

PEARSON INTERNATIONAL FINANCE LIMITED
(Formerly Spinmerit Limited)

FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2001

Registered Office:

80 Strand
London
WC2R 0RL

Registered in England
Number 2496206



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COMPANIES HOUSE **06/03/02**

PEARSON INTERNATIONAL FINANCE LIMITED

Directors

D H Colville
R A Fairhead
A C Miller
G M Rinck

Report of the Directors

The directors present their report and the financial statements for the year ended 31 December 2001.

The company is an investment holding company. The principal investment is a 50% interest in Pearson Finance Partnership (Bermuda).

The profit for the year after tax was £29,819,000 (2000 £10,465,000). The directors do not recommend payment of a dividend (2000: £nil). The retained profit will be transferred to reserves.

The present directors are listed above. P R Gill resigned on 21 November 2001. R A Fairhead was appointed on 21 November 2001 and A C Miller and G M Rinck were appointed on 17 July 2001.

The ultimate parent company is Pearson plc. The interests of the directors in the ordinary shares of 25p and debentures and loan stocks of Pearson plc and its subsidiaries, as shown by the register of the company kept for the purpose of section 324 of the Companies Act 1985, are as follows:

	At 1.1.2001 or date of appointment	SAYE/ Granted	Exercised	At 31.12.2001
D H Colville				
Pearson plc:				
Ordinary shares	24,867			23,362
SAYE options on ordinary shares	1,002	404	(647)	759
Executive options on ordinary shares	44,128	-	-	44,128
Annual Bonus Matching Shares	489	580	-	1,069
Pearson Bonus Plan	31	15	-	46
Pearson Reward Plan:				
Pearson equity incentive shares	10,857	-	-	10,857
Premium priced options	20,799	-	-	20,799
Long term incentive plan options	-	17,040	-	17,040
Long term incentive plan shares	-	2,840	-	2,840
R A Fairhead				
Pearson Plc:				
Long term incentive plan options	-	60,000	-	60,000
A C Miller				
Pearson plc:				
Ordinary shares	24,367			24,939
Pearson Bonus Plan	31	15	-	46
SAYE options on ordinary shares	3,861	202	-	4,063
Executive options on ordinary shares	49,840	-	-	49,840
Shares held in trust under the FT	62	-	(62)	
Long term incentive Plan Options	-	12,600	-	12,600

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	At 1.1.2001 or date of appointment	SAYE/ Granted	Exercised	At 31.12.2001
G M Rinck				
Pearson plc:				
Ordinary shares	1,222			1,222
Pearson Bonus Plan	-	15	-	15
SAYE options on ordinary shares	-	1,763	-	1,763
Annual Bonus Matching Shares	-	1,790	-	1,790
Long term incentive plan options	-	47,670	-	47,670
Long term incentive plan shares	9,220	-	-	9,220

During the year to 31 December 2001 the company maintained an insurance covering officers of the company against liabilities arising in relation to the company in accordance with section 310(3)(a) of the Companies Act 1985.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

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. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2001 and that applicable accounting standards have been followed.

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


S A Jones
Secretary

27 February 2002

PEARSON INTERNATIONAL FINANCE LIMITED

Profit and Loss Account for the Year ended 31 December 2001

	<u>Notes</u>	<u>2001</u> £000	<u>2000</u> £000
Share of Pearson Finance Partnership (Bermuda) profit	5	35,572	13,630
Exchange gain/(loss) on revaluation of loans		<u>(1,003)</u>	<u>(455)</u>
Profit on ordinary activities before interest and taxation		34,569	13,175
Interest receivable from group undertakings		12,958	15,653
Interest payable to group undertakings		<u>(11,534)</u>	<u>(13,878)</u>
Profit on ordinary activities before taxation	3	35,993	14,950
Taxation	7	<u>(6,174)</u>	<u>(4,485)</u>
Retained profit for the year		<u>29,819</u>	<u>10,465</u>

Statement of Total Recognised Gains and Losses

	<u>Notes</u>	<u>2001</u> £000	<u>2000</u> £000
Profit for the financial year		29,819	10,465
Exchange adjustments offset in reserves	6	<u>532</u>	<u>-</u>
Total recognised gains for the year		<u>30,351</u>	<u>10,465</u>

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

All the above results are derived from continuing operations.

PEARSON INTERNATIONAL FINANCE LIMITED

Balance Sheet at 31 December 2001

	<u>Notes</u>	<u>2001</u> £000	<u>2000</u> £000
<u>Fixed assets</u>			
Investment in Pearson Finance Partnership (Bermuda)	5	405,613	368,075
Investment in other group companies	6	27,201	-
<u>Current assets</u>			
Amounts owed by parent company		45,121	20,326
Amounts owed by fellow subsidiaries		176,701	215,818
Accrued income		<u>1,527</u>	<u>1,173</u>
		<u>223,349</u>	<u>237,317</u>
<u>Creditors: amounts falling due within one year</u>			
Amounts owed to parent company		(6,075)	(862)
Amounts owed to fellow subsidiary		(26,880)	-
Taxation		(5,005)	(6,424)
Accruals and deferred income		<u>(3,421)</u>	<u>(5,144)</u>
		<u>(41,381)</u>	<u>(12,430)</u>
<u>Net current assets</u>		181,968	224,887
<u>Creditors: amounts falling due after more than one year</u>			
Convertible loan notes 2008	8	(204,356)	(212,887)
<u>Net assets</u>		<u>410,426</u>	<u>380,075</u>
<u>Capital and reserves</u>			
Called up share capital	9	350,010	350,010
Profit and loss account	10	<u>60,416</u>	<u>30,065</u>
Equity shareholders' funds	11	<u>410,426</u>	<u>380,075</u>

The financial statements on pages 4 to 8 were approved by the board on 27 february 2002.



Director

PEARSON INTERNATIONAL FINANCE LIMITED

Notes to the financial statements for the year ended 31 December 2001

1. Accounting policies

- a) Basis of accounting - the financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.
- b) Foreign currencies - assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Gains or losses arising on the translation of investments in non UK investments are taken to reserves, net of exchange differences arising on related foreign currency borrowings to the extent that exchange differences on related borrowings offset exchange gains or losses on translation of non UK investments. Exchange differences on related borrowings exceeding those on non UK investments are taken to the profit and loss account.

2. Cash flow statement

Cash flow statement - 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.

3. Profit on ordinary activities before taxation

Auditors remuneration is borne by a fellow group company.

4. Directors' Emoluments and Employee Costs

The directors are employed by another group undertaking and are remunerated by that undertaking in respect of their services as group employees. Their emoluments are dealt with in the group financial statements and they received no emoluments from the company. No one was employed by the company at any time during the year.

5. Investment in Pearson Finance Partnership (Bermuda)

£000

Investment at 1 January 2001	368,075
Further investment	37,918
Share of profit	35,572
Distribution in the year	<u>(35,952)</u>
Investment at 31 December 2001	<u>405,613</u>

The investment is a 50% interest in Pearson Finance Partnership (Bermuda) which operates in Bermuda.

6. Investment in other Group Companies

Shares in
subsidiary and
associate
undertakings
£000

At 1 January 2001 – at cost	-
Acquisitions from fellow subsidiaries	<u>27,201</u>
At 31 December 2001 – at cost	<u>27,201</u>

Acquisition from fellow subsidiaries

- On 8th March 2001 the company acquired Pearson Internet Holdings BV together with the B ordinary shares of FT Marketwatch.com (Europe) Ltd from Pearson Overseas Holdings Ltd for £8,654,132 and £42,350 respectively.
- On 17th April 2001 the company acquired shares in Marketwatch.com Inc from Pearson Overseas Holdings Ltd for £17,971,645. This investment is listed on Nasdaq and has a market value of £12.9m.

This investment is denominated in foreign currency and is retranslated at the year-end per SSAP 20, as is it is deemed to be hedged by the foreign currency borrowings.

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Notes to the financial statements (continued)

6. Investment in other Group Companies (cont'd)

The company's direct 100% owned subsidiary undertaking is listed below. It operates mainly in the country of incorporation.

	<u>Country of Incorporation</u>
Pearson Internet Holdings BV	Netherlands

The company's other principal subsidiary and associated undertaking is listed below. It operates mainly in the country of incorporation.

	<u>Country of Incorporation</u>	<u>Beneficial Percentage Held</u>
Marketwatch.com Inc	USA	34.40%

Group accounts have not been prepared as the company is a wholly owned subsidiary undertaking of Pearson plc, an undertaking registered in England and Wales.

7. <u>Taxation on profit on ordinary activities</u>	<u>2001</u>	<u>2000</u>
	£000	£000
UK Corporation tax at 30% (2000: 30%)	6,172	4,485
Current	2	-
Prior year	<u>6,174</u>	<u>4,485</u>
8. <u>Creditors amounts falling due after more than one year</u>	<u>2001</u>	<u>2000</u>
	£000	£000
364,450 Canadian Dollar Convertible Loan Notes 2008	156,874	162,701
135,000 Australian Dollar Convertible Loan Notes 2008	<u>47,482</u>	<u>50,186</u>
	<u>204,356</u>	<u>212,887</u>

The nominal value of one Canadian dollar loan note is C\$1,000 and of one Australian dollar loan note is A\$1,000. All the loan notes were issued at par. Each Canadian dollar loan note is convertible in 2008 into 190 ordinary shares and each Australian dollar loan note is convertible in 2008 into 185 ordinary shares.

9. <u>Share capital</u>	<u>2001</u>	<u>2000</u>
Authorised	£000	£000
Ordinary shares of £1 each	<u>700,000</u>	<u>700,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>350,010</u>	<u>350,010</u>
10. <u>Reserves</u>		Profit and loss reserve £000
At 1 January 2001		30,065
Net exchange adjustments		532
Profit for the year		<u>29,819</u>
At 31 December 2001		<u>60,416</u>

PEARSON INTERNATIONAL FINANCE LIMITED

Notes to the financial statements (continued)

11. Reconciliation of movements in shareholders' funds

	<u>2001</u> £000	<u>2000</u> £000
Profit for the financial year	29,819	10,465
Other recognised gains and losses relating to the year	532	-
Opening shareholders' funds	<u>380,075</u>	<u>369,610</u>
Closing shareholders' funds	<u>410,426</u>	<u>380,075</u>

12. Transactions with directors

No director had a material interest in any contract or arrangement with the company during the year.

13. Related party transactions

The company is a wholly owned subsidiary within Pearson plc and utilises the exemption contained in FRS 8 Related Party Disclosures not to disclose any transactions with entities that are part of the Pearson group. The address at which Pearson plc consolidated financial statements are publicly available is shown in note 14.

14. Ultimate parent undertaking

The ultimate parent company is Pearson plc which is registered in England and Wales. Copies of the consolidated financial statements of Pearson plc may be obtained from The Secretary, Pearson plc, 80 Strand, London WC2R 0RL.

PEARSON INTERNATIONAL FINANCE LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF PEARSON INTERNATIONAL FINANCE LIMITED

Independent auditors' report to the members of Pearson International Finance Limited

We have audited the financial statements which comprise of the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes.

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.

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.

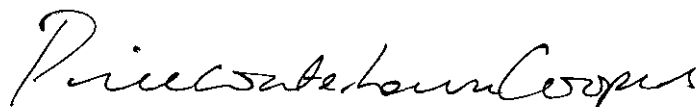
Basis of audit opinion

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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London

27 February 2002