

The Penguin Publishing Company Limited

(Registered Number 734421)

**Report and Financial Statements
For the year ended 31 December 2002**



The Penguin Publishing Company Limited

Contents

	Pages
Directors' report	1-3
Report of the Auditors	4
Profit and loss account	5
Balance sheet	6
Notes to the Financial Statements	7-11

The Penguin Publishing Company Limited

Directors' Report

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 2002.

Principal activities and business review

The Penguin Publishing Company Limited is the holding company for the Penguin Group.

The principal activity of the company's subsidiaries continues to be the publishing, warehousing and distribution of books.

During the year the company sold its investment in Penguin Books Australia Limited to a fellow subsidiary of Pearson Plc for a consideration of £41 million.

Euro

This company's transactions are recorded on the systems of its subsidiary undertaking, Penguin Books Limited. Euro reviews have been undertaken on these systems by Penguin Books Limited and details can be found in this company's financial statements.

Results and dividends

The company received dividends from group undertakings of £3,168,948 (2001 - £1,144,988).

	£000
Profit on ordinary activities before taxation	44,159
Taxation	(21)
Profit on ordinary activities after taxation	44,138
Dividend paid	(7,500)
Retained profit for the year	36,638

During the year an interim dividend of £7,500,000 was paid (2001: £2,250,000). The directors recommend that no final dividend be paid (2001: nil), and the profit of £36,637,745 (2001: loss of £1,195,000) be transferred to reserves.

Directors

The current directors of the Company and those who held office during the year are as follows:

A Forbes Watson

C Power (Resigned 28 February 2003)

D Wan (Chairman, Resigned 1 June 2002)

P J Field

S M D Floyer

B Landers (Appointed 20 May 2003)

J Makinson (Appointed 1 June 2002)

The present directors will continue in office pursuant to the Articles of Association.

The Penguin Publishing Company Limited

Directors' Report (Continued)

Directors' interests

None of the directors had any interests in the shares of the company.

The directors' interests in the shares of the ultimate parent company, Pearson plc, as defined by section 324 of the Companies Act 1985 were as follows:

	Options		Shares	
	1 January 2002	31 December 2002	1 January 2002	31 December 2002
A Forbes Watson	137,962	137,962	28,044	31,715
C Power	40,214	41,579	6,759	11,109
P Field	75,994	76,673	28,701	31,943
S Floyer	55,173	55,173	8,089	10,689

J Makinson, being a director of the parent company Pearson plc, is not required to notify his interest to this company. His interests are disclosed in the financial statements of Pearson plc.

Elective resolutions

At the 1990 annual general meeting an elective resolution under section 379A of the Companies Act 1985 was passed in respect of dispensing with the following provisions:

- the laying of the annual report and financial statements before the company in general meeting;
- the holding of an annual general meeting; and
- the requirement to reappoint annually the registered auditors of the company in general meeting.

The provisions of this elective resolution will apply for subsequent years until the election is revoked.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 January 2003 and the directors appointed its successor PricewaterhouseCoopers LLP, as auditors.

The Penguin Publishing Company Limited

Directors' Report (Continued)

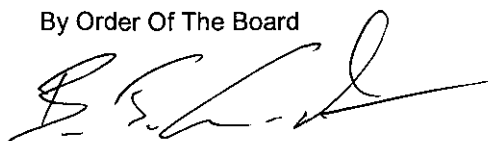
Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order Of The Board



B Landers
Director

22 October 2003

80 Strand
London
WC2R 0RL

Independent Auditors' Report to the Members of The Penguin Publishing Company Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

For PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

22 October 2003

The Penguin Publishing Company Limited

Profit and loss account For the year ended 31 December 2002

	<i>Notes</i>	2002 £000	2001 £000
Administrative expenses		-	(74)
Operating loss		-	(74)
Profit on sale of group undertaking		40,990	-
Income from shares in group undertakings		3,169	1,145
Profit on ordinary activities before taxation	2	44,159	1,071
Tax on profit on ordinary activities	4	(21)	(16)
Profit on ordinary activities after taxation		44,138	1,055
Dividends paid		(7,500)	(2,250)
Retained profit/(loss) for the year		36,638	(1,195)

The results shown above all arise from continuing operations.

The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit for the year stated above, and their historical cost equivalents.

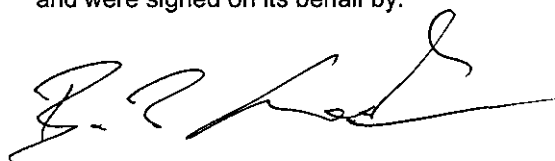
The notes on pages 7 to 11 form part of these financial statements

The Penguin Publishing Company Limited

Balance sheet at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Investments	5	12,708	12,708
Current assets			
Debtors	6	72,078	35,421
Creditors: amounts falling due within one year	7	(2,409)	(2,390)
Net Current Assets		69,669	33,031
Total assets less current liabilities		82,377	45,739
Capital and reserves			
Called up share capital	8	25,540	25,540
Profit and loss account	9	56,837	20,199
Equity shareholders' funds	10	82,377	45,739

The financial statements on pages 5 to 11 were approved by the board of directors on 22 October 2003 and were signed on its behalf by:



B Landers
Director

The notes on pages 7 to 11 form part of these financial statements.

The Penguin Publishing Company Limited

Notes to the Financial Statements For the year ended 31 December 2002

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

The company is a wholly owned subsidiary of Pearson plc and the cash flows of the company are included in the consolidated group cash flow statement of Pearson plc. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement. The company is also exempt under the terms of Financial Reporting Standard No. 8 from disclosing the related party transactions (but not balances) with entities that are part of the Pearson plc group or investees of the Pearson plc group (see note 11).

A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention. Group financial statements have not been prepared, as permitted by s228 of the Companies Act 1985, as the company is a wholly owned subsidiary undertaking of another undertaking registered in England and Wales for which group financial statements are prepared.

b) Fixed asset investments

Fixed asset investments are stated at cost less any provision for permanent diminution in value.

c) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Foreign exchange differences are taken to the profit and loss account as they arise.

d) Investment income

Income from investments is included together with the related tax credit on an accruals basis.

2 Profit on ordinary activities before taxation

In 2002 and 2001 the registered auditors' remuneration was borne by a subsidiary undertaking, Penguin Books Limited.

3 Employees including directors' emoluments

Staff costs, including directors' emoluments, are borne by subsidiary undertakings, and thus no staff are deemed to be employed.

The Penguin Publishing Company Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (continued)

4 Taxation

	2002 £000	2001 £000
UK corporation tax at 30% (2001 : 30%)	1,551	577
Double taxation relief	(1,490)	(561)
	61	16
Prior year adjustment to current tax	(40)	-
Tax on profit on ordinary activities	21	16

The reconciliation from the tax charge at the standard rate of UK corporation tax is as follows:

	2002 £000	2001 £000
Profit on ordinary activities before taxation	44,159	1,071
Profit on ordinary activities multiplied by standard rate of 30%	13,248	321
Overseas dividends plus foreign tax	600	234
Expenses not deducted for tax purposes	-	22
Prior year tax charge adjustments	(40)	-
Tax exempt sale of subsidiary	(12,297)	-
Underlying tax relief	(1,490)	(561)
Current tax charge for the period	21	16

The Penguin Publishing Company Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (continued)

5 Fixed asset investments

Shares in group undertakings

	£000
Cost at 1 January 2002	12,708
Disposals	-
Cost at 31 December 2002	12,708

Interests in Group Undertakings

Name	Country of Incorporation	Activity	Classes of Share	Proportion Held
Penguin Books Limited	England & Wales	Publishing & Distribution	Ordinary	100%
Penguin Books (NZ) Limited	New Zealand	Publishing & Distribution	Ordinary	100%
Bath Road Corporation	United States	Publishing & Distribution	Ordinary	100%
Penguin Books Netherlands BV	The Netherlands	Publishing & Distribution	Ordinary	95%
Penguin Books India Private Limited	India	Publishing & Distribution	Ordinary	55%

In the opinion of the directors, the value of interest in subsidiary undertakings is in excess of the book value included in the balance sheet.

The company and its subsidiary undertakings make up their financial statements to 31 December with the exception of Penguin Books India Private Limited whose financial statements are made up to 31 March to comply with local legislation.

During the year the company sold its investment in Penguin Books Australia Limited to a fellow subsidiary of Pearson Plc for a consideration of £41 million. At 31 December 2001 this investment had a book value of £80.

The Penguin Publishing Company Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (continued)

6 Debtors

	2002 £000	2001 £000
Amounts falling due within one year:		
Dividends receivable	110	-
Amounts owed by group undertakings	71,968	35,421
	72,078	35,421

7 Creditors

	2002 £000	2001 £000
Amounts falling due within one year:		
Amounts owed to group undertakings	2,350	2,350
Taxation and social security	59	40
	2,409	2,390

8 Called up share capital

	2002 £000	2001 £000
Authorised, allotted, called up and fully paid 25,540,000 ordinary shares of £1 each	25,540	25,540

9 Profit and loss account

	£000
At 1 January 2002	20,199
Profit for the year	36,638
At 31 December 2002	56,837

The Penguin Publishing Company Limited

Notes to the Financial Statements

For the year ended 31 December 2002 (continued)

10 Reconciliation of movement in equity shareholders' funds

	2002 £000	2001 £000
Profit on ordinary activities after taxation	44,138	1,055
Dividends	(7,500)	(2,250)
Net increase/(decrease) in equity shareholders' funds	36,638	(1,195)
Opening equity shareholders' funds	45,739	46,934
Closing equity shareholders' funds	82,377	45,739

11 Related party transactions

The Company is a wholly owned subsidiary within Pearson plc and utilises the exemption contained in Financial Reporting Statement No 8 "Related Party Disclosures" not to disclose any transactions with entities that are part of the Pearson plc group. The address at which the Pearson plc consolidated financial statements are publicly available is Company Secretary, Pearson plc, 80 Strand, London, WC2R 0RL.