<table>
<thead>
<tr>
<th>all figures in percentages</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Rate of increase in healthcare rates</td>
<td>5-12</td>
<td>5-10</td>
</tr>
<tr>
<td>Rate used to discount scheme liabilities</td>
<td>6.75</td>
<td>7.20</td>
</tr>
</tbody>
</table>

The value of the unfunded liability is as follows:

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of unfunded liabilities</td>
<td>(63)</td>
<td>(63)</td>
</tr>
<tr>
<td>Related deferred tax asset</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Net post-retirement healthcare liability</td>
<td>(41)</td>
<td>(41)</td>
</tr>
</tbody>
</table>

### Operating charge

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>(1)</td>
</tr>
<tr>
<td>Past service cost</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total operating charge</strong></td>
<td>(1)</td>
</tr>
</tbody>
</table>

### Other finance charge

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on pension scheme liabilities</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Net charge</strong></td>
<td>(4)</td>
</tr>
</tbody>
</table>

### Net profit and loss impact

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Experience gains arising on the scheme liabilities</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>Changes in assumptions underlying the present value of the scheme liabilities</strong></td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Exchange differences</strong></td>
<td>5</td>
</tr>
<tr>
<td><strong>Actuarial gain</strong></td>
<td>1</td>
</tr>
</tbody>
</table>

### Statement of total recognised gains and losses

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit in scheme at beginning of the year</td>
<td>(63)</td>
</tr>
<tr>
<td>Current service cost</td>
<td>(1)</td>
</tr>
<tr>
<td>Contributions</td>
<td>4</td>
</tr>
<tr>
<td>Other finance charge</td>
<td>(4)</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>1</td>
</tr>
<tr>
<td><strong>Deficit in scheme at end of the year</strong></td>
<td>(63)</td>
</tr>
<tr>
<td>Related deferred tax asset</td>
<td>22</td>
</tr>
<tr>
<td><strong>Net post-retirement deficit</strong></td>
<td>(41)</td>
</tr>
</tbody>
</table>

The experience gains and losses for the schemes are shown below:

### History of experience gains and losses

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience gains on scheme liabilities</td>
<td>£3m</td>
</tr>
<tr>
<td>As a percentage of year end liabilities</td>
<td>4%</td>
</tr>
<tr>
<td>Total amount recognised in statement of total recognised gains and losses</td>
<td>£1m</td>
</tr>
<tr>
<td>As a percentage of year end liabilities</td>
<td>2%</td>
</tr>
</tbody>
</table>
10C OTHER POST-RETIREMENT BENEFITS CONTINUED

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserves at 31 December 2002 would be as follows:

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets excluding post-retirement healthcare liability (see note below)</td>
<td>3,586</td>
<td>4,035</td>
</tr>
<tr>
<td>FRS 17 post-retirement healthcare liability</td>
<td>(41)</td>
<td>(41)</td>
</tr>
<tr>
<td>Net assets including FRS 17 post-retirement healthcare liability</td>
<td>3,545</td>
<td>3,994</td>
</tr>
<tr>
<td>Profit and loss reserve excluding post-retirement healthcare reserve (see note below)</td>
<td>729</td>
<td>1,200</td>
</tr>
<tr>
<td>FRS 17 post-retirement healthcare reserve</td>
<td>(41)</td>
<td>(41)</td>
</tr>
<tr>
<td>Profit and loss reserve including FRS 17 post-retirement healthcare reserve</td>
<td>688</td>
<td>1,159</td>
</tr>
</tbody>
</table>

**note** - The net assets and profit and loss reserve exclude the post-retirement healthcare liability of £56m (2001: £62m) included within provisions (see note 22).

11 INTANGIBLE FIXED ASSETS

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>GOODWILL</th>
<th>RESTATED</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td>4,950</td>
<td>(84)</td>
</tr>
<tr>
<td>At 31 December 2001 as previously reported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year adjustment – FRS 19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As restated</td>
<td>4,866</td>
<td></td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(383)</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>(59)</td>
<td></td>
</tr>
<tr>
<td><strong>At 31 December 2002</strong></td>
<td>4,487</td>
<td></td>
</tr>
<tr>
<td><strong>Amortisation</strong></td>
<td>(689)</td>
<td>16</td>
</tr>
<tr>
<td>At 31 December 2001 as previously reported</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year adjustment – FRS 19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As restated</td>
<td>(673)</td>
<td></td>
</tr>
<tr>
<td>Exchange differences</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Provided in the year</td>
<td>(282)</td>
<td>(10)</td>
</tr>
<tr>
<td>Provision for impairment (see note below)</td>
<td>(877)</td>
<td></td>
</tr>
<tr>
<td><strong>At 31 December 2002</strong></td>
<td></td>
<td>(877)</td>
</tr>
<tr>
<td><strong>Net carrying amount</strong></td>
<td>4,193</td>
<td>3,610</td>
</tr>
<tr>
<td>At 31 December 2001</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**note** - In accordance with FRS 11 'Impairment of fixed assets and goodwill' the carrying value of the Group's acquired subsidiaries has been compared to their recoverable amounts, represented by their value in use to the Group. The review has resulted in an impairment charge of £10m (2001: £56m).
12 TANGIBLE FIXED ASSETS

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>316</td>
<td>(16)</td>
<td>–</td>
<td>21</td>
<td>(10)</td>
<td>210</td>
<td>(90)</td>
<td>5</td>
<td>(17)</td>
<td>–</td>
<td>6</td>
<td>226</td>
<td>316</td>
<td>(16)</td>
<td>–</td>
<td>21</td>
<td>(10)</td>
<td>210</td>
<td>(90)</td>
<td>5</td>
<td>(17)</td>
<td>–</td>
<td>6</td>
<td>226</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>311</td>
<td>(16)</td>
<td>–</td>
<td>21</td>
<td>(10)</td>
<td>210</td>
<td>(96)</td>
<td>5</td>
<td>(17)</td>
<td>–</td>
<td>6</td>
<td>215</td>
<td>311</td>
<td>(16)</td>
<td>–</td>
<td>21</td>
<td>(10)</td>
<td>210</td>
<td>(96)</td>
<td>5</td>
<td>(17)</td>
<td>–</td>
<td>6</td>
<td>215</td>
</tr>
</tbody>
</table>

Freehold and leasehold property - Net book value includes: freehold of £130m (2001: £150m) and short leases of £85m (2001: £76m).

Capital commitments - The Group had capital commitments for fixed assets, including finance leases, already under contract amounting to £12m at 31 December 2002 (2001: £15m).

Other notes - The net book value of Group tangible fixed assets includes £6m (2001: £10m) in respect of assets held under finance leases. Depreciation on these assets charged in 2002 was £2m (2001: £5m).

13 JOINT VENTURES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlisted joint ventures</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Note - The valuations of unlisted joint ventures are directors’ valuations as at 31 December 2002. If realised at these values there would be no liability for taxation. The Group had no capital commitments to subscribe for further capital and loan stock.

Summary of movements

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Reserves</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>45</td>
<td>(38)</td>
<td>7</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>–</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Additions</td>
<td>16</td>
<td>–</td>
<td>16</td>
</tr>
<tr>
<td>Retained loss for the year</td>
<td>–</td>
<td>(13)</td>
<td>(13)</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>61</td>
<td>(54)</td>
<td>7</td>
</tr>
</tbody>
</table>
13 JOINT VENTURES CONTINUED

<table>
<thead>
<tr>
<th></th>
<th>2002 Operating loss</th>
<th>2001 Operating loss</th>
<th>2002 Total net assets</th>
<th>2001 Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis of joint ventures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Education</td>
<td>(1)</td>
<td>–</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>FT Group</td>
<td>(13)</td>
<td>3</td>
<td>(20)</td>
<td>3</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>(13)</td>
<td>7</td>
<td>(19)</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Geographical markets supplied and location of net assets</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>Continental Europe</td>
<td>(13)</td>
<td>3</td>
</tr>
<tr>
<td>North America</td>
<td>(1)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>(13)</td>
<td>7</td>
</tr>
</tbody>
</table>

14 ASSOCIATES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed associates</td>
<td>17</td>
<td>17</td>
<td>984</td>
<td>829</td>
</tr>
<tr>
<td>Unlisted associates</td>
<td>214</td>
<td>88</td>
<td>258</td>
<td>63</td>
</tr>
<tr>
<td>Loans</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>232</td>
<td>106</td>
<td>1,243</td>
<td>893</td>
</tr>
</tbody>
</table>

Note: Principal associates are listed in note 34. The valuations of unlisted associates are directors’ valuations as at 31 December 2002. If all associates were realised at these values there would be an estimated liability for taxation, at year end rates, of £nil (2001: £59m). The Group had no capital commitments to subscribe for further capital and loan stock.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>228</td>
<td>1</td>
<td>7</td>
<td>236</td>
<td>657</td>
<td>893</td>
<td>17</td>
<td>1</td>
<td>9</td>
<td>32</td>
<td>(48)</td>
<td>(48)</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(2)</td>
<td>–</td>
<td>1</td>
<td>(1)</td>
<td>(3)</td>
<td>(4)</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Additions</td>
<td>20</td>
<td>–</td>
<td>–</td>
<td>20</td>
<td>1</td>
<td>21</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals</td>
<td>(182)</td>
<td>–</td>
<td>(1)</td>
<td>(183)</td>
<td>(575)</td>
<td>(758)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Retained profit for the year</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(48)</td>
<td>(48)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>64</td>
<td>1</td>
<td>9</td>
<td>74</td>
<td>32</td>
<td>106</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Note: On 30 January 2002, the Group sold its interest in the RTL Group for £920m, giving rise to a profit on sale of £18m, after goodwill written back from reserves of £144m and before tax estimated to be £6m.
### Analysis of associates

#### Business sectors

<table>
<thead>
<tr>
<th></th>
<th>2002 OPERATING LOSS</th>
<th>2002 TOTAL NET ASSETS</th>
<th>2001 OPERATING LOSS</th>
<th>2001 TOTAL NET ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td>2</td>
<td>8</td>
<td>(1)</td>
<td>10</td>
</tr>
<tr>
<td>FT Group</td>
<td>(37)</td>
<td>98</td>
<td>(49)</td>
<td>120</td>
</tr>
<tr>
<td>Continuing operations</td>
<td>(35)</td>
<td>106</td>
<td>(50)</td>
<td>130</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>(3)</td>
<td>–</td>
<td>2</td>
<td>763</td>
</tr>
<tr>
<td></td>
<td>(38)</td>
<td>106</td>
<td>(48)</td>
<td>893</td>
</tr>
</tbody>
</table>

#### Geographical markets supplied and location of net assets

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Continental Europe</td>
<td>(1)</td>
<td>92</td>
</tr>
<tr>
<td>North America</td>
<td>(45)</td>
<td>(5)</td>
</tr>
<tr>
<td>Rest of world</td>
<td>–</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>(35)</td>
<td>(50)</td>
</tr>
<tr>
<td></td>
<td>(3)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>(38)</td>
<td>(48)</td>
</tr>
</tbody>
</table>

### Geographical markets supplied and location of net assets

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Continental Europe</td>
<td>(1)</td>
<td>92</td>
</tr>
<tr>
<td>North America</td>
<td>(45)</td>
<td>(5)</td>
</tr>
<tr>
<td>Rest of world</td>
<td>–</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>(35)</td>
<td>(50)</td>
</tr>
<tr>
<td></td>
<td>(3)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>(38)</td>
<td>(48)</td>
</tr>
</tbody>
</table>

### Reconciliation to retained profit

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit of associates (before goodwill amortisation)</td>
<td>10</td>
</tr>
<tr>
<td>Profit on sale of subsidiaries and associates</td>
<td>3</td>
</tr>
<tr>
<td>Taxation</td>
<td>(4)</td>
</tr>
<tr>
<td>Dividends (including tax credits) from unlisted associates</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Retained profit for the year</strong></td>
<td>2</td>
</tr>
</tbody>
</table>

**Note:** The profit on sale of subsidiaries and associates by an associate is £3m relating to the finalised profit on disposal of the Journal of Commerce by the Economist which took place in 2001 (2001: £(36)m).

The aggregate of the Group’s share in its associates is shown below:

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>141</td>
<td>700</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>28</td>
<td>270</td>
</tr>
<tr>
<td>Current assets</td>
<td>130</td>
<td>384</td>
</tr>
<tr>
<td>Liabilities due within one year</td>
<td>(76)</td>
<td>(360)</td>
</tr>
<tr>
<td>Liabilities due after one year or more</td>
<td>(8)</td>
<td>(58)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>74</td>
<td>336</td>
</tr>
</tbody>
</table>
15 OTHER FIXED ASSET INVESTMENTS

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>valuation</td>
<td>book value</td>
</tr>
<tr>
<td>Listed</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>Unlisted</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>87</td>
<td>84</td>
</tr>
</tbody>
</table>

**Note**: The valuations of unlisted investments are directors’ valuations as at 31 December 2002. If all investments were realised at valuation there would be a liability for taxation of £nil (2001: £6m).

<table>
<thead>
<tr>
<th></th>
<th>own shares held</th>
<th>other</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2001</td>
<td>91</td>
<td>107</td>
<td>198</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>–</td>
<td>(6)</td>
<td>(6)</td>
</tr>
<tr>
<td>Additions</td>
<td>17</td>
<td>4</td>
<td>21</td>
</tr>
<tr>
<td>Disposals</td>
<td>–</td>
<td>(10)</td>
<td>(10)</td>
</tr>
<tr>
<td><strong>At 31 December 2002</strong></td>
<td>108</td>
<td>97</td>
<td>205</td>
</tr>
<tr>
<td><strong>Provision</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2001</td>
<td>59</td>
<td>55</td>
<td>114</td>
</tr>
<tr>
<td>Provided during the year</td>
<td>7</td>
<td>–</td>
<td>7</td>
</tr>
<tr>
<td><strong>At 31 December 2002</strong></td>
<td>66</td>
<td>55</td>
<td>121</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2001</td>
<td>32</td>
<td>52</td>
<td>84</td>
</tr>
<tr>
<td><strong>At 31 December 2002</strong></td>
<td>42</td>
<td>42</td>
<td>84</td>
</tr>
</tbody>
</table>

**Note**: The Pearson Employee Share Trust and Pearson plc Employee Share Ownership Trusts hold 7.9m (2001: 5.5m) Pearson plc ordinary shares which had a market value of £45m at 31 December 2002 (2001: £43m). These shares have been acquired by the trusts, using funds provided by Pearson plc, to meet obligations under various executive and employee option and restricted share plans. Under these plans the participants become entitled to shares after a specified number of years and subject to certain performance criteria being met. Pearson aims to hedge its liability under the plans by buying shares through the trusts to meet the anticipated future liability. Dividends on the shares held by the trusts have been waived.

The Group operates a worldwide Save As You Earn scheme together with a similar scheme for US employees that allows the grant of share options at a discount to the market price of the option granted. The Group has made use of the exemption under UITF 17 not to recognise any compensation charge in respect of these options.

Employer’s National Insurance and similar taxes arise on the exercise of certain share options. In accordance with UITF 25 a provision is made, calculated using the market price of the company’s shares at the balance sheet date, pro-rated over the vesting period of the options.
### 16 Stocks

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>22</td>
<td>32</td>
</tr>
<tr>
<td>Work in progress</td>
<td>36</td>
<td>45</td>
</tr>
<tr>
<td>Finished goods</td>
<td>297</td>
<td>370</td>
</tr>
<tr>
<td>Pre-publication costs</td>
<td>379</td>
<td>402</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>734</td>
<td>849</td>
</tr>
</tbody>
</table>

**Note:** The replacement cost of stocks is not materially different from book value.

### 17 Debtors

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due within one year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>778</td>
<td>745</td>
</tr>
<tr>
<td>Associates</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Royalty advances</td>
<td>109</td>
<td>103</td>
</tr>
<tr>
<td>Other debtors</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>44</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>983</td>
<td>939</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due after more than one year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalty advances</td>
<td>63</td>
<td>54</td>
</tr>
<tr>
<td>Other debtors</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>74</td>
<td>66</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,057</td>
<td>1,005</td>
</tr>
</tbody>
</table>

### 18 Cash at Bank and in Hand

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash, bank current accounts and overnight deposits</td>
<td>417</td>
<td>300</td>
</tr>
<tr>
<td>Certificates of deposit and commercial paper</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Term bank deposits</td>
<td>143</td>
<td>78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>575</td>
<td>393</td>
</tr>
</tbody>
</table>
19 FINANCIAL INSTRUMENTS

A full discussion on treasury policy is given in the Financial Review on pages 33 to 34. Short-term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

a. Maturity of borrowings and other financial liabilities

The maturity profile of the Group’s borrowings and other financial liabilities is shown below:

<table>
<thead>
<tr>
<th>Maturity of borrowings</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans and overdrafts</td>
<td>101</td>
<td>175</td>
</tr>
<tr>
<td>10.75% Sterling Bonds 2002</td>
<td>–</td>
<td>100</td>
</tr>
<tr>
<td>5% Euro Bonds 2003</td>
<td>148</td>
<td>148</td>
</tr>
<tr>
<td>Total due within one year</td>
<td>249</td>
<td>323</td>
</tr>
<tr>
<td>Medium and long-term</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans or instalments thereof repayable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From one to two years</td>
<td>458</td>
<td>338</td>
</tr>
<tr>
<td>From two to five years</td>
<td>616</td>
<td>371</td>
</tr>
<tr>
<td>After five years not by instalments</td>
<td>660</td>
<td>660</td>
</tr>
<tr>
<td>Total due after more than one year</td>
<td>1,734</td>
<td>1,369</td>
</tr>
<tr>
<td>Total borrowings</td>
<td>1,983</td>
<td>1,692</td>
</tr>
</tbody>
</table>

Note: At 31 December 2002 £91m (2001: £557m) of debt, including commercial paper, currently classified from two to five years would be repayable within one year if refinancing contracts were not in place. The short-term bank loans and overdrafts of the Group are lower than those of the company because of bank offset arrangements.

b. Borrowings by instrument

<table>
<thead>
<tr>
<th>Maturity of other financial liabilities</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In one year or less or on demand</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>In more than one year but not more than two years</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>In more than two years but not more than five years</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>In more than five years</td>
<td>–</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>57</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>2001</td>
<td>49</td>
<td>63</td>
</tr>
</tbody>
</table>

b. Borrowings by instrument

<table>
<thead>
<tr>
<th>Maturity of other financial liabilities</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts falling due:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In one year or less or on demand</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>In more than one year but not more than two years</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>In more than two years but not more than five years</td>
<td>1</td>
<td>16</td>
</tr>
<tr>
<td>In more than five years</td>
<td>–</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>57</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>2001</td>
<td>49</td>
<td>63</td>
</tr>
</tbody>
</table>
c. Undrawn committed borrowing facilities

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiring within one year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Expiring between one and two years</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Expiring in more than two years</td>
<td>1,059</td>
<td>1,172</td>
</tr>
</tbody>
</table>

*note* - All of the above committed borrowing facilities incur commitment fees at market rates.

d. Currency and interest rate risk profile

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th></th>
<th></th>
<th>2001</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BORROWINGS £m</td>
<td>TOTAL VARIABLE RATE £m</td>
<td>TOTAL FIXED RATE £m</td>
<td>FIXED RATE WEIGHTED AVERAGE INTEREST RATE %</td>
<td>BORROWINGS WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED – YEARS</td>
<td></td>
</tr>
<tr>
<td><strong>Currency and interest rate risk profile of borrowings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US dollar</td>
<td>1,350</td>
<td>752</td>
<td>598</td>
<td>5.9</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Sterling</td>
<td>241</td>
<td>161</td>
<td>80</td>
<td>10.5</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>Euro</td>
<td>380</td>
<td>305</td>
<td>75</td>
<td>5.2</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Other currencies</td>
<td>12</td>
<td>12</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,983</td>
<td>1,230</td>
<td>753</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*note* - There is an interest rate collar instrument which matures in 2007 with a notional value of £31m equivalent, that is classified at year end as a variable rate US dollar borrowing. This instrument limits our interest rate liability above 4.5%.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th></th>
<th></th>
<th>2001</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BORROWINGS £m</td>
<td>TOTAL VARIABLE RATE £m</td>
<td>TOTAL FIXED RATE £m</td>
<td>FIXED RATE WEIGHTED AVERAGE INTEREST RATE %</td>
<td>BORROWINGS WEIGHTED AVERAGE PERIOD FOR WHICH RATE IS FIXED – YEARS</td>
<td></td>
</tr>
<tr>
<td><strong>Currency and interest rate risk profile of borrowings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US dollar</td>
<td>1,829</td>
<td>625</td>
<td>1,204</td>
<td>6.1</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Sterling</td>
<td>520</td>
<td>410</td>
<td>110</td>
<td>9.3</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>Euro</td>
<td>404</td>
<td>320</td>
<td>84</td>
<td>5.2</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Other currencies</td>
<td>19</td>
<td>19</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,772</td>
<td>1,374</td>
<td>1,398</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*note* - The figures shown in the tables above take into account interest rate, currency swaps and forward rate contracts entered into by the Group. Variable rate borrowings bear interest at rates based on relevant national LIBOR equivalents.

---

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th></th>
<th></th>
<th>2001</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OTHER FINANCIAL LIABILITIES</td>
<td>TOTAL FIXED RATE</td>
<td>TOTAL NO INTEREST PAID</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Currency and interest rate risk profile of other financial liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US dollar</td>
<td>45</td>
<td>5</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sterling</td>
<td>8</td>
<td>2</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro</td>
<td>11</td>
<td>–</td>
<td>11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64</td>
<td>7</td>
<td>57</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### d. Currency and interest rate risk profile (continued)

<table>
<thead>
<tr>
<th>Currency and interest rate risk profile of other financial liabilities</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>all figures in £ millions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency and interest rate risk profile of other financial liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US dollar</td>
<td>48</td>
<td>11</td>
</tr>
<tr>
<td>Sterling</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Euro</td>
<td>9</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>63</td>
<td>14</td>
</tr>
</tbody>
</table>

### 2002

<table>
<thead>
<tr>
<th>Currency and interest rate risk profile of financial assets</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>all figures in £ millions</strong></td>
<td></td>
</tr>
<tr>
<td>Currency and interest rate risk profile of financial assets</td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>279</td>
</tr>
<tr>
<td>Sterling</td>
<td>9</td>
</tr>
<tr>
<td>Euro</td>
<td>67</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>62</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>417</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>2</td>
</tr>
<tr>
<td>Sterling</td>
<td>18</td>
</tr>
<tr>
<td>Euro</td>
<td>127</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>158</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>28</td>
</tr>
<tr>
<td>Sterling</td>
<td>6</td>
</tr>
<tr>
<td>Euro</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>609</td>
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</table>

### 2001

<table>
<thead>
<tr>
<th>Currency and interest rate risk profile of financial assets</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>all figures in £ millions</strong></td>
<td></td>
</tr>
<tr>
<td>Currency and interest rate risk profile of financial assets</td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>166</td>
</tr>
<tr>
<td>Sterling</td>
<td>40</td>
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<tr>
<td>Euro</td>
<td>62</td>
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<tr>
<td>Other financial assets</td>
<td>32</td>
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<tr>
<td><strong>Total</strong></td>
<td>300</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>10</td>
</tr>
<tr>
<td>Sterling</td>
<td>27</td>
</tr>
<tr>
<td>Euro</td>
<td>40</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>93</td>
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<tr>
<td>Other financial assets</td>
<td>37</td>
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<tr>
<td>Sterling</td>
<td>4</td>
</tr>
<tr>
<td>Euro</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>44</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>437</td>
</tr>
</tbody>
</table>

| Floating rate                                               | 281  |
| No interest received                                        | 28   |
| **Total**                                                   | 309  |

| Floating rate                                               | 281  |
| No interest received                                        | 28   |
| **Total**                                                   | 309  |

### Notes to the Accounts

90
e. Currency exposures

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency.

<table>
<thead>
<tr>
<th>All figures in £ millions</th>
<th>2002 NET FOREIGN MONETARY ASSETS/(LIABILITIES)</th>
<th>2001 NET FOREIGN MONETARY ASSETS/(LIABILITIES)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US DOLLAR STERLING EURO OTHER TOTAL</td>
<td>US DOLLAR STERLING EURO OTHER TOTAL</td>
</tr>
</tbody>
</table>

**Functional currency of entity:**
- **US dollar**
  - 2002: -2
  - 2001: -
- **Sterling**
  - 2002: 48
  - 2001: (67)
- **Euro**
  - 2002: -1
  - 2001: -
- **Other currencies**
  - 2002: 4
  - 2001: (5)

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>book value</td>
<td>fair value</td>
</tr>
<tr>
<td><strong>Primary financial instruments held or issued to finance the Group's operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other financial assets</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>(64)</td>
<td>(64)</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>417</td>
<td>417</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>158</td>
<td>158</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>(249)</td>
<td>(253)</td>
</tr>
<tr>
<td>Medium and long-term borrowings</td>
<td>(1,736)</td>
<td>(1,877)</td>
</tr>
<tr>
<td><strong>Derivative financial instruments held to manage the interest rate and currency profile</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>-</td>
<td>32</td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td>-</td>
<td>4</td>
</tr>
</tbody>
</table>

**Note:** Other financial assets, other financial liabilities, cash at bank and in hand, short-term deposits and short-term borrowings: the fair value approximates to the carrying value due to the short maturity periods of these financial instruments. Medium and long-term borrowings: the fair value is based on market values or, where these are not available, on the quoted market prices of comparable debt issued by other companies. Interest rate swaps: the fair value of interest rate swaps is based on market values. At 31 December 2002 the notional principal value of these swaps was £1,605m (2001: £2,391m). Currency swaps: the fair value of these contracts is based on market values. At 31 December 2002 the Group had £758m (2001: £924m) of such contracts outstanding.
g. Hedges

The Group's policy on hedges is explained on page 33. The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>GAINS</th>
<th>UNRECOGNISED GAINS/(LOSSES)</th>
<th>TOTAL NET GAINS/(LOSSES)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gains and losses on hedges at 31 December 2001</strong></td>
<td>43</td>
<td>(58)</td>
<td>(15)</td>
</tr>
<tr>
<td>Gains and losses arising in previous years that were recognised in 2002</td>
<td>(1)</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td><strong>Gains and losses arising before 31 December 2001 that were not recognised in 2002</strong></td>
<td>42</td>
<td>(24)</td>
<td>18</td>
</tr>
<tr>
<td>Gains and losses arising in 2002 that were not recognised in 2002</td>
<td>71</td>
<td>(27)</td>
<td>44</td>
</tr>
<tr>
<td><strong>Unrecognised gains and losses on hedges at 31 December 2002</strong></td>
<td>113</td>
<td>(51)</td>
<td>62</td>
</tr>
<tr>
<td>Of which: Gains and losses expected to be recognised in 2003</td>
<td>6</td>
<td>–</td>
<td>6</td>
</tr>
<tr>
<td>Gains and losses expected to be recognised in 2004 or later</td>
<td>107</td>
<td>(51)</td>
<td>56</td>
</tr>
</tbody>
</table>

20 OTHER CREDITORS

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amounts falling due within one year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade creditors</td>
<td>376</td>
<td>390</td>
</tr>
<tr>
<td>Taxation</td>
<td>24</td>
<td>111</td>
</tr>
<tr>
<td>Social security and other taxes</td>
<td>13</td>
<td>2</td>
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<tr>
<td>Other creditors</td>
<td>83</td>
<td>85</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>499</td>
<td>501</td>
</tr>
<tr>
<td>Obligations under finance leases</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Dividends</td>
<td>115</td>
<td>109</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,114</td>
<td>1,203</td>
</tr>
</tbody>
</table>

| **Amounts falling due after more than one year** |       |      |
| Other creditors | 31   | 30   |
| Accruals and deferred income | 26   | 15   |
| Obligations under finance leases | 3    | 9    |
| **Total**        | 60   | 54   |
## 21 DEFERRED TAXATION

### Summary of movements

<table>
<thead>
<tr>
<th>Description</th>
<th>2001 (Restated)</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior year adjustment (see below)</td>
<td>277</td>
<td></td>
</tr>
<tr>
<td>As restated</td>
<td>272</td>
<td></td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(29)</td>
<td></td>
</tr>
<tr>
<td>Transfers</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>Net release in the year</td>
<td>(66)</td>
<td></td>
</tr>
</tbody>
</table>

At 31 December 2002

### Deferred taxation derives from:

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital allowances</td>
<td>(47)</td>
<td>(10)</td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td></td>
<td>170 172</td>
</tr>
<tr>
<td>Taxation on unremitted overseas earnings</td>
<td>(16)</td>
<td>(15)</td>
</tr>
<tr>
<td>Other timing differences</td>
<td>67</td>
<td>125</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>174</strong></td>
<td><strong>272</strong></td>
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</tbody>
</table>

### Deferred taxation not provided

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relating to revalued assets and timing differences</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Relating to gains subject to roll-over relief</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

### Note

The Group has calculated deferred tax not provided on rolled over gains in 2002, taking into account the indexation allowance which would be deductible on a disposal of the asset into which the gain was rolled.

### Prior year adjustment

FRS 19 'Deferred Tax' has been adopted for the first time in these financial statements. The Group 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 the Group 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 FRS 19 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 2002 has been to increase the loss after taxation by £45m (£50m relating to the tax charge and an offsetting £5m to goodwill amortisation) and to increase opening shareholders’ funds by £209m. The effect on the loss after taxation for 2001 was to increase the loss by £32m.
22 PROVISIONS FOR LIABILITIES AND CHARGES

All figures in £ millions

<table>
<thead>
<tr>
<th>All figures in £ millions</th>
<th>Post-retirement</th>
<th>Deferred consideration</th>
<th>Integration</th>
<th>Reorganisations</th>
<th>Leases</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>123</td>
<td>25</td>
<td>29</td>
<td>19</td>
<td>14</td>
<td></td>
<td>239</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(11)</td>
<td>(4)</td>
<td>(2)</td>
<td>(2)</td>
<td>(2)</td>
<td>(1)</td>
<td>(21)</td>
</tr>
<tr>
<td>Subsidiaries acquired/disposed</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>(1)</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Deferred consideration arising on acquisitions</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Released</td>
<td>–</td>
<td>–</td>
<td>(3)</td>
<td>(1)</td>
<td>(1)</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>Provided</td>
<td>59</td>
<td>–</td>
<td>8</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td>84</td>
</tr>
<tr>
<td>Utilised</td>
<td>(81)</td>
<td>(13)</td>
<td>(18)</td>
<td>(14)</td>
<td>(4)</td>
<td>(7)</td>
<td>(137)</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>92</td>
<td>11</td>
<td>17</td>
<td>19</td>
<td>18</td>
<td>8</td>
<td>165</td>
</tr>
</tbody>
</table>

Note:

a Post-retirement provisions are in respect of pensions, £36m (2001: £61m) and post-retirement medical benefits, £56m (2001: £62m).

b Deferred consideration. During the year, £13m was paid with respect to companies acquired as part of the NCS acquisition in 2000. The balance is expected to be utilised during 2003.

c Integration. These movements relate to The Penguin Group and Pearson Education. £9m has been utilised in relation to properties and a further £9m relating to severance and IT systems. No further integration charges are anticipated in 2003 relating to these movements. The remaining provision should be utilised in the next three years.

d Reorganisations. £9m has been provided during 2002, mostly relating to the restructuring of our back office systems and processes. £14m has been utilised in the reorganisation of Family Education Network and FT Knowledge. The balance is expected to be utilised in the next two years.

e Lease commitments. These relate primarily to onerous lease contracts, acquired as part of the purchase of subsidiaries, which have various expiry dates up to 2010. The provision is based on current occupancy estimates.

f Other. The balance, which relates to a number of small items, is expected to be utilised over varying time periods.

23 SHARE CAPITAL

<table>
<thead>
<tr>
<th>Authorised</th>
<th>Number of shares (000’s)</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares of 25p each</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>1,174,000</td>
<td>294</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Called up, allotted and fully paid</th>
<th>Number of shares (000’s)</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>800,589</td>
<td>200</td>
</tr>
<tr>
<td>Issued under share option and employee share schemes</td>
<td>1,073</td>
<td>–</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>801,662</td>
<td>200</td>
</tr>
</tbody>
</table>

Note: The consideration received in respect of shares issued during the year was £6m (2001: £20m).
23 SHARE CAPITAL CONTINUED

Options outstanding at 31 December 2002

<table>
<thead>
<tr>
<th>WHEN GRANTED</th>
<th>NUMBER OF SHARES (000's)</th>
<th>PRICE (p)</th>
<th>ORIGINAL SUBSCRIPTION EXERCISE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>20</td>
<td>390</td>
<td>2000 – 03</td>
</tr>
<tr>
<td>1996</td>
<td>60</td>
<td>517</td>
<td>2001 – 04</td>
</tr>
<tr>
<td>1997</td>
<td>114</td>
<td>530</td>
<td>2000 – 05</td>
</tr>
<tr>
<td>1998</td>
<td>360</td>
<td>687</td>
<td>2001 – 06</td>
</tr>
<tr>
<td>1999</td>
<td>544</td>
<td>913 – 970</td>
<td>2001 – 07</td>
</tr>
<tr>
<td>2000</td>
<td>217</td>
<td>688 – 1,793</td>
<td>2001 – 08</td>
</tr>
<tr>
<td>2001</td>
<td>532</td>
<td>957 – 1,096</td>
<td>2004 – 09</td>
</tr>
<tr>
<td>2002</td>
<td>1,466</td>
<td>696</td>
<td>2005 – 10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,313</td>
<td></td>
</tr>
</tbody>
</table>

Discretionary share option plans

<table>
<thead>
<tr>
<th>WHEN GRANTED</th>
<th>NUMBER OF SHARES (000's)</th>
<th>PRICE (p)</th>
<th>ORIGINAL SUBSCRIPTION EXERCISE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>282</td>
<td>584 – 683</td>
<td>1999 – 06</td>
</tr>
<tr>
<td>1997</td>
<td>1,156</td>
<td>664 – 758</td>
<td>2000 – 07</td>
</tr>
<tr>
<td>1998</td>
<td>1,781</td>
<td>847 – 1,090</td>
<td>2001 – 08</td>
</tr>
<tr>
<td>1999</td>
<td>3,681</td>
<td>1,081 – 1,922</td>
<td>2002 – 09</td>
</tr>
<tr>
<td>2000</td>
<td>10,432</td>
<td>64 – 3,224</td>
<td>2000 – 10</td>
</tr>
<tr>
<td>2001</td>
<td>14,599</td>
<td>822 – 1,421</td>
<td>2001 – 11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>32,296</td>
<td></td>
</tr>
</tbody>
</table>

note • The subscription prices have been rounded up to the nearest whole penny. The figures include replacement options granted to employees of Dorling Kindersley and the Family Education Network following their acquisition. The discretionary share option plans include all options granted under the Pearson Executive Share Option Plans, the Pearson Reward Plan, the Pearson Special Share Option Plan and the Pearson Long Term Incentive Plan.

24 RESERVES

all figures in £ millions

<table>
<thead>
<tr>
<th>SHARE PREMIUM ACCOUNT</th>
<th>PROFIT AND LOSS ACCOUNT RESTATED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of movements</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2001 as previously reported</td>
<td>2,459</td>
</tr>
<tr>
<td>Prior year adjustment – FRS 19</td>
<td>–</td>
</tr>
<tr>
<td>As restated</td>
<td>2,459</td>
</tr>
<tr>
<td>Exchange differences net of taxation</td>
<td>–</td>
</tr>
<tr>
<td>Premium on issue of 1m equity shares</td>
<td>6</td>
</tr>
<tr>
<td>Goodwill written back on disposal of an associate</td>
<td>–</td>
</tr>
<tr>
<td>Replacement options granted on acquisition of a subsidiary</td>
<td>–</td>
</tr>
<tr>
<td>Loss retained for the year</td>
<td>–</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>2,465</td>
</tr>
</tbody>
</table>

Analysed as:
Joint ventures and associates | (45) |
Group excluding joint ventures and associates | 718 |

note • Cumulative goodwill relating to acquisitions made prior to 1998, which was deducted from reserves, amounts to £1,031m (2001: £1,249m). During 2002 Pearson plc received £6m on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid £6m to the Group for the issue of these shares. The Group has taken advantage of the exemption available by UITF 17 and has not incurred a charge on options granted at a discount to market value for its Inland Revenue approved SAYE schemes and similar overseas schemes. Included in exchange differences are exchange gains of £70m arising on borrowings denominated in, or swapped into, foreign currencies designated as hedges of net investments overseas.
25 ACQUISITIONS

All acquisitions have been consolidated applying acquisition accounting principles.

a. Acquisition of subsidiaries

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible fixed assets</td>
<td>–</td>
<td>5</td>
</tr>
<tr>
<td>Associates</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Stocks</td>
<td>(2)</td>
<td>8</td>
</tr>
<tr>
<td>Debtors</td>
<td>2</td>
<td>(78)</td>
</tr>
<tr>
<td>Creditors</td>
<td>(4)</td>
<td>(19)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(3)</td>
<td>(9)</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>–</td>
<td>(1)</td>
</tr>
<tr>
<td>Net cash and short-term deposits acquired</td>
<td>25</td>
<td>83</td>
</tr>
<tr>
<td>Equity minority interests</td>
<td>(4)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net assets/(liabilities) acquired at fair value</td>
<td>11</td>
<td>(16)</td>
</tr>
<tr>
<td>Fair value of consideration:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>(74)</td>
<td>(52)</td>
</tr>
<tr>
<td>Deferred cash consideration</td>
<td>(3)</td>
<td>(10)</td>
</tr>
<tr>
<td>Costs accrued</td>
<td>–</td>
<td>(1)</td>
</tr>
<tr>
<td>Net prior year adjustments</td>
<td>3</td>
<td>(8)</td>
</tr>
<tr>
<td>Total consideration</td>
<td>(74)</td>
<td>(71)</td>
</tr>
<tr>
<td>Goodwill arising</td>
<td>63</td>
<td>87</td>
</tr>
</tbody>
</table>

Acquisition fair values

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book value of net assets acquired</td>
<td>25</td>
</tr>
<tr>
<td>Fair value adjustments</td>
<td>(14)</td>
</tr>
<tr>
<td>Fair value to the Group</td>
<td>11</td>
</tr>
</tbody>
</table>

Note: Of the fair value adjustments above, £(14)m relates to the finalisation of prior year provisional acquisition values. These adjustments relate primarily to: write down of stock to its recoverable amount and the recognition of a provision for royalty payments. For acquisitions made during 2002 the fair value adjustments are provisional and will be finalised in the 2003 financial statements.

b. Cash flow from acquisitions

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash – current year acquisitions</td>
<td>74</td>
<td>52</td>
</tr>
<tr>
<td>Deferred payments for prior year acquisitions and other items</td>
<td>13</td>
<td>76</td>
</tr>
<tr>
<td>Net cash outflow</td>
<td>87</td>
<td>128</td>
</tr>
</tbody>
</table>
### DISPOSALS

**all figures in £ millions**

<table>
<thead>
<tr>
<th>Disposal of subsidiaries</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets</td>
<td>(41)</td>
<td>(53)</td>
</tr>
<tr>
<td>Tangible fixed assets</td>
<td>–</td>
<td>(7)</td>
</tr>
<tr>
<td>Stocks</td>
<td>(3)</td>
<td>(2)</td>
</tr>
<tr>
<td>Debtors</td>
<td>(2)</td>
<td>(15)</td>
</tr>
<tr>
<td>Creditors</td>
<td>(3)</td>
<td>14</td>
</tr>
<tr>
<td>Taxation</td>
<td>–</td>
<td>(5)</td>
</tr>
<tr>
<td>Provisions</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Net debt</td>
<td>(1)</td>
<td>–</td>
</tr>
<tr>
<td>Equity minority interest</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Net assets disposed of</td>
<td>(46)</td>
<td>(67)</td>
</tr>
<tr>
<td>Proceeds received</td>
<td>11</td>
<td>49</td>
</tr>
<tr>
<td>Costs</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td>Net prior year adjustments</td>
<td>(3)</td>
<td>(1)</td>
</tr>
<tr>
<td>Loss on sale</td>
<td>(45)</td>
<td>(26)</td>
</tr>
<tr>
<td>Goodwill written back from reserves</td>
<td>–</td>
<td>(37)</td>
</tr>
<tr>
<td><strong>Net loss on sale</strong></td>
<td>(45)</td>
<td>(63)</td>
</tr>
</tbody>
</table>

**Cash flow from disposals**

<table>
<thead>
<tr>
<th>Cash – current year disposals</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs paid</td>
<td>(3)</td>
<td>(8)</td>
</tr>
<tr>
<td>Deferred receipts and payments from prior year disposals and other amounts</td>
<td>(5)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash inflow</strong></td>
<td>3</td>
<td>41</td>
</tr>
</tbody>
</table>
## Notes to Consolidated Statement of Cash Flows

<table>
<thead>
<tr>
<th>Description</th>
<th>2002 TOTAL</th>
<th>2001 RESTATED TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Profit/(Loss) to Net Cash Inflow from Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total operating profit/(loss)</td>
<td>143</td>
<td>(49)</td>
</tr>
<tr>
<td>Share of operating loss/(profit) of joint ventures and associates</td>
<td>51</td>
<td>69</td>
</tr>
<tr>
<td>Depreciation charges</td>
<td>122</td>
<td>125</td>
</tr>
<tr>
<td>Goodwill amortisation and impairment</td>
<td>292</td>
<td>350</td>
</tr>
<tr>
<td>Decrease/increase in stocks</td>
<td>43</td>
<td>(6)</td>
</tr>
<tr>
<td>(Increase)/decrease in debtors</td>
<td>(111)</td>
<td>102</td>
</tr>
<tr>
<td>Increase/(decrease) in creditors</td>
<td>64</td>
<td>(103)</td>
</tr>
<tr>
<td>(Decrease)/increase in operating provisions</td>
<td>(50)</td>
<td>3</td>
</tr>
<tr>
<td>Other and non-cash items</td>
<td>(25)</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Net cash inflow from operating activities</strong></td>
<td>529</td>
<td>490</td>
</tr>
</tbody>
</table>

| Dividends from associates                                                  | 6          | 7                   |
| Purchase of tangible fixed assets                                          | (126)      | (165)               |
| Capital element of finance leases                                         | (5)        | (7)                 |
| Sale of tangible fixed assets                                              | 7          | 36                  |
| Add back: non operating fixed asset disposal proceeds                      | –          | (11)                |
| Add back: integration costs                                                | 44         | 69                  |

| Operating Cash Flow                                                        | 455        | 419                 |
| Operating tax paid                                                         | (46)       | (44)                |
| Operating finance charges                                                  | (104)      | (157)               |
| **Operating Free Cash Flow**                                               | 305        | 218                 |

| Non operating tax paid                                                     | (9)        | (27)                |
| Non operating finance charges                                              | (37)       | –                   |
| Integration costs                                                          | (44)       | (69)                |

| **Total Free Cash Flow**                                                   | 215        | 122                 |

| Dividends paid (including minorities)                                      | (182)      | (183)               |

| **Net Movement of Funds from Operations**                                  | 33         | (61)                |

| Acquisitions of businesses and investments                                 | (124)      | (100)               |
| Disposals of businesses, investments and property                         | 930        | 77                  |
| New equity                                                                 | 6          | 20                  |
| Other non operating items                                                 | (5)        | (8)                 |

| **Net Movement of Funds**                                                  | 840        | (72)                |

| Exchange movements on net debt                                            | 131        | (24)                |

| **Total Movement in Net Debt**                                            | 971        | (96)                |

### Note
Operating cash flow, operating free cash flow and total free cash flow have been disclosed as they are part of Pearson’s corporate and operating measures. Tax payments that can be clearly identified with disposals, integration and exchange differences taken to reserves are allocated as non operating tax payments.
b. Analysis of net debt

At 31 December 2001

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Overdrafts</th>
<th>Sub-Total</th>
<th>Short-term Deposits</th>
<th>Debt Due within one year</th>
<th>Debt Due after one year</th>
<th>Finance Leases</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>300</td>
<td>(60)</td>
<td>240</td>
<td>93</td>
<td>(105)</td>
<td>(2,607)</td>
<td>(14)</td>
<td>(2,393)</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(15)</td>
<td>4</td>
<td>(11)</td>
<td>(2)</td>
<td>(6)</td>
<td>150</td>
<td>1</td>
<td>132</td>
</tr>
<tr>
<td>Acquired with subsidiary</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>24</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>24</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(148)</td>
<td>146</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>132</td>
<td>(21)</td>
<td>111</td>
<td>43</td>
<td>87</td>
<td>577</td>
<td>5</td>
<td>823</td>
</tr>
</tbody>
</table>

At 31 December 2000

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Overdrafts</th>
<th>Sub-Total</th>
<th>Short-term Deposits</th>
<th>Debt Due within one year</th>
<th>Debt Due after one year</th>
<th>Finance Leases</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>425</td>
<td>(110)</td>
<td>315</td>
<td>91</td>
<td>(2)</td>
<td>(2,705)</td>
<td>(16)</td>
<td>(2,317)</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(10)</td>
<td>1</td>
<td>(9)</td>
<td>1</td>
<td>–</td>
<td>(16)</td>
<td>–</td>
<td>(24)</td>
</tr>
<tr>
<td>Debt issue costs</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(100)</td>
<td>99</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>115</td>
<td>49</td>
<td>(66)</td>
<td>1</td>
<td>3</td>
<td>14</td>
<td>7</td>
<td>(47)</td>
</tr>
</tbody>
</table>

At 31 December 2001

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Overdrafts</th>
<th>Sub-Total</th>
<th>Short-term Deposits</th>
<th>Debt Due within one year</th>
<th>Debt Due after one year</th>
<th>Finance Leases</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>300</td>
<td>(60)</td>
<td>240</td>
<td>93</td>
<td>(105)</td>
<td>(2,607)</td>
<td>(14)</td>
<td>(2,393)</td>
</tr>
</tbody>
</table>

Note: Finance leases are included within other creditors in the balance sheet (see note 20).

c. Reconciliation of net cash flow to movement in net debt

<table>
<thead>
<tr>
<th>Description</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease/(increase) in net debt from net cash flow</td>
<td>111</td>
<td>(66)</td>
</tr>
<tr>
<td>Decrease in net debt from management of liquid resources</td>
<td>43</td>
<td>1</td>
</tr>
<tr>
<td>Decrease in net debt from other borrowings</td>
<td>664</td>
<td>11</td>
</tr>
<tr>
<td>Decrease in finance leases</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Acquired with subsidiary</td>
<td>24</td>
<td>–</td>
</tr>
<tr>
<td>Debt issue costs</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Other non-cash items</td>
<td>(1)</td>
<td>(6)</td>
</tr>
<tr>
<td>Exchange differences</td>
<td>(111)</td>
<td>(24)</td>
</tr>
<tr>
<td>Movement in net debt in the year</td>
<td>978</td>
<td>(76)</td>
</tr>
<tr>
<td>Net debt at beginning of the year</td>
<td>(2,393)</td>
<td>(2,317)</td>
</tr>
<tr>
<td>Net debt at end of the year</td>
<td>(1,415)</td>
<td>(2,393)</td>
</tr>
</tbody>
</table>

28 CONTINGENT LIABILITIES

There are contingent Group and company liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities of the Group in respect of legal claims. None of these claims are expected to result in a material gain or loss to the Group.

29 COMMITMENTS UNDER LEASES

At 31 December 2002, the Group had commitments under leases other than finance leases, to make payments in 2003 as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Land and Buildings</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>For leases expiring:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In 2003</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Between 2004 and 2007</td>
<td>40</td>
<td>16</td>
</tr>
<tr>
<td>Thereafter</td>
<td>65</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>115</td>
<td>19</td>
</tr>
</tbody>
</table>
30 RELATED PARTIES

Joint ventures and associates - Loans and equity advanced to joint ventures and associates during the year and at the balance sheet date are shown in notes 13 and 14. Amounts falling due from joint ventures and associates are set out in note 17. Dividends receivable from joint ventures and associates are set out in notes 13 and 14.

There are no other related party transactions in 2002.

31 POST BALANCE SHEET EVENTS

In January 2003 Interactive Data Corporation announced its acquisition of S&P Comstock for $115m in cash.

32 COMPANY BALANCE SHEET AS AT 31 DEC 2002

<table>
<thead>
<tr>
<th>all figures in £ millions</th>
<th>note</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible fixed assets</td>
<td>33</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Investments: subsidiaries</td>
<td>33</td>
<td>6,422</td>
<td>5,384</td>
</tr>
<tr>
<td>Investments: own shares held</td>
<td>33</td>
<td>39</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6,461</td>
<td>5,408</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidiaries – due within one year</td>
<td></td>
<td>971</td>
<td>2,186</td>
</tr>
<tr>
<td>Subsidiaries – due after more than one year</td>
<td></td>
<td>1,453</td>
<td>1,312</td>
</tr>
<tr>
<td>Taxation</td>
<td></td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>Other debtors</td>
<td></td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td></td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>18</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2,443</td>
<td>3,538</td>
</tr>
<tr>
<td>Creditors – amounts falling due within one year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowing</td>
<td>19</td>
<td>(323)</td>
<td>(109)</td>
</tr>
<tr>
<td>Subsidiaries</td>
<td></td>
<td>(2,641)</td>
<td>(2,006)</td>
</tr>
<tr>
<td>Other creditors</td>
<td></td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td></td>
<td>(13)</td>
<td>(15)</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td>(115)</td>
<td>(109)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3,093)</td>
<td>(2,240)</td>
</tr>
<tr>
<td>Net current (liabilities)/assets</td>
<td></td>
<td>(650)</td>
<td>1,298</td>
</tr>
<tr>
<td>Total assets less current liabilities</td>
<td></td>
<td>5,811</td>
<td>6,706</td>
</tr>
<tr>
<td>Creditors – amounts falling due after more than one year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium and long-term borrowing</td>
<td>19</td>
<td>(1,369)</td>
<td>(2,027)</td>
</tr>
<tr>
<td>Subsidiaries</td>
<td></td>
<td>(393)</td>
<td>(392)</td>
</tr>
<tr>
<td>Provisions for liabilities and charges</td>
<td>2</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1,764)</td>
<td>(2,421)</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td>4,047</td>
<td>4,285</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called up share capital</td>
<td>23</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Share premium account</td>
<td>33</td>
<td>2,465</td>
<td>2,459</td>
</tr>
<tr>
<td>Special reserve</td>
<td>33</td>
<td>397</td>
<td>397</td>
</tr>
<tr>
<td>Other reserves</td>
<td>33</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td>33</td>
<td>935</td>
<td>1,179</td>
</tr>
<tr>
<td>Equity shareholders’ funds</td>
<td></td>
<td>4,047</td>
<td>4,285</td>
</tr>
</tbody>
</table>

The financial statements were approved by the board of directors on 3 March 2003 and signed on its behalf by DENNIS STEVENSON • RONA FAIRHEAD.
NOTES TO THE COMPANY BALANCE SHEET

all figures in £ millions

<table>
<thead>
<tr>
<th>Tangible fixed assets (leasehold property)</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Net book value</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

note • The company had no capital commitments for fixed assets at the end of 2002.

all figures in £ millions

<table>
<thead>
<tr>
<th>Investment in subsidiaries</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>5,384</td>
</tr>
<tr>
<td>External acquisition</td>
<td>2</td>
</tr>
<tr>
<td>Subscription for additional share capital in subsidiaries</td>
<td>1,085</td>
</tr>
<tr>
<td>Disposal to subsidiary</td>
<td>(16)</td>
</tr>
<tr>
<td>Provision for diminution in value</td>
<td>(32)</td>
</tr>
<tr>
<td>Revaluations</td>
<td>(1)</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>6,422</td>
</tr>
</tbody>
</table>

note • Shares are stated at cost less provisions for diminution in value or directors’ valuations.

Own shares held • Amounts included within own shares held relate to Pearson plc ordinary shares held in respect of the Pearson plc Employee Share Ownership Trusts (see note 15).

all figures in £ millions

<table>
<thead>
<tr>
<th>Reserves Summary of movements</th>
<th>SHARE PREMIUM ACCOUNT</th>
<th>SPECIAL RESERVE</th>
<th>OTHER RESERVES</th>
<th>PROFIT AND LOSS ACCOUNT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2001</td>
<td>2,459</td>
<td>397</td>
<td>50</td>
<td>1,179</td>
<td>4,085</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(46)</td>
<td>(46)</td>
</tr>
<tr>
<td>Premium on issue of 1m equity shares</td>
<td>6</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>6</td>
</tr>
<tr>
<td>Loss for the financial year</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(11)</td>
<td>(11)</td>
</tr>
<tr>
<td>Dividends</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(187)</td>
<td>(187)</td>
</tr>
<tr>
<td>At 31 December 2002</td>
<td>2,465</td>
<td>397</td>
<td>50</td>
<td>935</td>
<td>3,847</td>
</tr>
</tbody>
</table>

note • The special reserve represents the cumulative effect of cancellation of the company’s share premium account. As permitted by section 230(4) of the Companies Act 1985, only the Group’s profit and loss account has been presented.
## Principal Subsidiaries and Associates

### Subsidiaries

The principal operating subsidiaries are listed below. They operate mainly in the countries of incorporation or registration, the investments are in equity share capital and they are all 100% owned unless stated otherwise.

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Country of Incorporation or Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Education</td>
<td></td>
</tr>
<tr>
<td>Pearson Education Inc.</td>
<td>US</td>
</tr>
<tr>
<td>Pearson Education Ltd</td>
<td>England</td>
</tr>
<tr>
<td>NCS Pearson Inc.</td>
<td>US</td>
</tr>
<tr>
<td>FT Group</td>
<td></td>
</tr>
<tr>
<td>The Financial Times Ltd</td>
<td>England</td>
</tr>
<tr>
<td>Financial Times Business Ltd</td>
<td>England</td>
</tr>
<tr>
<td>Interactive Data Corporation (60%)</td>
<td>US</td>
</tr>
<tr>
<td>Les Echos SA</td>
<td>France</td>
</tr>
<tr>
<td>Recoletos Grupo de Comunicación SA (79%)</td>
<td>Spain</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td></td>
</tr>
<tr>
<td>Penguin Putnam Inc.</td>
<td>US</td>
</tr>
<tr>
<td>The Penguin Publishing Co Ltd</td>
<td>England</td>
</tr>
<tr>
<td>Dorling Kindersley Holdings Ltd*</td>
<td>England</td>
</tr>
</tbody>
</table>

* Direct investment of Pearson plc.

### Associates

<table>
<thead>
<tr>
<th>FT Group</th>
<th>Country of Incorporation or Registration</th>
<th>Class of Share</th>
<th>Beneficial Interest %</th>
<th>Accounting Year End</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Economist Newspaper Ltd</td>
<td>England</td>
<td>Ord 5p</td>
<td>50</td>
<td>March</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;B&quot; 5p</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>&quot;A&quot; 5p</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trust 5p</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>FT-SE International Ltd</td>
<td>England</td>
<td>Ord £1</td>
<td>50</td>
<td>December</td>
</tr>
</tbody>
</table>
Five year summary

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>1,908</td>
<td>2,977</td>
<td>3,689</td>
<td>4,225</td>
<td>4,320</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>487</td>
<td>355</td>
<td>185</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total Sales</strong></td>
<td>2,395</td>
<td>3,332</td>
<td>3,874</td>
<td>4,225</td>
<td>4,320</td>
</tr>
<tr>
<td><strong>Sales – underlying growth %</strong></td>
<td>6.7</td>
<td>7.6</td>
<td>10.5</td>
<td>(0.3)</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>EBITDA</strong>*</td>
<td>455</td>
<td>631</td>
<td>590</td>
<td>588</td>
<td>615</td>
</tr>
<tr>
<td><strong>Trading margin %</strong></td>
<td>13.1</td>
<td>14.0</td>
<td>11.5</td>
<td>10.5</td>
<td>11.4</td>
</tr>
<tr>
<td><strong>Operating profit before goodwill charge and other items</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Education</td>
<td>–</td>
<td>(3)</td>
<td>(83)</td>
<td>(77)</td>
<td>(25)</td>
</tr>
<tr>
<td>FT Group</td>
<td>–</td>
<td>(36)</td>
<td>(113)</td>
<td>(60)</td>
<td>(34)</td>
</tr>
<tr>
<td>The Penguin Group</td>
<td>–</td>
<td>(39)</td>
<td>(196)</td>
<td>(137)</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>Continuing operations</strong></td>
<td>265</td>
<td>433</td>
<td>414</td>
<td>426</td>
<td>493</td>
</tr>
<tr>
<td><strong>Internet enterprises investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pearson Education</td>
<td>–</td>
<td>(3)</td>
<td>(83)</td>
<td>(77)</td>
<td>(25)</td>
</tr>
<tr>
<td>FT Group</td>
<td>–</td>
<td>(36)</td>
<td>(113)</td>
<td>(60)</td>
<td>(34)</td>
</tr>
<tr>
<td><strong>Total Internet enterprises investment</strong></td>
<td>–</td>
<td>(39)</td>
<td>(196)</td>
<td>(137)</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>Adjusted eps</strong></td>
<td>36.6p</td>
<td>39.5p</td>
<td>30.6p</td>
<td>21.4p</td>
<td>30.3p</td>
</tr>
<tr>
<td><strong>Dividends per share</strong></td>
<td>18.8p</td>
<td>20.1p</td>
<td>21.4p</td>
<td>22.3p</td>
<td>23.4p</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>1,237</td>
<td>1,527</td>
<td>4,398</td>
<td>3,973</td>
<td>3,530</td>
</tr>
<tr>
<td><strong>Deferred taxation</strong></td>
<td>(243)</td>
<td>(266)</td>
<td>(295)</td>
<td>(272)</td>
<td>(174)</td>
</tr>
<tr>
<td><strong>Provisions for liabilities and charges</strong></td>
<td>253</td>
<td>206</td>
<td>257</td>
<td>239</td>
<td>165</td>
</tr>
<tr>
<td><strong>Net debt (excluding finance leases)</strong></td>
<td>2,279</td>
<td>1,995</td>
<td>2,301</td>
<td>2,379</td>
<td>1,408</td>
</tr>
<tr>
<td><strong>Capital employed</strong></td>
<td>3,526</td>
<td>3,462</td>
<td>6,661</td>
<td>6,319</td>
<td>4,929</td>
</tr>
<tr>
<td><strong>Operating free cash flow per share</strong></td>
<td>40.3p</td>
<td>43.4p</td>
<td>23.0p</td>
<td>29.6p</td>
<td>38.3p</td>
</tr>
</tbody>
</table>

* Before goodwill charge, integration costs and non operating items, and restated to reflect the rights issue of equity shares during 2000 and adoption of FRS 19.
Corporate and operating measures

**Sales – underlying growth**
Sales growth excluding the impact of acquisitions and disposals and movements in exchange rates.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying increase</td>
<td>248</td>
</tr>
<tr>
<td>Portfolio changes</td>
<td>10</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>(163)</td>
</tr>
<tr>
<td>Total sales increase</td>
<td>95</td>
</tr>
<tr>
<td>Underlying increase</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

**Trading margin**
Trading profit (operating profit excluding profit from joint ventures, associates and investments) as a proportion of sales.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating profit – Group</td>
<td>496</td>
</tr>
<tr>
<td>Investment income</td>
<td>(2)</td>
</tr>
<tr>
<td>Trading profit</td>
<td>494</td>
</tr>
<tr>
<td>Sales</td>
<td>4,320</td>
</tr>
<tr>
<td>Trading margin</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

**Operating free cash flow per share***
Operating cash flow less taxation paid on operating profits and interest paid, divided by the weighted average number of shares in issue.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>493</td>
</tr>
<tr>
<td>Cash conversion</td>
<td>92%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>455</td>
</tr>
<tr>
<td>Tax paid on operating profits</td>
<td>(46)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(104)</td>
</tr>
<tr>
<td>Operating free cash flow</td>
<td>305</td>
</tr>
<tr>
<td>Weighted average shares in issue (millions)</td>
<td>796.3</td>
</tr>
<tr>
<td>Operating free cash flow per share</td>
<td>38.3p</td>
</tr>
</tbody>
</table>

* Before goodwill charge, integration costs and non operating items.
Payment of dividends to mandated accounts - Where shareholders have given instruction for payment to be made direct into a bank or building society, this is done through the Bankers Automated Clearing System (BACS), with the associated tax voucher showing the tax credit attributable to the dividend payment sent direct to the shareholder at the address shown on our register. If you wish the tax voucher to be sent to your bank or building society, please inform our registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3986 or, for those shareholders with hearing difficulties, textphone number 0870 600 3950.

Dividend reinvestment plan (DRIP) - The plan provides the benefit of giving shareholders the right to buy the company's shares on the London stock market with the cash dividend. If you would like further information about the DRIP, please contact Lloyds TSB Registrars. Telephone 0870 241 3018.

Personal Equity Plans (PEPs) and Individual Savings Accounts (ISAs) - The government no longer permits investment to be made in PEPs, although existing PEPs may be continued. Existing Corporate PEP and Single Company PEP holders who require further information about their PEPs should ring the HBOS helpline on 0870 606 6417. Lloyds TSB Registrars offer ISAs in Pearson shares. They can be contacted for information on 0870 242 4244.

Low cost share dealing facility - A postal facility, which provides a simple, low cost way of buying and selling Pearson shares, is available through the company's stockbroker, Cazenove & Co. Limited, 12 Tokenhouse Yard, London EC2R 7AN. Telephone 020 7588 2828.

Shareholder information on-line - Lloyds TSB Registrars provide a range of shareholder information on-line. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. Lloyds TSB Registrars can be contacted for information on 0870 600 3970.

Information about the Pearson share price - The current price of Pearson ordinary shares can be obtained from Financial Times CityLine. Telephone 0906 843 3620.

American Depositary Receipts (ADRs) - Pearson's ordinary shares are listed on the New York Stock Exchange in the form of ADRs and traded under the symbol PSO. Each ADR represents one ordinary share. Voting rights as a shareholder may be exercised through The Bank of New York, ADR Department, 101 Barclay Street, New York, New York 10286, telephone 800 BNY ADRS (toll free within the US) or (1) 610 312 5315 (outside the US). All enquiries regarding ADR holder accounts and payment of dividends should be directed to The Bank of New York, the authorised depositary bank for Pearson's ADR programme, at the address given above. Pearson will file with the Securities and Exchange Commission a report on Form 20-F that will contain a US GAAP reconciliation.

Advisers - 
auditors PricewaterhouseCoopers LLP
bankers HSBC Bank Plc
broker Cazenove & Co. Limited
financial advisers Lazard Brothers & Co. Limited, J. Henry Schroder & Co. Limited
solicitors Freshfields Bruckhaus Deringer, Herbert Smith and Morgan, Lewis & Bockius.

Financial Calendar for 2003

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-dividend date</td>
<td>Wednesday 12 March</td>
</tr>
<tr>
<td>Record date</td>
<td>Friday 16 March</td>
</tr>
<tr>
<td>Last date for dividend reinvestment election</td>
<td>Thursday 24 April</td>
</tr>
<tr>
<td>Annual general meeting</td>
<td>Friday 25 April</td>
</tr>
<tr>
<td>Payment date for dividend and share purchase date for dividend reinvestment</td>
<td>Friday 9 May</td>
</tr>
<tr>
<td>Interim results</td>
<td>Monday 28 July</td>
</tr>
<tr>
<td>Interim dividend</td>
<td>Friday 26 September</td>
</tr>
</tbody>
</table>
Principal Addresses

PEARSON UK
80 Strand, London, WC2R 0RL, UK
Telephone +44 (0)20 7010 2000
Facsimile +44 (0)20 7010 6060
E-mail firstname.lastname@pearson.com
www.pearson.com
Registered number 53723

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