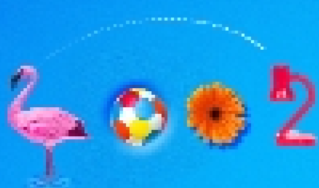
PEARSON INTERIM RESULTS

FOR THE HALF YEAR TO 30 JUNE 2002



We help people of all ages to get the most out of their lives. We educate, entertain and inform millions around the world every day. We tell stories, interpret data, analyse the news and construct lessons. We aim to do all this in a way that is useful and compelling and we make the results of our work available to anyone who needs it – anywhere, any way.

At the presentation of Pearson's interim results back in August 1997, we set ourselves the task of delivering double-digit growth in adjusted earnings per share, believing that achievement would double the value of the company in five years.

Five years on we haven't met all those goals. We did increase our earnings in double digits every year for four years. Then, in 2001, the worst downturn in corporate advertising for 30 years hit the *Financial Times* hard and earnings fell. And we have not doubled the value of the company. The Pearson share price was more than double the August 1997 price several times, but it's not today anywhere near double, although it has done better than both the UK media sector and the FTSE 100 as a whole*.

So we start again. This year, although there is no sign of an advertising recovery so far, we expect to be back on track. We've improved our earnings and cash performance in the first six months and expect to sustain that momentum through the second half of the year, when we make most of our profits, and into next year. Our progress in 2002 will in the end be due to strong performances from our education and consumer publishing businesses. It will also be due to a strong competitive result from the FT, which will, in spite of difficulties, produce profit and end the year bloody, but unbowed. Just as those of us running your company are.

Marjorie Scardino
Chief Executive
July 2002

* At the close of the market on July 31, the Pearson share price was 3% up since the eve of the 1997 interim results. Over the same period, the FTSE media sector was down 18% and the FTSE 100 down 13%.

	six months to 30 June 2002		six months to 30 June 2001		% change
SALES	**£1,813m**	*$2,629m*	£1,876m	*$2,720m*	(3)
OPERATING PROFIT*	**£76m**	*$110m*	£60m	*$87m*	27
PRE-TAX PROFIT*	**£26m**	*$38m*	£(28)m	*$(41)m*	–
ADJUSTED EARNINGS per share**	**0.5p**	*0.7¢*	(1.5)p	*2.2¢*	–
DIVIDEND per share	**9.1p**	*13.2¢*	8.7p	*12.6¢*	5

note: US dollar figures have been calculated at £1: $1.45 for illustrative purposes only.

* Continuing operations before goodwill, integration costs and non-operating items
** Restated for FRS19

notes throughout this statement:

1. 2001 numbers have been restated for FRS19, the new accounting standard for deferred tax.
2. Unless otherwise stated, reference to operating profit excludes goodwill amortisation and impairment and integration costs.
3. 'Underlying growth' excludes the impact of acquisitions, disposals and currency movements, but all are detailed in this statement.

PERFORMANCE

Sales in the six months to June 30, 2002 were £1,813 million, 3% lower than in the first half of 2001, due almost entirely to lower advertising revenues at the Financial Times Group. Operating profit from continuing operations (before goodwill and exceptional items) increased by 27% to £76 million. Adjusted earnings per share increased to 0.5p from a loss of 1.5p per share in the same period last year, with the benefit of lower internet losses and reduced interest charges, which more than offset a £31 million (55%) fall in the earnings contribution from advertising-related newspaper operations.

A reported loss for the half-year of £207 million (26.0p per share) reflects the fact that Pearson makes nearly all its profits in the second half, but goodwill is amortised evenly through the year. A reported loss of £118 million (14.8p per share) in the same period last year reflected an exceptional tax gain of £121 million which was not repeated in 2002.

OUTLOOK

Pearson makes most of its sales and almost all of its profits in the second half of the year. We are on course to deliver a significant recovery in adjusted earnings per share in 2002, in line with our previous expectations*.

We expect our education businesses to increase underlying revenues in the 3-5% range with margins broadly in line with those achieved in 2001. The Penguin Group looks set to deliver double-digit growth in profits. If advertising demand continues at the level we saw in the first half of the year, we expect the FT Group to record operating profits for the full year some 10-15% lower than in 2001. This is before losses from internet enterprises, which are expected to be less than £60 million for the full year for Pearson as a whole (compared to £137 million last year).

For the full year, we expect free cash flow to benefit from actions taken to improve use of working capital and lower restructuring costs. We also expect a modest reduction in our interest charge, compared to the first half of this year**.

* A 5 cent change in the average exchange rate for the full year (which for the six months to June 30 was £1:$1.45) will have an impact of approximately 1p on adjusted earnings per share.

** This excludes a one-time cost this year of £37 million relating to actions taken this year to maintain the proportion of debt we pay at fixed and floating rates.

OPERATING PERFORMANCE

PEARSON EDUCATION

	2002 half year		2001 half year		% change	Underlying growth	2001 full year	
SALES								
US SCHOOL	**£393m**	***$570m***	£430m	*$623m*	(9)	(8)	£978m	*$1,418m*
US COLLEGE	**£158m**	***$229m***	£139m	*$202m*	14	15	£574m	*$832m*
US PROFESSIONAL	**£232m**	***$336m***	£202m	*$293m*	15	17	£417m	*$605m*
INTERNATIONAL	**£242m**	***$351m***	£240m	*$348m*	1	(3)	£568m	*$824m*
PEARSON EDUCATION	**£1,025m**	***$1,486m***	£1,011m	*$1,466m*	1	1	£2,537m	*$3,679m*
FT KNOWLEDGE	**£23m**	***$34m***	£31m	*$45m*	(26)	(35)	£59m	*$85m*
INTERNET ENTERPRISES	**£1m**	***$1m***	£3m	*$4m*	(67)	(52)	£8m	*$12m*
TOTAL	**£1,049m**	***$1,521m***	£1,045m	*$1,515m*	–	0	£2,604m	*$3,776m*
OPERATING PROFIT/(LOSS)								
PEARSON EDUCATION	**£22m**	***$32m***	£28m	*$41m*	(21)	(34)	£374m	*$542m*
FT KNOWLEDGE	**£(9)m**	***$(13)m***	£(12)m	*$(18)m*	25	(16)	£(23)m	*$(33)m*
INTERNET ENTERPRISES	**£(13)m**	***$(19)m***	£(43)m	*$(62)m*	70	70	£(77)m	*$(112)m*
TOTAL	**£0m**	***$0m***	£(27)m	*$(39)m*	0	–	£274m	*$397m*

note: US dollar figures have been calculated at £1: $1.45 for illustrative purposes only.

Underlying sales at Pearson Education increased 1% on last year's very strong first half performance.

In our **US School** business (23% of Pearson's total revenues in 2001), underlying sales were down 8%, as this year's major textbook adoptions* have reverted to the normal seasonal pattern. (Last year, underlying revenues were up 23% at the half year, as an exceptional number of major adoptions fell in the first six months of 2001). We expect to take a market share of approximately 35% of the adoptions in which we are competing. Education software sales are down on last year, with a major contract deferred into the second half of the year. Learning Network (now renamed Family Education Network), Pearson's online consumer education portal, has been scaled back to focus on the US K-12 market and fully integrated into our US School business. As a result, education internet losses fell sharply, from £43 million in the first half of 2001 to £13 million in 2002. The testing and assessment business continues to prosper, benefiting from the sustained growth of a number of long-term contracts.

The **US College** business (14% of 2001 revenues), with a very strong publishing schedule and its lead in the use of technology, has made an excellent start to the year. Underlying sales were up 15%, well ahead of the industry as a whole, but benefiting in part from the earlier phasing of orders from retailers. Our custom publishing business, which produces text books in small print runs custom-made to a college professor's individual course, has made a particularly good start to the year.

* In the US, 21 'adoption' states buy textbooks and related programmes to a planned contract schedule, which means the level of spending varies from year-to-year according to this schedule. The 'open territory' states are those that buy textbooks on an as-needed basis rather than on a published adoption schedule.

The **US Professional** business (11% of 2001 revenues) grew underlying sales by 17%. As expected, technology publishing and corporate training markets remain difficult, but we are seeing strong growth in our professional certification and government solutions businesses. In NCS Pearson's professional certification business, sales were up 20% in the year to date with two major new contracts – to manage the licensing and certification of clinical pathologists and nurses in the US – starting in the second half. NCS Pearson's government solutions business is growing even faster, benefiting from three new federal contracts.

In our **International** education operations (14% of 2001 revenues), underlying sales were 3% lower than last year. The school and college publishing businesses are performing well, particularly in Asia, but the technology recession has driven down sales in our international IT publishing business. Our Latin American operations are delivering a sharply improved performance, benefiting from the actions we took last year to reduce costs.

NCS Pearson is now an integral part of Pearson Education. On a standalone basis, revenues increased to $489 million (up 10% on an underlying basis) and profits increased to $56 million (up 13% on an underlying basis)*.

Sales at **FT Knowledge**, our corporate training business, are down on last year but losses have also fallen on the back of a substantially lower cost base. FT Knowledge is working with Accenture to create new training programmes for large corporations and with our Government Solutions business on a number of opportunities.

PEARSON EDUCATION: OUTLOOK

For the full year, our education businesses are on track to increase underlying revenues in the 3-5% range with margins broadly in line with those achieved in 2001. We expect revenues in our US school business to be at a similar level to last year. Our US college business should outperform an industry expected to grow by 6-8%. We expect strong double-digit revenue growth from our US professional operations. Our operations outside the US should achieve modest revenue growth. On a standalone basis, NCS Pearson is on track for revenue growth of more than 15%, topping $1 billion in annual sales. For the full year, losses from our education internet enterprises are expected to be no more than £25 million and losses from FT Knowledge are expected to be lower than last year.

* All reported figures for NCS Pearson include Computer Curriculum Corporation, which has been fully integrated within NCS Learn, our curriculum software business.

FINANCIAL TIMES GROUP

	2002 half year		2001 half year		% change	2001 full year	
SALES							
NON-INTERNET	**£347m**	***$503m***	£403m	*$584m*	(14)	£750m	*$1,087m*
INTERNET ENTERPRISES	**£23m**	***$33m***	£26m	*$38m*	(12)	£51m	*$74m*
TOTAL	**£370m**	***$536m***	£429m	*$622m*	(14)	£801m	*$1,161m*
OPERATING PROFIT/(LOSS)							
FT NEWSPAPER	**£7m**	***$10m***	£32m	*$46m*	(78)	£31m	*$45m*
LES ECHOS	**£6m**	***$9m***	£15m	*$22m*	(60)	£16m	*$23m*
RECOLETOS	**£14m**	***$20m***	£13m	*$19m*	8	£23m	*$33m*
INTERATIVE DATA CORPORATION	**£37m**	***$54m***	£32m	*$46m*	16	£67m	*$97m*
ASSOCIATES AND JOINT VENTURES	**£(3)m**	***$(4)m***	£(6)m	*$(9)m*	50	£(10)m	*$(14)m*
FT BUSINESS	**£1m**	***$1m***	£2m	*$3m*	(50)	£4m	*$6m*
FT BUSINESSES SOLD		–	–	–		£1m	*$1m*
	£62m	***$90m***	£88m	*$127m*	(30)	£132m	*$191m*
INTERNET ENTERPRISES	**£(24)m**	***$(35)m***	£(38)m	*$(55)m*	37	£(60)m	*$(87)m*
TOTAL	**£38m**	***$55m***	£50m	*$72m*	(24)	£72m	*$104m*

note: US dollar figures have been calculated at £1: $1.45 for illustrative purposes only.

The **Financial Times Group** (19% of 2001 revenues) saw revenues fall 14% in the face of a deep and prolonged advertising recession. The three categories hardest hit by the downturn – business-to-business, finance and technology – account for the majority of our advertising revenues. In spite of this downturn, our network of business newspapers and online services continues to grow its audience and reach.

Average daily sales of the ***Financial Times*** newspaper for the six months to June were 486,000, with good growth in the US (up 14%) and in Asia (up 18%) offsetting a decline in the UK (down 7%). In the first half of the year, advertising revenues fell by 31% against the same period last year (which included the first quarter when advertising revenues were up 8%). A series of profit protection measures reduced the FT newspaper's cost base by 12% for the first half of the year compared with the same period in 2001.

FT.com continued to grow its revenues and reduce its cost base and remains on track to break even in the fourth quarter of this year. FT.com had 2.8 million unique monthly users in June, up by more than 50% on a year ago. Though the market for online advertising remains tough, content syndication sales continue to grow strongly and FT.com has successfully launched subscription services.

Profits at ***Les Echos*** declined sharply as advertising revenues fell by 32%. Average daily circulation was 153,000, level with last year. ***Les Echos*** has taken a number of actions to reduce costs, which it will benefit from in the second half of the year.

Recoletos (Bolsa Madrid: REC), our Spanish media group, increased profits by 8% in spite of a 6% fall in revenues. *Marca*, its sports newspaper, capitalised on an exceptional calendar of sporting events and Recoletos as a whole benefited from a substantially lower cost base. Advertising revenues at its business newspaper, *Expansion*, were 22% lower.

Interactive Data Corporation (NASDAQ: IDCO), our 60%-owned asset pricing business, increased revenues by 9% and profits by 16%. Customer contract renewal rates are running at 95% in our institutional business, we have launched several new products and the integration of the Merrill Lynch Securities Pricing Service is going to plan.

Stripping out the contribution of FT Energy, which was sold in 2001, **FT Business**, our specialist financial publications company, maintained profits despite the advertising downturn. Tight control of the cost base and a strong competitive performance have helped it to perform well in a difficult environment.

Losses from the **FT's internet enterprises** (which include the online businesses of the FT, Les Echos and Expansion as well as our share of FT Deutschland's FTD.de, economist.com, CBSMarketWatch and Esignal) fell to £24 million, as revenues across these operations were broadly in line with last year and the cost base was significantly reduced.

ASSOCIATES AND JOINT VENTURES

Losses from the FT's associates and joint ventures were 50% lower than the previous year, primarily due to progress at ***FT Deutschland***, our joint venture with Gruner and Jahr. *FT Deutschland* grew its advertising revenues slightly and increased its circulation by 12% to 83,000.

The Economist Group, in which Pearson owns a 50% interest, continued to make progress despite the advertising environment. *The Economist's* worldwide weekly circulation grew by 10% to 838,030; the Economist Intelligence Unit continued its transition from print to electronic delivery and *CFO's* international expansion continued with the successful launch of CFO China.

Business Day & Financial Mail, the South African titles in which we own a 50% interest, held their circulation steady and reduced their costs.

THE FINANCIAL TIMES GROUP: OUTLOOK

At this stage, we see no sign of an advertising recovery. If demand for advertising across our network of business newspapers continues at the levels we saw in the first half of this year, the FT Group is expected to record operating profits (before internet enterprises) for the full year some 10-15% lower than last year. We expect losses from the FT's internet enterprises to be less than £35 million for the full year.

THE PENGUIN GROUP

	2002 half year		2001 half year		% change	2001 full year	
SALES	**£394m**	*$571m*	£402m	*$583m*	(2)	£820m	*$1,189m*
OPERATING PROFIT	**£38m**	*$55m*	£37m	*$54m*	3	£80m	*$116m*

note: US dollar figures have been calculated at £1: $1.45 for illustrative purposes only.

The Penguin Group (19% of 2001 revenues) held revenues and profits broadly level with 2001, even though this year's publishing schedule is heavily weighted towards the second half of the year.

In the US, 57 Penguin Putnam titles reached the New York Times bestseller lists in the first half of the year, a similar number to the previous year. In the UK, 38 titles reached the Neilsen Bookscan top 15, an increase of 20%. The integration of Dorling Kindersley into Penguin is now complete. For the first half of the year, DK broke-even on sales of £71 million (up 8% on 2001), benefiting from a lower cost base, a stronger salesforce and a revitalised publishing programme. Dorling Kindersley now has a dedicated unit of designers working with Pearson Education on a range of publishing projects, from a new programme for the 2003 Texas social studies adoption to an international elementary reading programme.

THE PENGUIN GROUP: OUTLOOK

The Penguin Group is expected to grow sales ahead of its major markets (which are forecast to increase by up to 3% this year) and deliver double-digit growth in profits. Revenue in the second half should benefit from the forthcoming publishing schedule, which is significantly stronger than the same period last year. Dorling Kindersley is expected to be profitable for the year as a whole.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months to 30 June 2002

all figures in £ millions	NOTE	2002 HALF YEAR	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
Sales (including share of joint ventures)		**1,819**	1,881	4,240
Less: share of joint ventures		**(6)**	(5)	(15)
Sales (continuing operations)	2a	**1,813**	1,876	4,225
Group operating (loss)/profit (continuing operations)		**(79)**	(102)	20
Share of operating loss of joint ventures				
and associates of which	2c	**(32)**	(17)	(67)
Continuing operations		**(29)**	(34)	(69)
Discontinued operations		**(3)**	17	2
Total operating loss	2b	**(111)**	(119)	(47)
Total operating loss analysed between:				
Continuing operations				
Operating profit before goodwill amortisation and integration costs		**76**	60	426
Goodwill amortisation and impairment		**(179)**	(168)	(401)
Integration costs		**(5)**	(28)	(74)
		(108)	(136)	(49)
Discontinued operations				
Operating profit before goodwill amortisation and integration costs		**–**	33	37
Goodwill amortisation		**(3)**	(16)	(35)
		(3)	17	2
Total operating loss	2b	**(111)**	(119)	(47)
Continuing operations				
Group loss on sale of fixed assets and investments		**–**	(2)	(12)
Group loss on sale of subsidiary undertakings and associates	3	**(10)**	(28)	(63)
Profit/(loss) on sale of subsidiary undertakings and associates by an associate		**3**	–	(36)
Discontinued operations				
Group profit on sale of subsidiary undertakings and associates	3	**17**	–	–
Profit/(loss) on sale of subsidiary undertakings and associates by an associate		**–**	8	(17)
Loss before interest and taxation		**(101)**	(141)	(175)
Amounts written off investments		**–**	–	(92)
Net finance costs	4	**(87)**	(88)	(169)
Loss before taxation		**(188)**	(229)	(436)
Taxation	6	**(6)**	124	33
Loss after taxation		**(194)**	(105)	(403)
Equity minority interests		**(13)**	(13)	(20)
Loss for the financial year		**(207)**	(118)	(423)
Dividends on equity shares	7	**(73)**	(70)	(177)
Loss retained		**(280)**	(188)	(600)
Adjusted earnings/(loss) per equity share	5	**0.5p**	(1.5)p	21.4p
Loss per equity share	5	**(26.0)p**	(14.8)p	(53.2)p
Diluted earnings per equity share	5	**n/a**	n/a	n/a
Dividends per equity share	7	**9.1p**	8.7p	22.3p

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above and their historical cost equivalents.

The results for the 2001 full year are an abridged version of the full accounts which have received an unqualified audit report from the auditors and have been filed with the Registrar of Companies. First half year figures are neither audited nor reviewed.

Results for the 2001 half year and full year have been restated for FRS 19 (see note 6). Adjusted pre tax profit from continuing operations for the six months to June 2002 of £26 million (2001: loss £28 million) is operating profit before goodwill amortisation and integration costs less net interest payable (see note 4).

CONSOLIDATED BALANCE SHEET

For the six months to 30 June 2002

all figures in £ millions	2002 HALF YEAR	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
Fixed assets			
Intangible assets	**3,939**	4,568	4,193
Tangible assets	**528**	557	542
Investments: joint ventures			
Share of gross assets	4	17	8
Share of gross liabilities	–	–	(1)
	4	17	7
Investments: associates	**107**	955	893
Investments: other	**83**	147	84
	4,661	6,244	5,719
Current assets			
Stocks	**848**	969	849
Debtors	**1,073**	1,215	1,005
Deferred taxation	**280**	344	272
Investments	**3**	4	3
Cash at bank and in hand	**542**	584	393
	2,746	3,116	2,522
Creditors – amounts falling due within one year			
Short term borrowing	**(57)**	(244)	(165)
Other creditors	**(995)**	(1,140)	(1,203)
	(1,052)	(1,384)	(1,368)
Net current assets	**1,694**	1,732	1,154
Total assets less current liabilities	**6,355**	7,976	6,873
Creditors – amounts falling due after more than one year			
Medium and long term borrowing	**(2,442)**	(3,212)	(2,607)
Other creditors	**(41)**	(54)	(54)
	(2,483)	(3,266)	(2,661)
Provisions for liabilities and charges	**(174)**	(238)	(239)
Net assets	**3,698**	4,472	3,973
Capital and reserves			
Called up share capital	**200**	200	200
Share premium account	**2,460**	2,445	2,459
Profit and loss account	**849**	1,654	1,138
Equity shareholders' funds	**3,509**	4,299	3,797
Equity minority interests	**189**	173	176
	3,698	4,472	3,973

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months to 30 June 2002

all figures in £ millions	NOTE	2002 HALF YEAR	2001 HALF YEAR	2001 FULL YEAR
Net cash (outflow)/inflow from operating activities	9	**(193)**	(187)	490
Dividends from joint ventures and associates		**1**	19	25
Interest received		**6**	19	31
Interest paid		**(99)**	(98)	(187)
Debt issue costs		**–**	(1)	(1)
Dividends paid to minority interests		**(1)**	(9)	(9)
Returns on investments and servicing of finance		**(94)**	(89)	(166)
Taxation		**(35)**	(39)	(71)
Purchase of tangible fixed assets		**(71)**	(93)	(165)
Sale of tangible fixed assets		**–**	5	36
Purchase of investments		**(3)**	(4)	(35)
Sale of investments		**–**	19	22
Capital expenditure and financial investment		**(74)**	(73)	(142)
Purchase of subsidiary undertakings		**(38)**	(14)	(128)
Net (debt)/cash acquired with subsidiary undertakings		**–**	(2)	83
Purchase of joint ventures and associates		**(9)**	(15)	(26)
Sale of subsidiary undertakings		**8**	6	41
Net cash disposed with subsidiary undertakings		**–**	(1)	–
Sale of associates		**921**	1	1
Acquisitions and disposals		**882**	(25)	(29)
Equity dividends paid		**(108)**	(105)	(174)
Net cash inflow/(outflow) before management of liquid resources and financing		**379**	(499)	(67)
Liquid resources acquired		**(82)**	–	(48)
Collateral deposit (placed)/reclaimed		**(29)**	17	47
Management of liquid resources		**(111)**	17	(1)
Issue of equity share capital		**1**	6	20
Capital element of finance lease rentals		**(2)**	(5)	(7)
Loan facility repaid		**(59)**	(112)	(521)
Bonds (repaid)/advanced		**(156)**	508	507
Net movement in other borrowings		**7**	40	3
Financing		**(209)**	437	2
Increase/(decrease) in cash in the period		**59**	(45)	(66)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the six months to 30 June 2002

all figures in £ millions	**2002 HALF YEAR**	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
Loss for the financial period	**(207)**	(118)	(423)
Other net gains and losses recognised in reserves:			
Currency translation differences	**(153)**	192	26
Taxation on currency translation differences – UK	**–**	(13)	(6)
Total recognised (losses)/gains relating to the period	**(360)**	61	(403)
Prior year adjustment – FRS 19	**209**		
Total recognised (losses)/gains	**(151)**		

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

For the six months to 30 June 2002

all figures in £ millions	**2002 HALF YEAR**	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
Loss for the financial period	**(207)**	(118)	(423)
Dividends on equity shares	**(73)**	(70)	(177)
	(280)	(188)	(600)
Currency translation differences (net of taxation)	**(153)**	179	20
Goodwill written back on sale of subsidiary undertakings and associates	**144**	17	37
Goodwill written back on sale of subsidiary undertakings and associates by an associate	**–**	–	36
Shares issued	**1**	6	18
Replacement options granted on acquisition of subsidiary	**–**	1	2
Net movement for the period	**(288)**	15	(487)
Equity shareholders' funds at beginning of the period	**3,797**	4,044	4,044
Prior period adjustment – FRS 19	**–**	240	240
Equity shareholders' funds at end of the period	**3,509**	4,299	3,797

1 BASIS OF PREPARATION

The results for the six months ended 30 June 2002 have been prepared in accordance with the accounting policies set out in the 2001 Annual Report, except that FRS 19 'Deferred Tax' has been adopted. The effect of this change in accounting policy is disclosed in note 6.

2a SECTOR ANALYSIS – SALES

all figures in £ millions	**2002 HALF YEAR**	2001 HALF YEAR	2001 FULL YEAR
Pearson Education	**1,049**	1,045	2,604
FT Group	**370**	429	801
The Penguin Group	**394**	402	820
Continuing operations	**1,813**	1,876	4,225

Sales in respect of internet enterprises, the Group's discrete internet operations, are included within Pearson Education £1m (2001 half year: £3m; 2001 full year: £8m) and the FT Group £23m (2001 half year: £26m; 2001 full year: £51m).

2b SECTOR ANALYSIS – OPERATING LOSS

	2002 HALF YEAR					
all figures in £ millions	**RESULTS FROM OPERATIONS**	**INTERNET ENTERPRISES**	**INTEGRATION COSTS**	**GOODWILL AMORTISATION**	**GOODWILL IMPAIRMENT**	**OPERATING LOSS**
Pearson Education	**13**	**(13)**	**(3)**	**(126)**	**–**	**(129)**
FT Group	**62**	**(24)**	**–**	**(33)**	**(10)**	**(5)**
The Penguin Group	**38**	**–**	**(2)**	**(10)**	**–**	**26**
Continuing operations	**113**	**(37)**	**(5)**	**(169)**	**(10)**	**(108)**
Discontinued operations	**–**	**–**	**–**	**(3)**	**–**	**(3)**
	113	**(37)**	**(5)**	**(172)**	**(10)**	**(111)**

	2001 HALF YEAR (RESTATED)					
all figures in £ millions	RESULTS FROM OPERATIONS	INTERNET ENTERPRISES	INTEGRATION COSTS	GOODWILL AMORTISATION	GOODWILL IMPAIRMENT	OPERATING LOSS
Pearson Education	16	(43)	(12)	(126)	–	(165)
FT Group	88	(38)	–	(33)	–	17
The Penguin Group	37	–	(16)	(9)	–	12
Continuing operations	141	(81)	(28)	(168)	–	(136)
Discontinued operations	33	–	–	(16)	–	17
	174	(81)	(28)	(184)	–	(119)

	2001 FULL YEAR (RESTATED)					
all figures in £ millions	RESULTS FROM OPERATIONS	INTERNET ENTERPRISES	INTEGRATION COSTS	GOODWILL AMORTISATION	GOODWILL IMPAIRMENT	OPERATING LOSS
Pearson Education	351	(77)	(29)	(254)	(8)	(17)
FT Group	132	(60)	–	(67)	(3)	2
The Penguin Group	80	–	(45)	(19)	(50)	(34)
Continuing operations	563	(137)	(74)	(340)	(61)	(49)
Discontinued operations	37	–	–	(35)	–	2
	600	(137)	(74)	(375)	(61)	(47)

2c SECTOR ANALYSIS – JOINT VENTURES AND ASSOCIATES

Included in the analysis of operating loss in note 2b are the following amounts in respect of joint ventures and associates:

all figures in £ millions	2002 HALF YEAR	2001 HALF YEAR	2001 FULL YEAR
Joint ventures			
Continuing operations	(7)	(10)	(19)

all figures in £ millions	2002 HALF YEAR RESULTS BEFORE GOODWILL AMORTISATION	2002 HALF YEAR TOTAL	2001 HALF YEAR RESULTS BEFORE GOODWILL AMORTISATION	2001 HALF YEAR TOTAL	2001 FULL YEAR RESULTS BEFORE GOODWILL AMORTISATION	2001 FULL YEAR TOTAL
Associates						
Continuing operations	2	(22)	–	(24)	1	(50)
Discontinued operations	–	(3)	33	17	37	2
	2	(25)	33	(7)	38	(48)

3 LOSS ON SALE OF SUBSIDIARY UNDERTAKINGS AND ASSOCIATES

all figures in £ millions	2002 HALF YEAR	2001 HALF YEAR	2001 (RESTATED) FULL YEAR
Continuing operations:			
Loss on sale of PH Direct	(10)	–	–
Loss on sale of iForum	–	–	(27)
Loss on closure of Dorling Kindersley Family Learning business	–	–	(2)
Net loss on sale of other businesses and associates	–	(28)	(34)
	(10)	(28)	(63)
Discontinued operations:			
Profit on sale of RTL Group	17	–	–
	17	–	–

4 NET FINANCE COSTS

all figures in £ millions	2002 HALF YEAR	2001 HALF YEAR	2001 FULL YEAR
Net interest payable	(50)	(88)	(169)
Early repayment of debt and termination of swap contracts	(37)	–	–
	(87)	(88)	(169)

5 EARNINGS/(LOSS) PER SHARE

In order to show results from operating activities on a comparable basis, an adjusted earnings per share is presented which excludes items of an unusual nature and goodwill amortisation as shown below. The company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

all figures in £ millions	**2002 HALF YEAR**	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
Loss for the financial period	**(207)**	(118)	(423)
Adjustments:			
Loss on sale of fixed assets and investments: continuing operations	**–**	2	12
Loss on sale of subsidiary undertakings and associates: continuing operations	**10**	28	63
Profit on sale of subsidiary undertakings and associates: discontinued operations	**(17)**	–	–
(Profit)/loss on sale of subsidiary undertakings and associates by an associate: continuing operations	**(3)**	–	36
(Profit)/loss on sale of subsidiary undertakings and associates by an associate: discontinued operations	**–**	(8)	17
Goodwill amortisation	**172**	184	375
Integration costs	**5**	28	74
Goodwill impairment	**10**	–	61
Amounts written off investments	**–**	–	92
Other net finance costs	**37**	–	–
Taxation on above items	**(3)**	(126)	(133)
Minority interest share of above items	**–**	(2)	(4)
Adjusted earnings/(loss)	**4**	(12)	170
Loss for the financial period	**(207)**	(118)	(423)
Taxation on the conversion of ordinary shares	**–**	–	(1)
Diluted loss	**(207)**	(118)	(424)
Weighted average number of equity shares (millions)			
– for earnings and adjusted earnings	**795.9**	794.7	795.4
Effect of dilutive share options	**n/a**	n/a	n/a
Weighted average number of equity shares (millions)			
– for diluted earnings	**n/a**	n/a	n/a
Adjusted earnings/(loss) per equity share	**0.5p**	(1.5)p	21.4p
Loss per equity share	**(26.0)p**	(14.8)p	(53.2)p
Diluted earnings per equity share	**n/a**	n/a	n/a

In 2001 and at the half year 2002 the Group made a loss for the financial period, consequently the effect of share options is anti-dilutive and a diluted earnings per share has not been shown.

6 TAXATION

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

all figures in percentages	**2002 HALF YEAR**	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
United Kingdom tax rate	**30.0**	30.0	30.0
Effect of overseas tax rates	**4.8**	5.5	4.5
Other items	**(0.8)**	(1.5)	(0.5)
Tax rate reflected in adjusted earnings/(loss)	**34.0**	34.0	34.0

all figures in £ millions			
Taxation benefit/(charge) is analysed as:			
Parent and subsidiaries	**(4)**	131	48
Joint ventures and associates	**(2)**	(7)	(15)
	(6)	124	33

FRS 19 'Deferred Tax' has been adopted for the first time in these financial statements. Pearson previously provided deferred tax using the liability method under SSAP 15 and only recognised deferred tax liabilities to the extent that it was probable that the liabilities would crystallise. Deferred tax assets were only recognised to the extent that their recoverability was assured beyond reasonable doubt. Under FRS 19 the recognition criteria for deferred tax assets has changed, with the result that Pearson has recognised a deferred tax asset in respect of US tax losses and other timing differences that are regarded as recoverable against future taxable profits. The adoption of 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 the six months to June 2002 has been to reduce the loss after taxation by £3 million (£nil relating to the tax charge and £3 million to goodwill amortisation) and to increase opening shareholders funds by £209 million. The effect on the loss after taxation for the 2001 half year was to reduce the loss by £19 million and at the 2001 full year increase the loss by £32 million.

7 DIVIDENDS

The directors have declared an interim dividend of 9.1p per equity share, payable on 25 October 2002 to shareholders on the register at the close of business on 9 August 2002.

8 EXCHANGE RATES

Pearson earns a significant proportion of its sales and profits in overseas currencies, the most important being the US dollar. The relevant rates are as follows:

£ versus US$	**2002 HALF YEAR**	2001 HALF YEAR	2001 FULL YEAR
Average for operating profits	**1.45**	1.43	1.44
Period end rate	**1.52**	1.41	1.46

9 NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

all figures in £ millions	2002 HALF YEAR	2001 (RESTATED) HALF YEAR	2001 (RESTATED) FULL YEAR
Reconciliation of operating loss to net cash (outflow)/inflow from operating activities			
Operating loss – total	(111)	(119)	(47)
Share of loss of joint ventures and associates	32	17	67
Depreciation charges	63	64	125
Goodwill amortisation and impairment	155	144	350
(Increase) in stocks	(27)	(98)	(6)
(Increase)/decrease in debtors	(94)	(49)	102
(Decrease) in creditors	(156)	(155)	(103)
(Decrease)/increase in operating provisions	(51)	3	3
Other and non-cash items	(4)	6	(1)
Net cash (outflow)/inflow from operating activities	(193)	(187)	490
Purchase of fixed assets and finance lease payments	(73)	(98)	(172)
Sale of operating tangible fixed assets	–	5	36
Dividends from joint ventures and associates	1	19	25
Other	4	13	(11)
Operating cash flow	(261)	(248)	368
Analysed between:			
Operating cash flow before other items	(229)	(220)	437
Integration costs:			
NCS/Simon & Schuster	(14)	(5)	(26)
Dorling Kindersley	(18)	(23)	(43)
Operating cash flow	(261)	(248)	368

PRINCIPAL ADDRESSES

PEARSON UK

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

PEARSON US

1330 Avenue of the Americas,
New York City, NY 10019, USA
Telephone +1 212 641 2400
Facsimile +1 212 641 2500
E-mail firstname.lastname@pearson-inc.com
www.pearson.com

PEARSON EDUCATION

One Lake Street, Upper Saddle River, NJ 07458, USA
Telephone +1 201 236 7000 ▸ **Facsimile** +1 515 284 6719
E-mail firstname.lastname@pearsoned.com
www.pearsoneducation.com

THE PENGUIN GROUP

375 Hudson Street, New York City, NY 10014, USA
Telephone +1 212 366 2000 ▸ **Facsimile** +1 212 366 2666
E-mail initiallastname@penguin.com
www.penguinputnam.com
www.penguin.co.uk

THE FINANCIAL TIMES GROUP

Number One Southwark Bridge, London, SE1 9HL, UK
Telephone +44 (0)20 7873 3000 ▸ **Facsimile** +44 (0)20 7873 3076
E-mail firstname.lastname@ft.com
www.ft.com

LES ECHOS

46 Rue la Boétie, Paris 75008, France
Telephone +33 149 53 6565 ▸ **Facsimile** +33 145 61 4892
E-mail initiallastname@lesechos.fr
www.lesechos.fr

RECOLETOS

Paseo de la Castellana 66, 28046 Madrid, Spain
Telephone +34 91 337 3220 ▸ **Facsimile** +34 91 337 3266
E-mail initiallastname@recoletos.es
www.recoletos.es

PEARSON

www.pearson.com