

fiscal year was paid on June 7, 2002.

Fiscal Year	Interim	Final	Total	Interim	Final	Total
	(pence per ordinary share)			(cents per ordinary share)		
2001	8.7	13.6	22.3	12.6	19.7	32.3
2000	8.2	13.2	21.4	13.3	18.7	32.0
1999	7.7	12.4	20.1	12.6	18.7	31.3
1998	7.2	11.6	18.8	11.9	18.7	30.6
1997	6.7	10.7	17.4	11.2	17.6	28.8

Future dividends will be dependent on our future earnings, financial condition and cash flow, as well as other factors affecting us. Historic dividend information has been restated to reflect the rights issue of equity shares in 2000.

#### Exchange Rate Information

The following table sets forth, for the periods indicated, information concerning the noon buying rate for sterling, expressed in dollars per sterling. The average rate is calculated by using the average of the noon buying rates in New York, New York, on each day during a monthly period, and on the last day of each month during an annual period. On May 30, 2002, the noon buying rate for sterling was £1.00 = \$1.47.

Month	High		Low	
May 2002	\$	1.47	\$	1.45
April 2002	\$	1.46	\$	1.43
March 2002	\$	1.43	\$	1.41
February 2002	\$	1.43	\$	1.41
January 2002	\$	1.45	\$	1.41
December 2001	\$	1.46	\$	1.42
Year Ended December 31	Average Rate			
2001	\$	1.45		
2000	\$	1.52		
1999	\$	1.62		
1998	\$	1.66		
1997	\$	1.64		

#### Risk Factors

*You should carefully consider the risk factors described below, as well as the other information included in this Annual Report. Our business, financial condition or results of operation could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.*

#### ***Our reliance on intellectual property and proprietary rights that may not be adequately protected under current laws in some jurisdictions may adversely affect our results and our ability to grow***

Our products are largely comprised of intellectual property content delivered through a variety of media, including newspapers, books and the internet. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products. However, we cannot assure you that our proprietary rights will not be challenged, invalidated or circumvented. Our intellectual property rights in jurisdictions such as the United States and the United Kingdom, which are the jurisdictions with the largest proportions of our operations, are well-established. However, we also conduct business in other countries where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. Moreover, despite trademark and copyright protection, third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorization. These unauthorized activities may be more easily facilitated by the internet.

In addition, the lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights.

#### ***We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive***

Our education, business information and book publishing businesses operate in highly competitive markets. These markets continue to change in response to technological innovations and other factors. We cannot predict with certainty the changes that may occur and affect the competitiveness of our businesses. In particular, the means of delivering various of our products may be subject to rapid technological change. Although we have undertaken several initiatives to adapt to and benefit from these changes, we cannot predict whether technological innovations will, in the future, make some of our products, particularly those printed in traditional formats, wholly or partially obsolete. If this were to occur, we may be required to take steps to further adapt to the changing competitive environment.

#### ***Consolidation in the markets in which we operate could potentially place us at a competitive disadvantage***

Some of the markets in which we operate have experienced significant consolidation. In particular, the combinations of traditional media content companies and new media distribution companies have resulted in new valuation methods, business models and strategies. We cannot predict with certainty the extent to which these types of business combinations may occur or the success that they may achieve. Although we currently have strong positions in each of our market segments, these combinations could potentially place us at a competitive disadvantage with respect to scale, resources and our ability to develop and exploit new media technologies.

#### ***We may not be able to achieve continued growth in our operations or strengthen our financial position due to economic and political forces beyond our control***

A variety of factors beyond our control may inhibit the growth of our operations or weaken our financial position. These factors include a significant weakening of the global advertising environment, particularly in financial advertising, US state and federal government spending patterns for educational materials, the slowing of the US economy, heightened political tensions affecting the United Kingdom and the United States, foreign currency exchange rate risks, trade protection measures and regulatory or other economic conditions. In particular, during 2001, the weak advertising environment led to a significant decline in advertising revenue. For additional information about this decline, please see "Operating and Financial Review and Prospects—Results of Operations—Year ended December 31, 2001 compared to year ended December 31, 2000", pages 22-30. Taken together, these factors could have a material adverse impact on our growth and our financial position.

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*We cannot assure you whether, or when, our substantial investment in our internet initiatives will produce returns*

We have invested significant amounts of capital to develop and promote our internet initiatives. We believe that the success of our internet initiatives will be an important component of our continued growth. We can offer no assurance as to the extent or timing of the revenue streams from our internet initiatives. This is due to a variety of factors, many of which are beyond our control. These factors may include: the ability of our internet initiatives to achieve leadership positions in their respective markets, and competition from comparable and new technologies.

In addition, as a consequence of our internet and other technological initiatives, we are increasingly dependent on the performance of our data networks and infrastructure.

#### **Item 4. Information on the Company**

##### **Pearson**

Pearson is a global media company with its principal operations in the education, business information and consumer publishing markets. We have significant operations in the United States, where we generate more than half our revenues, and in the United Kingdom and continental Europe. We create and manage intellectual property, which we promote and sell to our customers under well-known brand names, to inform, educate and entertain. We deliver our content in a variety of forms and through a variety of channels, including books, newspapers, television programs and internet services.

##### **Overview of Operating Divisions**

Although our businesses increasingly share markets, brands, processes and facilities, they break down into three core segments:

**Pearson Education** is a global leader in educational publishing. We are a leading international publisher of textbooks, supplementary materials and electronic education programs for elementary and secondary school, higher education and business and professional markets. We also play a major role in the testing and certification of school students and professionals in the US.

**The FT Group** consists of our international newspaper, print and online financial information, business magazine and professional publishing interests. Our flagship product is the Financial Times, known internationally for its premium editorial content and international scope both in newspaper and internet formats.

**The Penguin Group** is one of the premier English language publishers in the world, with brand imprints such as Penguin, Putnam, Viking and DK. We publish an extensive portfolio of fiction, non-fiction, reference and illustrated works. We publish the works of many authors, including Maeve Binchy, Tom Clancy, Patricia Cornwell, Nick Hornby, Jamie Oliver and Amy Tan.

Pearson was incorporated and registered in 1897 under the laws of England and Wales as a limited company and re-registered as a public limited company in 1981. We conduct our operations primarily through our subsidiaries and other affiliates. Our principal executive offices are located at 80 Strand, London WC2R 0RL, United Kingdom (telephone: +44 (0) 20 7010 2000).

##### **Our Strategy**

Focus on attractive, growing media markets where we have leadership positions and can build on common customers, brands, skills and values. Over the past four years we have reshaped the group by divesting a range of interests and investing over \$7 billion in education, consumer publishing and business information.

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Build on our position as a leading content company and embed content in applications and services, integrating the internet and other digital technologies.

Sustain a performance culture based on clearly understood, widespread goals—sales growth, trading margin improvement and converting profits into cash.

##### **Operating Divisions**

###### **Pearson Education**

Pearson Education is one of the world's largest publishers of textbooks and paper and online teaching materials based on published sales figures and independent estimates of sales. Pearson Education serves the growing demands of teachers, students, parents and professionals throughout the world for stimulating effective education programs. With federal and state governments under pressure to measure academic progress against clear objective standards, the market for educational testing services in the United States has grown significantly. NCS Pearson enables us to combine testing and assessment with our traditional educational curriculum services and products to form one of the world's leading integrated education companies. NCS Pearson provides the entire spectrum of educational services—from educational curriculum to testing and assessment to data management. NCS Pearson's testing and assessment operations are being integrated into each of our US School, US College, US Professional and International educational subdivisions.

We report Pearson Education's performance along the lines of the four markets it serves: US School, US College, US Professional and International, i.e. markets outside the United States. In 2001, Pearson Education had sales of £2,604 million or 62% of Pearson's total Group sales (54% in 2000). The business makes approximately two thirds of its sales, and all of its profits, in the second half of the year.

###### **US School**

Pearson Education is a leading US school publisher for kindergarten through 12th grade, with a comprehensive range of textbooks, supplementary materials and electronic education programs. We believe that our market share in this sector is approximately 25%. Pearson Education's premier elementary school imprint, Scott Foresman, and premier secondary school imprint, Prentice Hall publish high quality programs covering subjects such as reading, literature, math, science and social studies. We also publish supplementary teaching aids for both elementary and secondary schools and teacher-written activity books. We are a leading publisher in online assessment and digital courseware through NCS Learn and the Waterford Early Reading Program. Towards the end of 2001 we began the integration of our educational internet business, Learning Network, with our K-12 publishing business.

NCS Pearson's operations make us a leading player in the markets for test processing and scoring and the provision of enterprise software solutions to schools. We score and process some 40 million student tests across America every year.