Notes to the accounts

1 Accounting policies
Accounting policies have been consistently applied and the amendment to FRS 5 – Application Note G 'Revenue recognition' has been applied in respect of multiple element arrangements as set out in note 1d below. The impact of this revision has not given rise to a material adjustment to these financial statements. The transitional arrangements of FRS 17 'Retirement benefits' which require additional disclosures in respect of retirement benefits have been adopted, 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.

Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an optional extra, such as the provision of supplementary materials with textbooks, revenue is recognised for each element as if it were an individual contractual arrangement.

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 foreseeable. 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.

On certain contracts, where the Group acts as agent, only commissions and fees receivable for services rendered are recognised as revenue. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in revenue.

e. Pension costs – The regular pension cost of the Group's defined benefit pension schemes is charged to the profit and loss account in accordance with SSAP 24 'Accounting for pension costs' 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 obligation 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.

Notes to the accounts continued

1 Accounting policies continued

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 – Interest and the premium or discount on the issue of financial instruments is taken to the profit and loss account so as to produce a constant rate of return over the period to the date of expected redemption.

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 $1.63 (2002: $ 1.51) and the year end rate was $1.79 (2002: $1.61).

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

	2003			2002		
All figures in £ millions	Total by source	Inter-regional	Total sales	Total by source	Inter-regional	Total sales
Geographical source of sales						
United Kingdom	720	(29)	691	644	(25)	619
Continental Europe	339	(4)	335	304	(4)	300
North America	2,758	(39)	2,719	3,144	(36)	3,108
Asia Pacific	230	(1)	229	226	(2)	224
Rest of world	77	(3)	74	69	–	69
Continuing operations	4,124	(76)	4,048	4,387	(67)	4,320

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.

Included within sales for 2003 is an amount of £127m attributable to acquisitions made during the year.

Notes to the accounts continued

2b Analysis of total operating profit

All figures in £ millions	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
					2003
Business sectors					
Pearson Education	313	–	(207)	–	106
FT Group	86	–	(36)	–	50
The Penguin Group	91	–	(21)	–	70
Continuing operations	490	–	(264)	–	226
Geographical markets supplied					
United Kingdom	(46)	–	(31)	–	(77)
Continental Europe	29	–	(10)	–	19
North America	466	–	(218)	–	248
Asia Pacific	33	–	(5)	–	28
Rest of world	8	–	–	–	8
Continuing operations	490	–	(264)	–	226

All figures in £ millions	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating profit
					2002
Business sectors					
Pearson Education	326	(7)	(244)	–	75
FT Group	80	–	(65)	(10)	5
The Penguin Group	87	(3)	(18)	–	66
Continuing operations	493	(10)	(327)	(10)	146
Discontinued operations	–	–	(3)	–	(3)
	493	(10)	(330)	(10)	143
Geographical markets supplied					
United Kingdom	(72)	(5)	(25)	–	(102)
Continental Europe	40	–	(8)	–	32
North America	495	(5)	(288)	–	202
Asia Pacific	31	–	(6)	–	25
Rest of world	(1)	–	–	(10)	(11)
Continuing operations	493	(10)	(327)	(10)	146
Discontinued operations	–	–	(3)	–	(3)
	493	(10)	(330)	(10)	143

Note Integration costs in 2002 include amounts in respect of the Dorling Kindersley and NCS acquisitions. Integration costs, goodwill amortisation and goodwill impairment are included as ‘other items’ in the profit and loss account. Discontinued operations related to the withdrawal of the Group from the television business.

Included within operating profit for 2003 is an amount of £12m attributable to acquisitions made during the year.

2c Share of operating loss of joint ventures

All figures in £ millions	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
					2003
Business sectors					
Pearson Education	–	–	–	–	–
FT Group	(11)	–	–	–	(11)
The Penguin Group	1	–	–	–	1
Continuing operations	(10)	–	–	–	(10)

All figures in £ millions	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
					2002
Business sectors					
Pearson Education	(1)	–	–	–	(1)
FT Group	(13)	–	–	–	(13)
The Penguin Group	1	–	–	–	1
Continuing operations	(13)	–	–	–	(13)

2d Share of operating profit/(loss) of associates

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

All figures in £ millions	Results from operations	Integration costs	Goodwill amortisation	Goodwill impairment	Operating loss
					2002
Business sectors					
Pearson Education	3	–	(1)	–	2
FT Group	7	–	(44)	–	(37)
The Penguin Group	–	–	–	–	–
Continuing operations	10	–	(45)	–	(35)
Discontinued operations	–	–	(3)	–	(3)
	10	–	(48)	–	(38)

Notes to the accounts continued

2e Analysis of capital employed

All figures in £ millions	Note	2003	2002
Business sectors			
Pearson Education		3,487	3,914
FT Group		432	410
The Penguin Group		596	605
Continuing operations		4,515	4,929
Geographical location			
United Kingdom		464	557
Continental Europe		219	258
North America		3,691	3,971
Asia Pacific		120	125
Rest of world		21	18
Continuing operations		4,515	4,929
Reconciliation of capital employed to net assets			
Capital employed		4,515	4,929
Add: deferred taxation	21	145	174
Less: provisions for liabilities and charges	22	(152)	(165)
Less: net debt excluding finance leases	27	(1,361)	(1,408)
Net assets		3,147	3,530

3 Analysis of consolidated profit and loss account

All figures in £ millions	2003	2002
Cost of sales	(1,910)	(2,064)
Gross profit	2,138	2,256
Distribution costs	(239)	(233)
Administration and other expenses	(1,724)	(1,888)
Other operating income (see below)	51	59
Net operating expenses	(1,912)	(2,062)
Analysed as		
Net operating expenses – before other items	(1,655)	(1,760)
Net operating expenses – other items		
– Integration costs	–	(10)
– Goodwill amortisation	(257)	(282)
– Goodwill impairment	–	(10)
Net operating expenses	(1,912)	(2,062)

Note Other items are all included in administration and other expenses.

All figures in £ millions	2003	2002
Other operating income		
Income from other investments		
Unlisted	4	2
Other operating income (mainly royalties, rights and commission income)	47	57
	51	59
Profit/(loss) before taxation is stated after charging		
Amortisation of pre-publication costs	158	170
Depreciation	111	122
Operating lease rentals		
– Plant and machinery	14	11
– Properties	113	101
– Other	9	13
Auditors' remuneration		
Statutory audit and audit-related regulatory reporting services	3	3
Non-audit services	2	3
Non-audit services were as follows		
Tax compliance services	1	2
Tax advisory services	1	1

Note Included in statutory audit fees are amounts relating to the parent company of £20,000 (2002: £20,000). Audit-related regulatory reporting fees are £200,000 (2002: £200,000). Non-audit fees in the UK in 2003 are £341,000 (2002: £231,000) and are in respect of tax advisory and tax compliance services. The remainder of the non-audit fees relate to overseas subsidiaries.

4a Loss on sale of fixed assets and investments

All figures in £ millions	2003	2002
Net loss on sale of property	(1)	(3)
Net loss on sale of investments	(1)	(10)
Continuing operations	(2)	(13)
Taxation	–	6

4b Profit/(loss) on sale of subsidiaries and associates

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

4c Profit on sale of a subsidiary by an associate

All figures in £ millions	2003	2002
Profit on sale of Journal of Commerce by the Economist – continuing operations	–	3

5 Net finance costs

		2003			2002		
All figures in £ millions	Note	Results from operations	Other items	Total	Results from operations	Other items	Total
Net interest payable							
– Group	6	(81)	–	(81)	(94)	–	(94)
– Associates		1	–	1	–	–	–
Early repayment of debt and termination of swap contracts		–	–	–	–	(37)	(37)
Total net finance costs		(80)	–	(80)	(94)	(37)	(131)

6 Net interest payable – Group

All figures in £ millions	2003	2002
Interest payable and similar charges		
Bank loans, overdrafts and commercial paper		
On borrowing repayable wholly within five years not by instalments	(60)	(54)
On borrowing repayable wholly or partly after five years	(31)	(51)
Other borrowings		
On borrowing repayable wholly within five years not by instalments	(2)	–
	(93)	(105)
Interest receivable and similar income		
On deposits and liquid funds	12	11
Net interest payable	(81)	(94)

7 Taxation

All figures in £ millions	2003	2002
Analysis of (charge)/benefit in the year		
Current taxation		
UK corporation tax for the year	(9)	11
Adjustments in respect of prior years	10	58
	1	69
Overseas tax for the year	(59)	(63)
Adjustments in respect of prior years	3	–
Associates	(5)	(4)
	(60)	2
Deferred taxation		
Origination and reversal of timing differences		
UK	(4)	(11)
Overseas	(54)	(56)
Adjustments in respect of prior years	43	1
	(15)	(66)
Taxation	(75)	(64)

Note Included in the adjustment in respect of prior years in 2003 is a tax benefit of £44m (2002: £45m) relating to a prior year acquisition of a subsidiary and the disposal of a subsidiary and a fixed asset investment.

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

All figures in £ millions	2003	2002
Profit/(loss) before tax	152	(25)
Expected (charge)/benefit at UK corporation tax rate of 30% (2002: 30%)	(46)	8
Effect of overseas tax rates	8	11
Effect of tax losses	(5)	(7)
Timing differences	64	55
Non-deductible goodwill amortisation	(90)	(111)
US state taxes	(4)	(10)
Adjustments in respect of prior years and other items	13	56
Current tax (charge)/benefit for the year	(60)	2

Notes to the accounts continued

7 Taxation continued

All figures in percentages	2003	2002
Tax rate reconciliation		
UK tax rate	30.0	30.0
Effect of overseas tax rates	1.3	2.8
Other items	(0.1)	–
Tax rate reflected in adjusted earnings	31.2	32.8

Note 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 £145m at 31 December 2003 (2002: £174m).

In both 2003 and 2002 the tax charge was materially affected by adjustments in respect to prior years; 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 years 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 and by the mix of profits between the different jurisdictions.

8 Dividends on equity shares

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

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 operations 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.

		2003		2002	
	Note	£m	Earnings/(loss) per share (p)	£m	Earnings/(loss) per share (p)
Profit/(loss) for the financial year		55	6.9	(111)	(13.9)
Adjustments					
– Non operating items		(6)	(0.8)	37	4.6
– Integration costs	2b	–	–	10	1.3
– Goodwill amortisation	2b	264	33.3	330	41.4
– Goodwill impairment	2b	–	–	10	1.3
– Other net finance costs	5	–	–	37	4.6
Taxation on above items		(53)	(6.6)	(67)	(8.4)
Minority interest share of above items		(6)	(0.8)	(5)	(0.6)
Adjusted earnings		254	32.0	241	30.3
Weighted average number of shares (millions) – for basic earnings and adjusted earnings Effect of dilutive share options		794.4 0.9		796.3 –	
Weighted average number of shares (millions) – for diluted earnings		795.3		796.3	

Note In 2002 the Group made a loss for the financial year (after taking into account goodwill amortisation). Consequently, the effect of share options was anti-dilutive and there was no difference between the loss per share and the diluted loss per share.

There is no difference between the profit for the financial year and the diluted profit for the financial year. Therefore the diluted earnings per share is 6.9p (2002: a loss of 13.9p). The weighted average number of shares in 2003 is lower than in 2002 as a result of own shares purchased to hedge share schemes.

10a Employee information

The details of the emoluments of the directors of Pearson plc are shown on pages 55 to 69.

All figures in £ millions	2003	2002
Staff costs		
Wages and salaries	1,027	1,106
Social security costs	99	106
Post-retirement costs	62	59
	1,188	1,271

	UK	US	Other	Total
Average number employed 2003				
Pearson Education	1,443	14,438	4,097	19,978
FT Group	1,885	1,397	2,362	5,644
The Penguin Group	1,223	2,115	980	4,318
Other	414	513	1	928
	4,965	18,463	7,440	30,868
Average number employed 2002				
Pearson Education	1,326	14,459	4,250	20,035
FT Group	1,914	1,140	2,169	5,223
The Penguin Group	1,305	2,167	890	4,362
Other	204	534	1	739
	4,749	18,300	7,310	30,359

10b Pensions

SSAP 24 accounting 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 scheme 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:

All figures in £ millions	2003	2002
UK Group scheme		
Regular pension cost		
– Defined benefit sections	10	11
– Defined contribution sections	7	7
Variation cost	6	–
	23	18
Other schemes		
Defined benefit schemes	7	6
Defined contribution schemes	27	30
	34	36
	57	54

Note From 1 January 2003 the UK Group scheme only offers defined contribution benefits to new joiners. The main US defined benefit scheme was closed to the majority of active members in 2001. The changes to these schemes will give rise to a reduction in defined benefit and an increase in defined contribution costs.

10b Pensions continued
Included in note 22, there is a pension provision of £29m (2002: £36m) as measured in accordance with SSAP 24.

A full actuarial valuation of the UK Group scheme was performed as at 1 January 2001 using the projected unit method of valuation. This valuation has been updated to 1 January 2003 for the purposes of determining the 2003 SSAP 24 cost for the UK Group scheme. The market value of the assets of the scheme at 1 January 2003 was £976m. The major assumptions used to determine the SSAP 24 charge are as follows:

All figures in percentages	UK Group scheme
Inflation	2.5
Rate of increase in salaries	4.5
Rate of inflation-linked increase for pensions in payment and deferred pensions	2.5
Return on investments	7.0
Level of funding	96.0

The funding policy differs from the accounting policy to the extent that more conservative assumptions are used for funding purposes. Furthermore, in 2003 the Group paid an additional one-off contribution of £5m into the scheme which was designed to ensure that the scheme was fully funded. The next full triennial valuation is due to be carried out as at 1 January 2004.

The date of the most recent valuation of the US plan was 31 December 2002.

FRS 17 disclosures 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 latest full actuarial valuations of the UK Group scheme and other schemes have been updated by independent actuaries to 31 December 2003. The assumptions used are shown below. Weighted average assumptions have been shown for the other schemes.

	2003		2002		2001	
All figures in percentages	UK Group scheme	Other schemes	UK Group scheme	Other schemes	UK Group scheme	Other schemes
Inflation	2.75	3.00	2.25	3.00	2.50	3.00
Rate of increase in salaries	4.75	4.50	4.25	4.50	4.50	4.50
Rate of inflation-linked increase for pensions in payment and deferred pensions	2.75	–	2.25	–	2.50	–
Rate used to discount scheme liabilities	5.50	6.10	5.70	6.75	6.00	7.20

10b Pensions continued

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:

	Long-term rate of return expected at 31 Dec 2003 %	Value at 31 Dec 2003 £m	Long-term rate of return expected at 31 Dec 2002 %	Value at 31 Dec 2002 £m	Long-term rate of return expected at 31 Dec 2001 %	Value at 31 Dec 2001 £m
UK Group scheme						
Equities	7.75	589	8.00	472	7.50	657
Bonds	5.00	262	4.75	284	5.30	293
Properties	6.50	107	6.50	112	6.30	102
Other	6.50	133	6.50	108	6.30	42
Total market value of assets		1,091		976		1,094
Present value of scheme liabilities		(1,316)		(1,189)		(1,167)
Deficit in the scheme		(225)		(213)		(73)
Related deferred tax asset		68		64		22
Net pension liability		(157)		(149)		(51)
Other schemes						
Equities	9.00	41	9.75	33	9.50	37
Bonds	6.00	25	6.00	23	6.50	24
Other	2.80	1	2.75	1	–	–
Total market value of assets		67		57		61
Present value of scheme liabilities		(104)		(96)		(95)
Deficit in the schemes		(37)		(39)		(34)
Related deferred tax asset		13		14		12
Net pension liability		(24)		(25)		(22)

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 2003. Although the rise in stock markets in 2003 increased the market value of the UK Group scheme assets, this is more than offset by the increase in the present value of the UK Group scheme liabilities, which is largely caused by the fall in bond yields and increase in the inflation assumption in 2003. This has resulted in an increased deficit in the UK Group scheme under FRS 17.

10b Pensions continued

All figures in £ millions	UK Group scheme	Defined benefit other	Total	Defined contribution	2003 Total
Operating charge					
Current service cost	(20)	(1)	(21)	(27)	(48)
Past service cost	–	(1)	(1)	–	(1)
Total operating charge	(20)	(2)	(22)	(27)	(49)
Other finance income/(charge)					
Expected return on pension scheme assets	65	5	70	–	70
Interest on pension scheme liabilities	(66)	(7)	(73)	–	(73)
Net charge	(1)	(2)	(3)	–	(3)
Net profit and loss impact	(21)	(4)	(25)	(27)	(52)
Statement of total recognised gains and losses					
Actual return less expected return on pension scheme assets	80	8	88		
Experience losses arising on the scheme liabilities	(1)	(8)	(9)		
Changes in assumptions underlying the present value of the scheme liabilities	(95)	(6)	(101)		
Exchange differences	–	3	3		
Actuarial loss	(16)	(3)	(19)		
Movement in deficit during the year					
Deficit in scheme at beginning of the year	(213)	(39)	(252)		
Current service cost	(20)	(1)	(21)		
Past service cost	–	(1)	(1)		
Contributions	25	9	34		
Other finance charge	(1)	(2)	(3)		
Actuarial loss	(16)	(3)	(19)		
Deficit in scheme at end of the year	(225)	(37)	(262)		
Related deferred tax asset	68	13	81		
Net pension deficit	(157)	(24)	(181)		

In 2003, the company contributions to the UK Group scheme were 17.1% of pensionable salaries, plus £1m in respect of the new Money Purchase section introduced with effect from 1 January 2003. In addition, a one-off contribution of £5m was paid into this scheme to improve the funding position. The 17.1% contribution rate will be reviewed following completion of the 1 January 2004 funding actuarial valuation.

10b Pensions continued

All figures in £ millions	UK Group scheme	Defined benefit other	Total	Defined contribution	2002 Total
Operating charge					
Current service cost	(19)	(3)	(22)	(30)	(52)
Past service cost	–	(1)	(1)	–	(1)
Total operating charge	(19)	(4)	(23)	(30)	(53)
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)	4	–	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.

10b Pensions continued

The experience gains and losses of both the UK Group scheme and other schemes are shown below:

All figures in £ millions	2003	2002
History of experience gains and losses		
Difference between the actual and expected return on scheme assets	£88m	£(176)m
As a percentage of year end assets	8%	17%
Experience gains and (losses) on scheme liabilities	£(9)m	£16m
As a percentage of year end liabilities	1%	1%
Total amount recognised in statement of total recognised gains and losses	£(19)m	£(159)m
As a percentage of year end liabilities	1%	12%

If the above amounts had been recognised in the financial statements, the Group's net assets and profit and loss reserve at 31 December 2003 would be as follows:

All figures in £ millions	2003	2002
Net assets excluding pension liability (see note below)	3,176	3,566
FRS 17 pension liability	(181)	(174)
Net assets including FRS 17 pension liability	2,995	3,392
Profit and loss reserve excluding pension reserve (see note below)	311	709
FRS 17 pension reserve	(181)	(174)
Profit and loss reserve including FRS 17 pension reserves	130	535

Note The net assets and profit and loss reserve exclude the pension liability of £29m (2002: £36m) included within provisions (see note 22).

10c Other post-retirement benefits

UITF 6 accounting 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 2002, are as follows:

All figures in £ millions	2003	2002
Other post-retirement benefits	5	5

All figures in percentages	
Inflation	3.0
Initial rate of increase in healthcare rates	12.0
Ultimate rate of increase in healthcare rates (2007)	5.0
Rate used to discount scheme liabilities	6.8

Included in note 22, there is a post-retirement medical benefits provision of £51m (2002: £56m). In accordance with UITF 6, the cost of post-retirement benefits, and related provisions, are based on the equivalent US GAAP standard, FAS 106.

FRS 17 disclosures 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 2003 using the assumptions listed below.

All figures in percentages	2003	2002	2001
Inflation	3.00	3.00	3.00
Initial rate of increase in healthcare rates	12.00	12.00	10.00
Ultimate rate of increase in healthcare rates (2008; 2007; 2007)	5.00	5.00	5.00
Rate used to discount scheme liabilities	6.10	6.75	7.20

10c Other post-retirement benefits continued

The value of the unfunded liability is as follows:

All figures in £ millions	2003	2002	2001
Present value of unfunded liabilities	(61)	(63)	(63)
Related deferred tax asset	21	22	22
Net post-retirement healthcare liability	(40)	(41)	(41)
Operating charge			
Current service cost	(1)	(1)	
Past service cost	–	–	
Total operating charge	(1)	(1)	
Other finance charge			
Interest on pension scheme liabilities	(4)	(4)	
Net charge	(4)	(4)	
Net profit and loss impact	(5)	(5)	
Statement of total recognised gains and losses			
Experience gains arising on the scheme liabilities	3	3	
Changes in assumptions underlying the present value of the scheme liabilities	(6)	(7)	
Exchange differences	6	5	
Actuarial gain	3	1	
Movement in deficit during the year			
Deficit in scheme at beginning of the year	(63)	(63)	
Current service cost	(1)	(1)	
Contributions	4	4	
Other finance charge	(4)	(4)	
Actuarial gain	3	1	
Deficit in scheme at end of the year	(61)	(63)	
Related deferred tax asset	21	22	
Net post-retirement deficit	(40)	(41)	
The experience gains and losses for the schemes are shown below:			
History of experience gains and losses			
Experience gains on scheme liabilities	£3m	£3m	
As a percentage of year end liabilities	5%	4%	
Total amount recognised in statement of total recognised gains and losses	£3m	£1m	
As a percentage of year end liabilities	5%	2%	

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 2003 would be as follows:

All figures in £ millions	2003	2002
Net assets excluding post-retirement healthcare liability (see note below)	3,198	3,586
FRS 17 post-retirement healthcare liability	(40)	(41)
Net assets including FRS 17 post-retirement healthcare liability	3,158	3,545
Profit and loss reserve excluding post-retirement healthcare reserve (see note below)	333	729
FRS 17 post-retirement healthcare reserve	(40)	(41)
Profit and loss reserve including FRS 17 post-retirement healthcare reserve	293	688

Note The net assets and profit and loss reserve exclude the post-retirement healthcare liability of £51m (2002: £56m) included within provisions (see note 22).

11 Intangible fixed assets

All figures in £ millions	Goodwill
Cost	
At 31 December 2002	4,487
Exchange differences	(321)
Additions	157
Disposals	(99)
At 31 December 2003	4,224
Amortisation	
At 31 December 2002	(877)
Exchange differences	75
Provided in the year	(257)
Disposals	95
At 31 December 2003	(964)
Net carrying amount	
At 31 December 2002	3,610
At 31 December 2003	3,260

12 Tangible fixed assets

All figures in £ millions	Freehold and leasehold property	Plant and equipment	Assets in course of construction	Total
Cost				
At 31 December 2002	311	714	20	1,045
Exchange differences	(19)	(33)	(3)	(55)
Reclassifications	1	9	(10)	–
Owned by subsidiaries acquired	5	19	–	24
Owned by subsidiaries disposed	(2)	(6)	–	(8)
Capital expenditure	12	77	15	104
Disposals	(15)	(63)	–	(78)
At 31 December 2003	293	717	22	1,032
Depreciation				
At 31 December 2002	(96)	(446)	–	(542)
Exchange differences	10	27	–	37
Provided in the year	(16)	(95)	–	(111)
Owned by subsidiaries acquired	–	(14)	–	(14)
Owned by subsidiaries disposed	1	4	–	5
Disposals	7	54	–	61
At 31 December 2003	(94)	(470)	–	(564)
Net book value				
At 31 December 2002	215	268	20	503
At 31 December 2003	199	247	22	468

Freehold and leasehold property – Net book value includes freehold of £120m (2002: £130m) and short leases of £79m (2002: £85m).

Capital commitments – The Group had capital commitments for fixed assets, including finance leases, already under contract amounting to £1m at 31 December 2003 (2002: £12m).

Other notes – The net book value of Group tangible fixed assets includes £5m (2002: £7m) in respect of assets held under finance leases. Depreciation on these assets charged in 2003 was £2m (2002: £2m).

13 Joint ventures

	2003		2002	
All figures in £ millions	Valuation	Book value	Valuation	Book value
Unlisted joint ventures	6	6	7	7

Note The valuations of unlisted joint ventures are directors' valuations as at 31 December 2003. If realised at these values there would be an estimated liability for taxation of £nil (2002: £nil). The Group had no capital commitments to subscribe for further capital and loan stock.

All figures in £ millions	Share of equity	Reserves	Total net assets
Summary of movements			
At 31 December 2002	61	(54)	7
Exchange differences	7	(5)	2
Additions	7	–	7
Retained loss for the year	–	(10)	(10)
At 31 December 2003	75	(69)	6

13 Joint ventures continued

All figures in £ millions	2003 Operating loss	2003 Total net assets	2002 Operating loss	2002 Total net assets
Business sectors				
Pearson Education	–	–	(1)	–
FT Group	(11)	2	(13)	3
The Penguin Group	1	4	1	4
	(10)	6	(13)	7
Geographical markets supplied and location of net assets				
United Kingdom	1	4	1	4
Continental Europe	(11)	2	(13)	3
North America	–	–	(1)	–
	(10)	6	(13)	7

All figures in £ millions	2003	2002
Reconciliation to retained loss		
Operating loss of joint ventures	(10)	(13)
Taxation	–	–
Retained loss for the year	(10)	(13)

14 Associates

	2003 Valuation	2003 Book value	2002 Valuation	2002 Book value
Listed associates	27	9	17	17
Unlisted associates	192	49	214	88
Loans	–	–	1	1
	219	58	232	106

Note Principal associates are listed in note 34. The valuations of unlisted associates are directors' valuations as at 31 December 2003. If realised at these values there would be an estimated liability for taxation of £nil (2002: £nil). The Group had no capital commitments to subscribe for further capital and loan stock.

All figures in £ millions	Share of equity	Loans	Reserves	Total	Goodwill	Total net assets
Summary of movements						
At 31 December 2002	64	1	9	74	32	106
Exchange differences	1	1	–	2	(1)	1
Disposals	(16)	–	(5)	(21)	(24)	(45)
Loan repayment	–	(2)	–	(2)	–	(2)
Retained profit for the year	–	–	5	5	–	5
Goodwill amortisation	–	–	–	–	(7)	(7)
At 31 December 2003	49	–	9	58	–	58

14 Associates continued

All figures in £ millions	2003 Operating profit	2003 Total net assets	2002 Operating loss	2002 Total net assets
Business sectors				
Pearson Education	1	4	2	8
FT Group	9	54	(37)	98
Continuing operations	10	58	(35)	106
Discontinued operations	–	–	(3)	–
	10	58	(38)	106
Geographical markets supplied and location of net assets/(liabilities)				
United Kingdom	10	20	11	9
Continental Europe	2	39	(1)	92
North America	(3)	(7)	(45)	(5)
Rest of world	1	6	–	10
Continuing operations	10	58	(35)	106
Discontinued operations	–	–	(3)	–
	10	58	(38)	106

All figures in £ millions	2003	2002
Reconciliation to retained profit		
Operating profit of associates (before goodwill amortisation)	17	10
Interest	1	–
Profit on sale of subsidiaries	–	3
Taxation	(5)	(4)
Dividends (including tax credits) from unlisted associates	(8)	(7)
Retained profit for the year	5	2

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

All figures in £ millions	2003	2002
Sales	234	141
Fixed assets	24	28
Current assets	116	130
Liabilities due within one year	(70)	(76)
Liabilities due after one year or more	(12)	(8)
Net assets	58	74

Notes to the accounts continued

15 Other fixed asset investments

All figures in £ millions	2003 Valuation	2003 Book value	2002 Valuation	2002 Book value
Listed	73	59	67	64
Unlisted	21	21	20	20
	94	80	87	84

Note The valuations of unlisted investments are directors' valuations as at 31 December 2003. If realised at valuation there would be an estimated liability for taxation of £nil (2002: £nil).

All figures in £ millions	Own shares held	Other	Total
Cost			
At 31 December 2002	108	97	205
Exchange differences	–	(5)	(5)
Additions	–	4	4
Disposals	(2)	–	(2)
At 31 December 2003	106	96	202
Provision			
At 31 December 2002	(66)	(55)	(121)
Provided during the year	(3)	–	(3)
Disposals	2	–	2
At 31 December 2003	(67)	(55)	(122)
Net book value			
At 31 December 2002	42	42	84
At 31 December 2003	39	41	80

Note The Pearson Employee Share Trust and Pearson plc Employee Share Ownership Trusts hold 7.5m (2002: 7.9m) Pearson plc ordinary shares which had a market value of £46m at 31 December 2003 (2002: £45m) and a nominal value of £2m at 31 December 2003 (2002: £2m). 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 amount of dividend waived on the ESOP shares was £2m (2002: £1m)

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

All figures in £ millions	2003	2002
Raw materials	24	22
Work in progress	30	36
Finished goods	270	297
Pre-publication costs	359	379
	683	734

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

17 Debtors

All figures in £ millions	2003	2002
Amounts falling due within one year		
Trade debtors	822	778
Associates	1	1
Royalty advances	110	109
Other debtors	61	51
Prepayments and accrued income	38	44
	1,032	983
Amounts falling due after more than one year		
Royalty advances	83	63
Other debtors	16	10
Prepayments and accrued income	1	1
	100	74
	1,132	1,057

18 Cash at bank and in hand

	2003		2002	
All figures in £ millions	Group	Company	Group	Company
Cash, bank current accounts and overnight deposits	309	–	417	–
Certificates of deposit and commercial paper	8	–	15	–
Term bank deposits	244	75	143	8
	561	75	575	8

Notes to the accounts continued

19 Financial instruments

A full discussion on treasury policy is given in the Financial Review on pages 43 to 45. Short-term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures as set out in table e.

a. Maturity of borrowings and other financial liabilities

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

	2003		2002	
All figures in £ millions	Group	Company	Group	Company
Maturity of borrowings				
Short-term				
Bank loans and overdrafts	119	262	101	175
5% Euro Bonds 2003	–	–	148	148
9.5% Sterling Bonds 2004	108	–	–	–
4.625% Euro Bonds 2004	348	348	–	–
Total due within one year, or on demand	575	610	249	323
Medium and long-term				
Loans or instalments thereof repayable:				
From one to two years	85	–	458	338
From two to five years	582	443	616	371
After five years not by instalments	680	680	660	660
Total due after more than one year	1,347	1,123	1,734	1,369
Total borrowings	1,922	1,733	1,983	1,692

Note At 31 December 2003 £85m (2002: £91m) of debt, including commercial paper, currently classified from one to two 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.

	2003			2002		
All figures in £ millions	Group finance leases	Group other financial liabilities	Group total	Group finance leases	Group other financial liabilities	Group total
Maturity of other financial liabilities						
Amounts falling due:						
In one year or less or on demand	3	5	8	4	11	15
In more than one year but not more than two years	1	14	15	2	8	10
In more than two years but not more than five years	1	7	8	1	16	17
In more than five years	–	21	21	–	22	22
	5	47	52	7	57	64

19 Financial instruments continued

b. Borrowings by instrument

All figures in £ millions	2003 Group	2003 Company	2002 Group	2002 Company
Unsecured				
5% Euro Bonds 2003	–	–	148	148
9.5% Sterling Bonds 2004	108	–	120	–
4.625% Euro Bonds 2004	348	348	338	338
7.375% US Dollar notes 2006	139	–	154	–
6.125% Euro Bonds 2007	343	343	370	370
10.5% Sterling Bonds 2008	100	100	100	100
7% Global Dollar Bonds 2011	278	278	310	310
7% Sterling Bonds 2014	235	235	250	250
4.625% US Dollar notes 2018	167	167	–	–
Variable rate loan notes	–	–	1	1
Bank loans and overdrafts and commercial paper	204	262	192	175
Total borrowings	1,922	1,733	1,983	1,692

c. Undrawn committed borrowing facilities

All figures in £ millions	2003	2002
Expiring within one year	–	–
Expiring between one and two years	950	–
Expiring in more than two years	–	1,059
	950	1,059

Note All of the above committed borrowing facilities incur commitment fees at market rates. In addition to the above facilities, there are a number of short-term overdrafts that are utilised in the normal course of the business.

d. Currency and interest rate risk profile

	2003				
				Fixed rate borrowings	
	Borrowings £m	Total variable rate £m	Total fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed – years
Currency and interest rate risk profile of borrowings					
US dollar	1,427	864	563	5.9	3.2
Sterling	201	61	140	8.0	9.0
Euro	292	166	126	5.3	1.7
Other currencies	2	2	–	–	–
	1,922	1,093	829		

19 Financial instruments continued
d. Currency and interest rate risk profile continued

	2002				
				Fixed rate borrowings	
	Borrowings £m	Total variable rate £m	Total fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed – years
Currency and interest rate risk profile of borrowings					
US dollar	1,350	752	598	5.9	4.0
Sterling	241	161	80	10.5	5.5
Euro	380	305	75	5.2	1.5
Other currencies	12	12	–	–	–
	1,983	1,230	753		

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.

	2003		
All figures in £ millions	Other financial liabilities	Total fixed rate	Total no interest paid
Currency and interest rate risk profile of other financial liabilities			
US dollar	35	4	31
Sterling	5	1	4
Euro	12	–	12
	52	5	47

	2002		
All figures in £ millions	Other financial liabilities	Total fixed rate	Total no interest paid
Currency and interest rate risk profile of other financial liabilities			
US dollar	45	5	40
Sterling	8	2	6
Euro	11	–	11
	64	7	57

	2003				
All figures in £ millions	US dollar	Sterling	Euro	Other currencies	Total
Currency and interest rate risk profile of financial assets					
Cash at bank and in hand	150	54	40	65	309
Short-term deposits	112	20	104	16	252
Other financial assets	44	7	7	1	59
	306	81	151	82	620
Fixed rate	6	2	–	–	8
Floating rate	259	72	144	78	553
No interest received	41	7	7	4	59
	306	81	151	82	620

Note The US dollar fixed rate asset is fixed for 12 years at a rate of 8.2%. The Sterling fixed rate asset is fixed for 6 years at a rate of 7.0%.

19 Financial instruments continued
d. Currency and interest rate risk profile continued

All figures in £ millions	2002 US dollar	Sterling	Euro	Other currencies	Total
Currency and interest rate risk profile of financial assets					
Cash at bank and in hand	279	9	67	62	417
Short-term deposits	2	18	127	11	158
Other financial assets	28	6	–	–	34
	309	33	194	73	609
Floating rate	281	27	193	73	574
No interest received	28	6	1	–	35
	309	33	194	73	609

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.

	2003 Net foreign monetary assets/(liabilities)				
All figures in £ millions	US dollar	Sterling	Euro	Other currencies	Total
Functional currency of entity					
US dollar	–	3	–	6	9
Sterling	20	–	7	6	33
Euro	–	–	–	5	5
Other currencies	5	(8)	5	–	2
	25	(5)	12	17	49

	2002 Net foreign monetary assets/(liabilities)				
All figures in £ millions	US dollar	Sterling	Euro	Other currencies	Total
Functional currency of entity					
US dollar	–	2	–	2	4
Sterling	48	–	41	8	97
Euro	–	1	–	6	7
Other currencies	4	4	5	–	13
	52	7	46	16	121

19 Financial instruments continued

f. Fair values of financial assets and financial liabilities
The table below shows the book value and the fair value of the Group's financial assets and financial liabilities.

All figures in £ millions	2003 Book value	2003 Fair value	2002 Book value	2002 Fair value
Primary financial instruments held or issued to finance the Group's operations				
Other financial assets	59	59	34	34
Other financial liabilities	(52)	(52)	(64)	(64)
Cash at bank and in hand	309	309	417	417
Short-term deposits	252	252	158	158
Short-term borrowings	(575)	(619)	(249)	(253)
Medium and long-term borrowings	(1,347)	(1,553)	(1,734)	(1,877)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	–	(4)	–	26
Currency swaps	–	26	–	32
Foreign exchange contracts	–	–	–	4

Note Other financial assets, other financial liabilities, cash at bank and in hand and short-term deposits: 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 2003 the notional principal value of these swaps was £2,394m (2002: £1,605m). Currency swaps: the fair value of these contracts is based on market values. At 31 December 2003 the Group had £1,096m (2002: £758m) of such contracts outstanding.

g. Hedges The Group's policy on hedges is explained on page 43. 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.

All figures in £ millions	Unrecognised gains	Unrecognised losses	Unrecognised total net gains/(losses)
Gains and losses on hedges at 31 December 2002	113	(51)	62
Gains and losses arising in previous years that were recognised in 2003	(9)	–	(9)
Gains and losses arising before 31 December 2002 that were not recognised in 2003	104	(51)	53
Gains and losses arising in 2003 that were not recognised in 2003	(22)	(9)	(31)
Unrecognised gains and losses on hedges at 31 December 2003	82	(60)	22
Of which:			
Gains and losses expected to be recognised in 2004	4	–	4
Gains and losses expected to be recognised in 2005 or later	78	(60)	18

20 Other creditors

All figures in £ millions	2003	2002
Amounts falling due within one year		
Trade creditors	407	376
Taxation	55	24
Social security and other taxes	4	13
Other creditors	85	83
Accruals and deferred income	456	499
Obligations under finance leases	3	4
Dividends	119	115
	1,129	1,114
Amounts falling due after more than one year		
Other creditors	34	31
Accruals and deferred income	9	26
Obligations under finance leases	2	3
	45	60

21 Deferred taxation

All figures in £ millions	
Summary of movements	
At 31 December 2002	174
Exchange differences	(39)
Held by subsidiary acquired	(15)
Transfers	40
Net release in the year	(15)
At 31 December 2003	145

All figures in £ millions	2003	2002
Deferred taxation derives from		
Capital allowances	(21)	(47)
Tax losses carried forward	168	170
Taxation on unremitted overseas earnings	(4)	(16)
Other timing differences	2	67
	145	174
Deferred taxation not provided		
Relating to gains subject to roll-over relief	1	1

Note The Group has calculated deferred tax not provided on rolled over gains in 2003, taking into account the indexation allowance which would be deductible on a disposal of the asset into which the gain was rolled. The recovery of the deferred tax asset relating to tax losses carried forward is dependent on future taxable profits arising mainly in the US. The Group regularly reviews its projections of these future taxable profits to ensure that recoverability of the asset is still foreseeable.

Notes to the accounts continued

22 Provisions for liabilities and charges

All figures in £ millions	Post-retirement	Deferred consideration	Integration	Reorganisations	Leases	Other	Total
At 31 December 2002	92	11	17	19	18	8	165
Exchange differences	(13)	–	–	(1)	(1)	1	(14)
Subsidiaries acquired	4	–	–	–	–	–	4
Transfers	–	1	3	(4)	–	–	–
Deferred consideration arising on acquisitions	–	24	–	–	–	–	24
Released	–	–	–	–	(1)	(1)	(2)
Provided	62	–	–	8	3	1	74
Utilised	(65)	(7)	(11)	(10)	(5)	(1)	(99)
At 31 December 2003	80	29	9	12	14	8	152

Note

a Post-retirement provisions are in respect of pensions, £29m (2002: £36m) and post-retirement medical benefits, £51m (2002: £56m).

b Deferred consideration. During the year, additional deferred consideration of £24m was incurred mainly relating to the acquisition of Lesson Lab.

c Integration. During the year, £11m of this balance has been utilised, primarily in relation to properties, severance and IT systems. The remaining provision should be utilised in the next two years.

d Reorganisations. £8m has been provided during the year mostly relating to redundancies at the Financial Times and the relaunch of Les Echos in Berlinois format. £10m has been utilised, mainly in respect of redundancies.

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.

23 Share capital

	Number of shares (000's)	£m
Authorised		
Ordinary shares of 25p each		
At 31 December 2003	1,178,000	295
Called up, allotted and fully paid		
At 31 December 2002	801,662	200
Issued under share option and employee share schemes	726	1
At 31 December 2003	802,388	201

Note The consideration received in respect of shares issued during the year was £5m (2002: £6m).

23 Share capital continued

	When granted	Number of shares (000's)	Price (p)	Original subscription exercise period
Options outstanding at 31 December 2003				
Worldwide Save for Shares plans	1996	9	517	2003 – 04
	1997	39	530	2004 – 05
	1998	319	687	2003 – 06
	1999	137	913 – 926	2004 – 07
	2000	169	688 – 1,644	2003 – 08
	2001	350	957 – 1,096	2004 – 09
	2002	573	696	2005 – 10
	2003	2,273	425 – 426	2006 – 11
		3,869		
Discretionary share option plans	1994	148	567 – 635	1997 – 04
	1995	154	487 – 606	1998 – 05
	1996	248	584 – 654	1999 – 06
	1997	1,023	677 – 758	2000 – 07
	1998	1,637	847 – 1,090	2001 – 08
	1999	3,260	1,081 – 1,922	2002 – 09
	2000	8,510	64 – 3,224	2000 – 10
	2001	13,437	822 – 1,421	2002 – 11
		28,417		

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	Share premium account	Profit and loss account
Summary of movements		
At 31 December 2002	2,465	673
Exchange differences net of taxation	–	(254)
Premium on issue of equity shares	4	–
Loss retained for the year	–	(137)
At 31 December 2003	2,469	282
Analysed as		
Joint ventures and associates		(60)
Group excluding joint ventures and associates		342

Note Cumulative goodwill relating to acquisitions made prior to 1998, which was deducted from reserves, amounts to £961m (2002: £1,031m). During 2003 Pearson plc received £5m on the issue of shares in respect of the exercise of options awarded under various share option plans. Employees paid £5m 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 £74m (2002: £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

All figures in £ millions	2003	2002
Tangible fixed assets	10	–
Associates	–	(3)
Stocks	–	(2)
Debtors	32	2
Creditors	(95)	(4)
Provisions	(4)	(3)
Deferred taxation	(15)	–
Net cash and short-term deposits acquired	34	25
	(38)	15
Equity minority interests	(8)	(4)
Net (liabilities)/assets acquired at fair value	(46)	11
Fair value of consideration		
Cash	(87)	(74)
Deferred cash consideration	(24)	(3)
Net prior year adjustments	–	3
Total consideration	(111)	(74)
Goodwill arising	157	63

All figures in £ millions	2003	2002
Acquisition fair values		
Book value of net (liabilities)/assets acquired	(32)	25
Fair value adjustments	(14)	(14)
Fair value to the Group	(46)	11

Note All the fair value adjustments above relate to acquisitions made in 2003. They include a write-off of certain fixed assets and recognition of a pension scheme liability. These fair value adjustments are provisional and will be finalised in the 2004 financial statements.

b. Cash flow from acquisitions

All figures in £ millions	2003	2002
Cash – current year acquisitions	87	74
Deferred payments for prior year acquisitions and other items	7	13
Net cash outflow	94	87

26 Disposals

a. Disposal of subsidiaries

All figures in £ millions	2003	2002
Intangible fixed assets	(4)	(41)
Tangible fixed assets	(3)	–
Stocks	(2)	(3)
Debtors	(9)	(2)
Creditors	10	(3)
Provisions	–	1
Net overdraft/(cash)	1	(1)
Equity minority interest	–	3
Net assets disposed of	(7)	(46)
Proceeds received	1	11
Deferred consideration	2	–
Costs	(1)	(7)
Net prior year adjustments	1	(3)
Loss on sale	(4)	(45)

b. Cash flow from disposals

All figures in £ millions	2003	2002
Cash – current year disposals	1	11
Costs paid	(2)	(3)
Deferred receipts and payments from prior year disposals and other amounts	(3)	(5)
Net cash (outflow)/inflow	(4)	3

Notes to the accounts continued

27 Notes to consolidated cash flow statement

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

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. Cash received relating to acquired deferred income is an adjustment in Pearson's operating cash flow to match pre acquisition cash received with post acquisition revenue recognised following the acquisition of London Qualifications and more accurately reflect the substance of the transaction. A contra entry to this adjustment is included in 'Acquisitions of businesses and investments'.

27 Notes to consolidated cash flow statement continued

All figures in £ millions	Cash	Overdrafts	Sub-total	Short-term deposits	Debt due within one year	Debt due after one year	Finance leases	Total
b. Analysis of net debt								
At 31 December 2002	417	(77)	340	158	(172)	(1,734)	(7)	(1,415)
Exchange differences	6	31	37	9	(40)	111	–	117
Other non-cash items	–	–	–	–	(459)	458	(1)	(2)
Net cash flow	(114)	23	(91)	85	119	(182)	3	(66)
At 31 December 2003	309	(23)	286	252	(552)	(1,347)	(5)	(1,366)
At 31 December 2001	300	(60)	240	93	(105)	(2,607)	(14)	(2,393)
Exchange differences	(15)	4	(11)	(2)	(6)	150	1	132
Acquired with subsidiary	–	–	–	24	–	–	–	24
Other non-cash items	–	–	–	–	(148)	146	1	(1)
Net cash flow	132	(21)	111	43	87	577	5	823
At 31 December 2002	417	(77)	340	158	(172)	(1,734)	(7)	(1,415)

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

All figures in £ millions	2003	2002
c. Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the year	(91)	111
Decrease in net debt from management of liquid resources	85	43
Decrease in net debt from other borrowings	(63)	664
Decrease in finance leases	3	5
Acquired with subsidiary	–	24
Other non-cash items	(2)	(1)
Exchange differences	117	132
Movement in net debt in the year	49	978
Net debt at beginning of the year	(1,415)	(2,393)
Net debt at end of the year	(1,366)	(1,415)

28 Contingent liabilities

There are contingent Group and company liabilities that arise in the normal course of business 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 2003 the Group had commitments under leases, other than finance leases, to make payments in 2004 as follows:

All figures in £ millions	Land and buildings	Other
For leases expiring		
In 2004	7	2
Between 2005 and 2008	28	14
Thereafter	64	1
	99	17

Notes to the accounts continued

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 were no other related party transactions in 2003.

31 Post balance sheet events

There were no significant post balance sheet events.

32 Company balance sheet as at 31 December 2003

All figures in £ millions	Note	2003	2002
Fixed assets			
Tangible fixed assets	33	–	–
Investments: subsidiaries	33	6,343	6,422
Investments: own shares held	33	33	39
		6,376	6,461
Current assets			
Debtors:			
Amounts due from subsidiaries – due within one year		1,394	971
Amounts due from subsidiaries – due after more than one year		944	1,453
Taxation		3	10
Other debtors		–	1
Cash at bank and in hand	18	75	8
		2,416	2,443
Creditors – amounts falling due within one year			
Short-term borrowing	19	(610)	(323)
Amounts due to subsidiaries		(2,860)	(2,641)
Other creditors		(1)	(1)
Accruals and deferred income		(16)	(13)
Dividends	8	(119)	(115)
		(3,606)	(3,093)
Net current liabilities		(1,190)	(650)
Total assets less current liabilities		5,186	5,811
Creditors – amounts falling due after more than one year			
Medium and long-term borrowing	19	(1,123)	(1,369)
Amounts due to subsidiaries		(234)	(393)
Provisions for liabilities and charges		(2)	(2)
		(1,359)	(1,764)
Net assets		3,827	4,047
Capital and reserves			
Called up share capital	23	201	200
Share premium account	33	2,469	2,465
Special reserve	33	397	397
Other reserves	33	50	50
Profit and loss account	33	710	935
Equity shareholders' funds		3,827	4,047

The financial statements were approved by the board of directors on 27 February 2004 and signed on its behalf by

Dennis Stevenson, Chairman

Rona Fairhead, Chief Financial Officer

33 Notes to the company balance sheet

All figures in £ millions	2003	2002
Tangible fixed assets (leasehold property)		
Cost	1	1
Depreciation	(1)	(1)
Net book value	–	–

Note The company had no capital commitments for fixed assets at the end of 2003.

All figures in £ millions	
Investment in subsidiaries	
At 31 December 2002	6,422
External acquisition	15
Disposal to subsidiary	(22)
Provision for diminution in value	(33)
Revaluations	(39)
At 31 December 2003	6,343

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	Share premium account	Special reserve	Other reserves	Profit and loss account	Total
Reserves					
Summary of movements					
At 31 December 2002	2,465	397	50	935	3,847
Exchange differences	–	–	–	(23)	(23)
Premium on issue of equity shares	4	–	–	–	4
Loss for the financial year	–	–	–	(10)	(10)
Dividends on equity shares	–	–	–	(192)	(192)
At 31 December 2003	2,469	397	50	710	3,626

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.

34 Principal subsidiaries and associates

	Country of incorporation or registration
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.	
Pearson Education	
Pearson Education Inc.	US
Pearson Education Ltd	England
NCS Pearson Inc.	US
FT Group	
The Financial Times Ltd	England
Financial Times Business Ltd	England
Interactive Data Corporation (61%)	US
Les Echos SA	France
Recoletos Grupo de Comunicación SA (79%)	Spain
The Penguin Group	
Penguin Group (USA) Inc.	US
The Penguin Publishing Co Ltd	England
Dorling Kindersley Holdings Ltd*	England

* Direct investment of Pearson plc.

	Country of incorporation or registration	Class of share	Beneficial interest %	Accounting year end
Associates				
FT Group				
The Economist Newspaper Ltd	England	Ord 5p	50	March
		‘B’ 5p	100	
		‘A’ 5p	Nil	
		Trust 5p	Nil	
FT-SE International Ltd	England	Ord £1	50	December

Five year summary

All figures in £ millions	1999	2000	2001	2002	2003
Sales					
Continuing operations	2,977	3,689	4,225	4,320	4,048
Discontinued operations	355	185	–	–	–
	3,332	3,874	4,225	4,320	4,048
Sales – underlying movement %	8	11	0	6	(4)
Sales – constant exchange rate movement %	–	–	–	–	(2)
Operating profit*					
Pearson Education	254	237	274	326	313
FT Group	114	98	72	80	86
The Penguin Group	65	79	80	87	91
Continuing operations	433	414	426	493	490
Operating profit – underlying movement %	–	–	(2)	18	0
Operating profit – constant exchange rate movement %	–	–	–	–	5
Adjusted eps*	39.5p	30.6p	21.4p	30.3p	32.0p
Dividends per share*	20.1p	21.4p	22.3p	23.4p	24.2p
Net assets	1,527	4,398	3,973	3,530	3,147
Deferred taxation	(266)	(295)	(272)	(174)	(145)
Provisions for liabilities and charges	206	257	239	165	152
Net debt (excluding finance leases)	1,995	2,301	2,379	1,408	1,361
Capital employed	3,462	6,661	6,319	4,929	4,515
Operating free cash flow per share*	43.4p	23.0p	29.6p	38.3p	26.4p
Total free cash flow per share*	13.8p	2.5p	17.6p	27.0p	24.2p
Return on Investment Capital %*	8.1	4.9	4.6	6.0	6.3

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

Corporate and operating measures

Sales – underlying and constant exchange rate movement

Sales movement excluding the impact of acquisitions and disposals and movements in exchange rates.

All figures in £ millions	2003
Underlying decrease	(180)
Portfolio changes	89
Exchange differences	(181)
Total sales decrease	(272)
Underlying decrease	(4%)
Constant exchange rate decrease	(2%)

Operating profit*– underlying and constant exchange rate movement

Operating profit movement excluding the impact of acquisitions and disposals and movements in exchange rates.

All figures in £ millions	2003
Underlying decrease	0
Portfolio changes	24
Exchange differences	(27)
Total operating profit decrease	(3)
Underlying decrease	0%
Constant exchange rate increase	5%

Free cash flow per share

Operating cash flow less tax, interest and integration costs paid, divided by the weighted average number of shares in issue.

All figures in £ millions	2003
Operating profit*	490
Cash conversion	65%
Operating cash flow	320
Tax paid on operating profits	(34)
Interest paid	(76)
Operating free cash flow	210
Non operating tax paid	(10)
Integration costs	(8)
Total free cash flow	192
Weighted average number of shares in issue (millions)	794.4
Operating free cash flow per share	26.4p
Total free cash flow per share	24.2p

Return on invested capital*

Operating profit less cash tax expressed as a percentage of gross invested capital.

All figures in £ millions	2003
Operating profit	490
Cash tax (15%)	(73)
Return	417
Gross goodwill	5,295
Net operating assets	1,304
Invested capital	6,599
Return on invested capital	6.3%

* Before goodwill charge, integration costs and non operating items.

Shareholder information

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 facilities
A telephone and internet dealing service has been arranged through Lloyds TSB Registrars which provides a simple way of selling Pearson shares. Commission is 0.5% with a minimum charge of £20 for telephone dealing and £17.50 for internet dealing. For telephone sales call 0870 850 0852 between 8.30 am and 4.30 pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

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. An alternative weekly postal dealing service is available through our registrars, telephone 0870 242 4244 for details.

ShareGift
The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small holdings of shares, whose value makes them uneconomic to sell. Details can be obtained from the ShareGift website at www.sharegift.org or by telephoning 020 7337 0501.

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 the company's website, www.pearson.com, from FT.com or 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. All enquiries regarding registered 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 Bank of New York, Investor Services, P.O. Box 11258, Church Street Station, New York, NY 10286-1258, telephone 1-888 BNY ADRs (toll free within the US) or (1) 610 382 7836 (outside the US), or email shareowners@bankofny.com, or sign-in at www.stockbny.com. Voting rights for registered ADR holders can be exercised through The Bank of New York, and for beneficial ADR holders (and/or nominee accounts) through your US brokerage institution. 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

Brokers Cazenove & Co. Limited, Citigroup

Financial advisers Lazard Brothers & Co. Limited, J. Henry Schroder & Co. Limited

Solicitors Freshfields Bruckhaus Deringer, Herbert Smith and Morgan, Lewis & Bockius

Financial calendar for 2004	
Ex-dividend date	7 April
Record date	13 April
Last date for dividend reinvestment election	22 April
Annual general meeting	30 April
Payment date for dividend and share purchase date for dividend reinvestment	7 May
Interim results	26 July
Interim dividend	24 September