

PEARSON



2006 interim results

31 July 2006

Financial highlights

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Sales	1,878	1,613	+8%	+16%
Operating profit	73	33	+57%	-
Adjusted eps	1.1p	(1.8)p	-	-
Free cash flow	(250)	(265)	-	-
Dividend per share	10.5p	10.0p	+5%	+5%

Sustained organic growth

Continued market share gains

Further margin improvement

PEARSON



Financial performance

2006 financial priorities

Earnings growth

Significant ROIC improvement

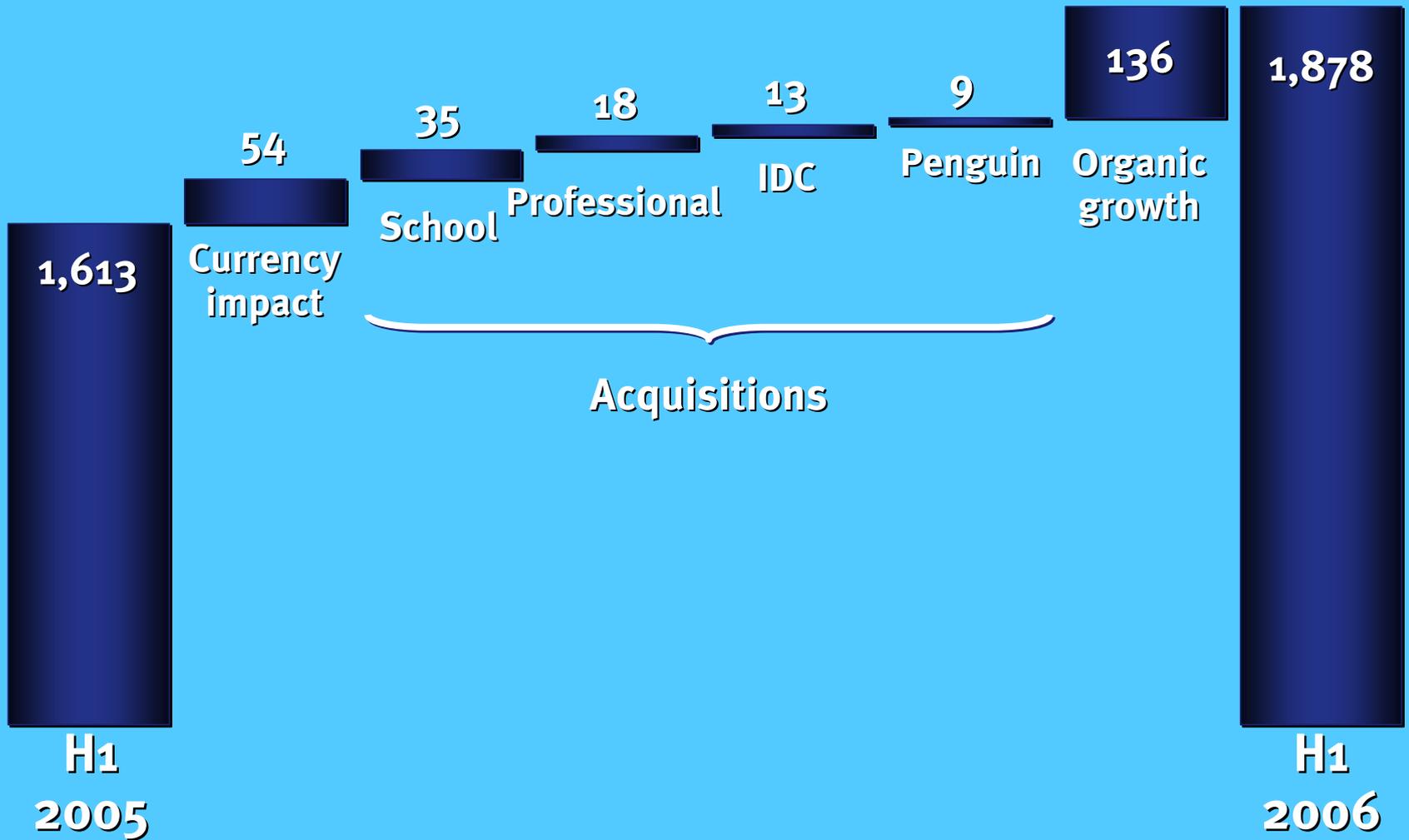
Cash and working capital discipline

Continued rigour in capital allocation

Sales

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Education	1,147	953	<i>11%</i>	<i>20%</i>
FT Group	344	307	<i>6%</i>	<i>12%</i>
Penguin	387	353	<i>2%</i>	<i>10%</i>
Total	1,878	1,613	8%	16%

Sales

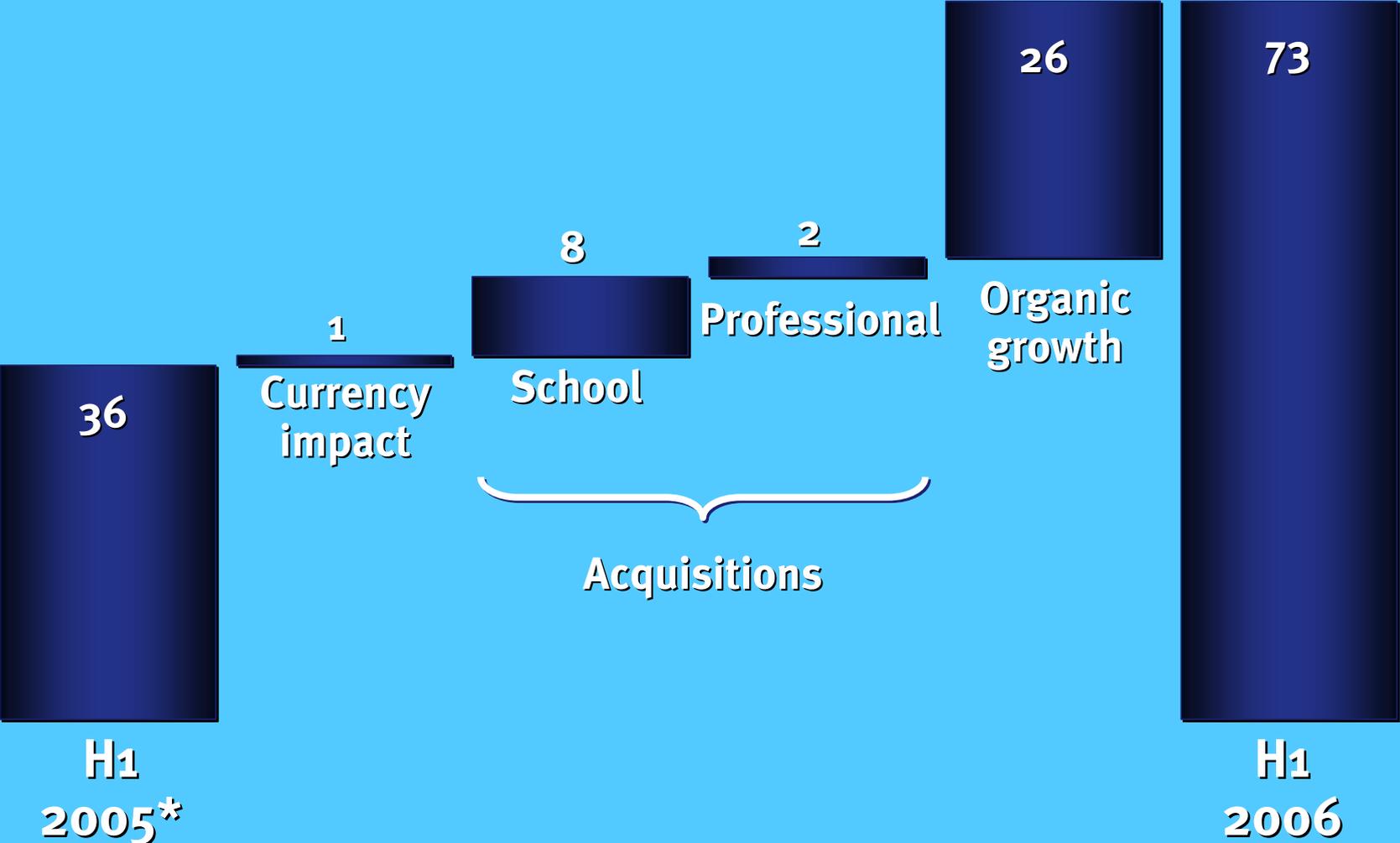


Operating profit

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Education	0	(21)	-	-
FT Group	55	44	23%	25%
Penguin	18	13	38%	38%
Total	73	36	57%	-

* continuing operations

Operating profit



* Continuing operations

Adjusted earnings per share

£m	H1 2006	H1 2005
Adjusted operating profit (total)	73	33
Finance costs – Pensions	2	(4)
Finance costs – Traditional	(44)	(35)
Adjusted profit/(loss) before tax	31	(6)
Taxation	(10)	2
Adjusted profit/(loss) after tax	21	(4)
Minorities	(12)	(10)
Adjusted profit/(loss)	9	(14)
Adjusted profit/(loss) per share	1.1p	(1.8)p

P&L - statutory

£m	H1 2006	H1 2005
Adjusted operating profit	73	33
Intangible amortisation	(9)	(3)
Discontinued operations	-	3
CBS MarketWatch	-	40
Net finance costs of associates	1	-
Statutory operating profit	65	73
Finance costs	(40)	(25)
Profit before tax	25	48
Taxation	(8)	(2)
Profit after tax	17	46
Recoletos disposal	-	300
Profit for the period	17	346
EPS	0.9p	42.3p

Free cash flow

£m	H1 2006	H1 2005	Var
Adjusted operating profit	73	33	40
Working capital	(259)	(230)	(29)
Net tangible fixed assets	(42)	(40)	(2)
Depreciation and amortisation	58	54	4
Other movements	(13)	(13)	-
Operating cash flow	(183)	(196)	13
Operating tax paid	(26)	(23)	(3)
Operating finance charges	(40)	(34)	(6)
Operating free cashflow	(249)	(253)	4
Non operating / integration	(1)	(12)	11
Total free cashflow	(250)	(265)	15

Balance sheet

£m	H1 2006	H1 2005
Goodwill & intangible assets	3,869	3,506
Tangible fixed assets	363	359
Operating working capital	1,022	1,015
Other net liabilities	(57)	(56)
Net assets	5,197	4,824
Shareholders' funds	3,291	3,148
Pension provisions	270	436
Other provisions	41	52
Minorities	173	146
Deferred tax	(189)	(256)
Net debt	1,611	1,298
Capital employed	5,197	4,824

Earnings growth and ROIC improvement: Focus on margins

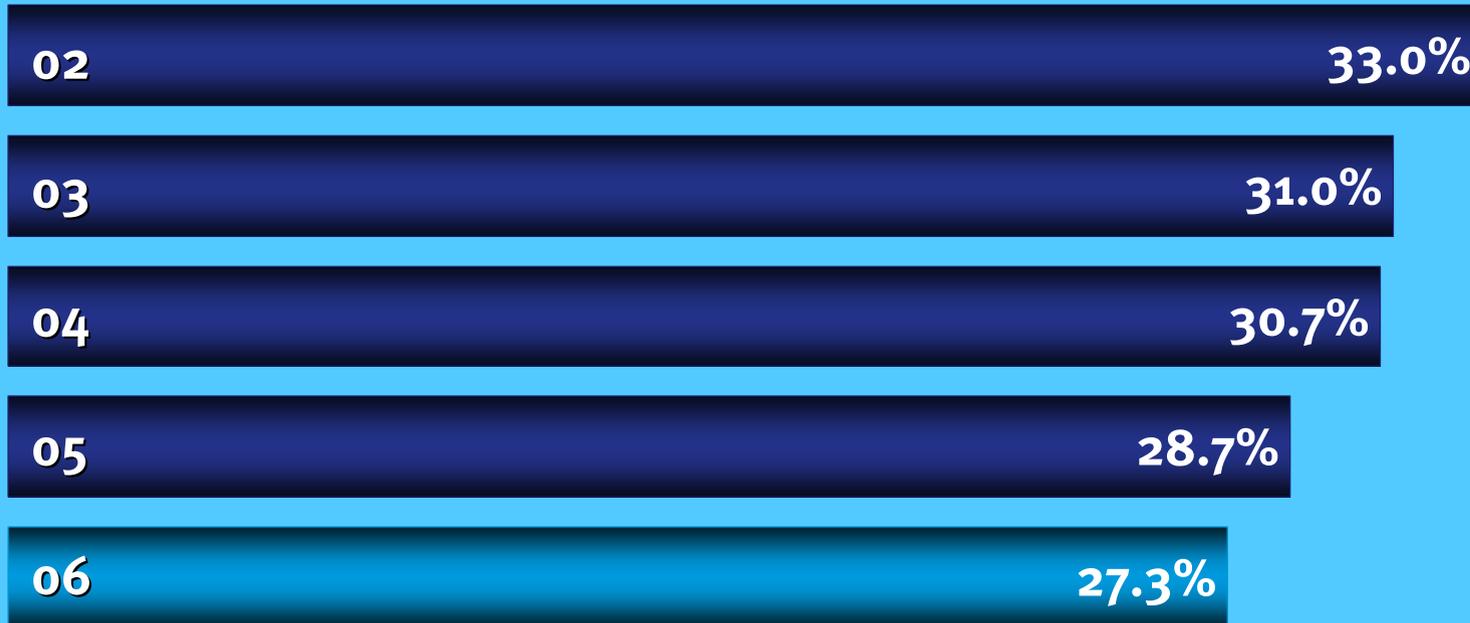
	Margins	
	2005	2004
School	11.4%	9.9%
Higher Education	20.0%	17.7%
Professional	7.6%	7.9%
FT Publishing	6.3%	1.3%
IDC	26.9%	24.9%
Penguin	7.5%	6.6%
Pearson	12.4%	10.8%

Earnings growth and ROIC improvement: Focus on margins

- Accelerating software & testing contribution
- Highly geared cyclical businesses
- Digital transformation
- Integration benefits
- Central services efficiencies

Average working capital/sales

Average to June



Rigour in capital allocation: Bolt-on acquisitions in 2006

- £273m invested in acquisitions in H106
- Earnings neutral in FY06
- Significant integration effort in H2; costs expensed
- Earnings and ROIC enhancing in FY07

2006 financial priorities

Earnings growth

Significant ROIC improvement

Cash and working capital discipline

Continued rigour in capital allocation

PEARSON



Business performance

Sustained organic growth

Continued market share gains

Further margin improvement

School: strength in breadth

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Sales	625	518	10%	21%
Operating profit	36	16	46%	-

- #1 in new adoptions
- Further share gains in testing
- Software covers 50% of US students
- Healthy outlook for adoptions, funding & policy
- Content + assessment + student information

Starting a Revolution

CONTENTS



1773: A Tea Party: the Boston Way!

The Liberty Star Times newspaper reports: Boston Harbor. December 16, 1773. Allegedly, a group of colonists, rowed out to three British ships loaded with **East India Company** tea, broke open the crates, and threw all the tea into the water. An eyewitness said, "I saw a group of colonists, known as the Sons of Liberty, disguise themselves as **Mohawks**, board the British ships, and dump the tea into Boston Harbor. It was like one big party!" The crew has yet to claim responsibility for the act.

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Higher Education: leading scale and innovation

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Sales	206	192	3%	7%
Operating profit	(53)	(45)	(13)%	(18)%

- Up 4% in US
- Investing in 1st editions
- Leadership in customisation
- Content + assessment + technology

Professional: investments paying off

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Sales	316	243	20%	30%
Operating profit	17	8	60%	-

- Rapid growth in Testing and Government Solutions
 - Testing contracts building; margins improving
 - Promissor adds scale and new markets
 - Government Solutions benefits from contract phasing
- Continued efficiency gains in Technology Publishing
 - Share and profit improvement still strong
 - Moving to digital

FT Group: significant profit recovery

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Sales	344	307	6%	12%
Operating profit	55	44	23%	25%

- Steady growth at IDC
- FT to £5m profit; advertising +11%
- International and online expansion
- More efficient operations

Penguin: improving margins and cash

£m	H1 2006	H1 2005	<i>Underlying growth</i>	<i>Headline growth</i>
Sales	387	353	2%	10%
Operating profit	18	13	38%	38%

- Continued efficiency gains
- Strong bestsellers and backlist
- Innovation on price, formats, channels



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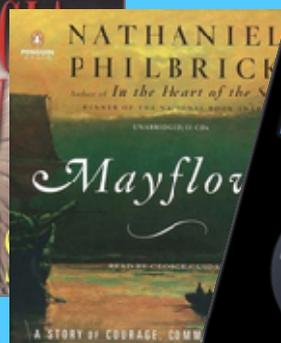
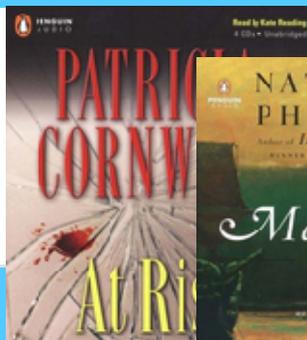
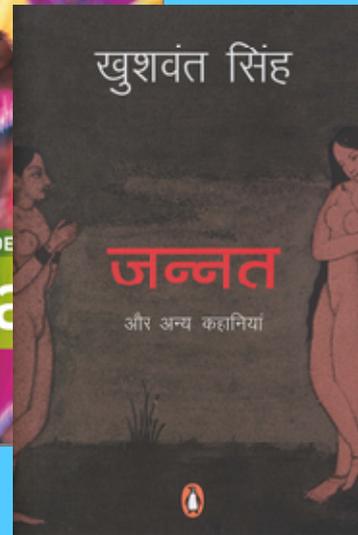
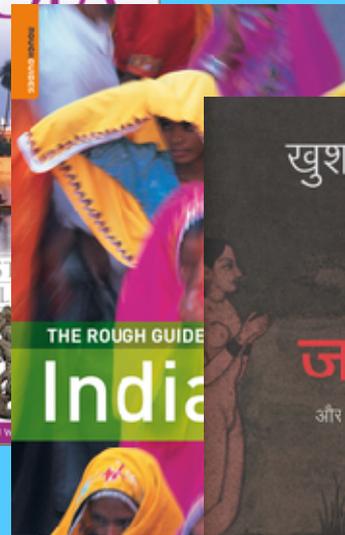
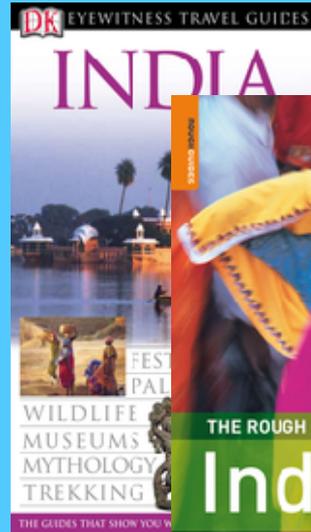
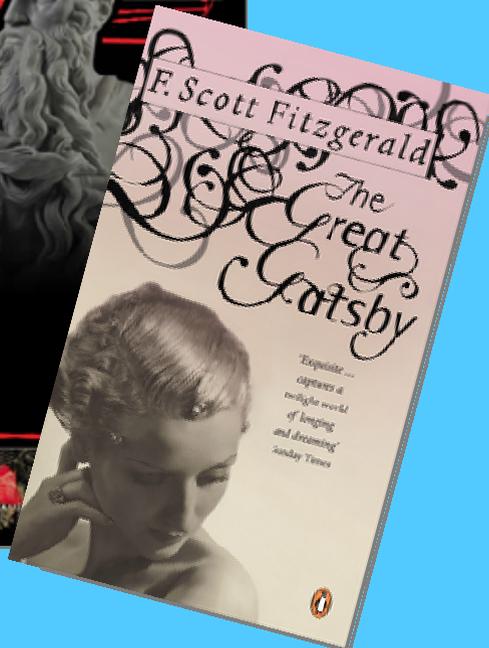
THIS YEAR IS OUR
60TH
ANNIVERSARY

THE FIRST EVER PENGUIN CLASSIC,
THE ODYSSEY, WAS PUBLISHED IN 1946.

This May, we're going back to our roots with Penguin Epics: twenty short tales of human adventure, legend and myth. These epics depict the most extreme acts of heroism, ambition, bravery and violence, revealing mankind's most profound aspirations and deepest fears.

All twenty Penguin Epics are listed below. Click on the title to find out more.

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- ESODUS
- ODYSSEUS RETURNS HOME - HOMER
- XERXES INVADERS GREECE - HERODOTUS
- THE SEA, THE SEA - XENOPHON
- THE ABDUCTION OF SITA



Sustained organic growth

Continued market share gains

Further margin improvement

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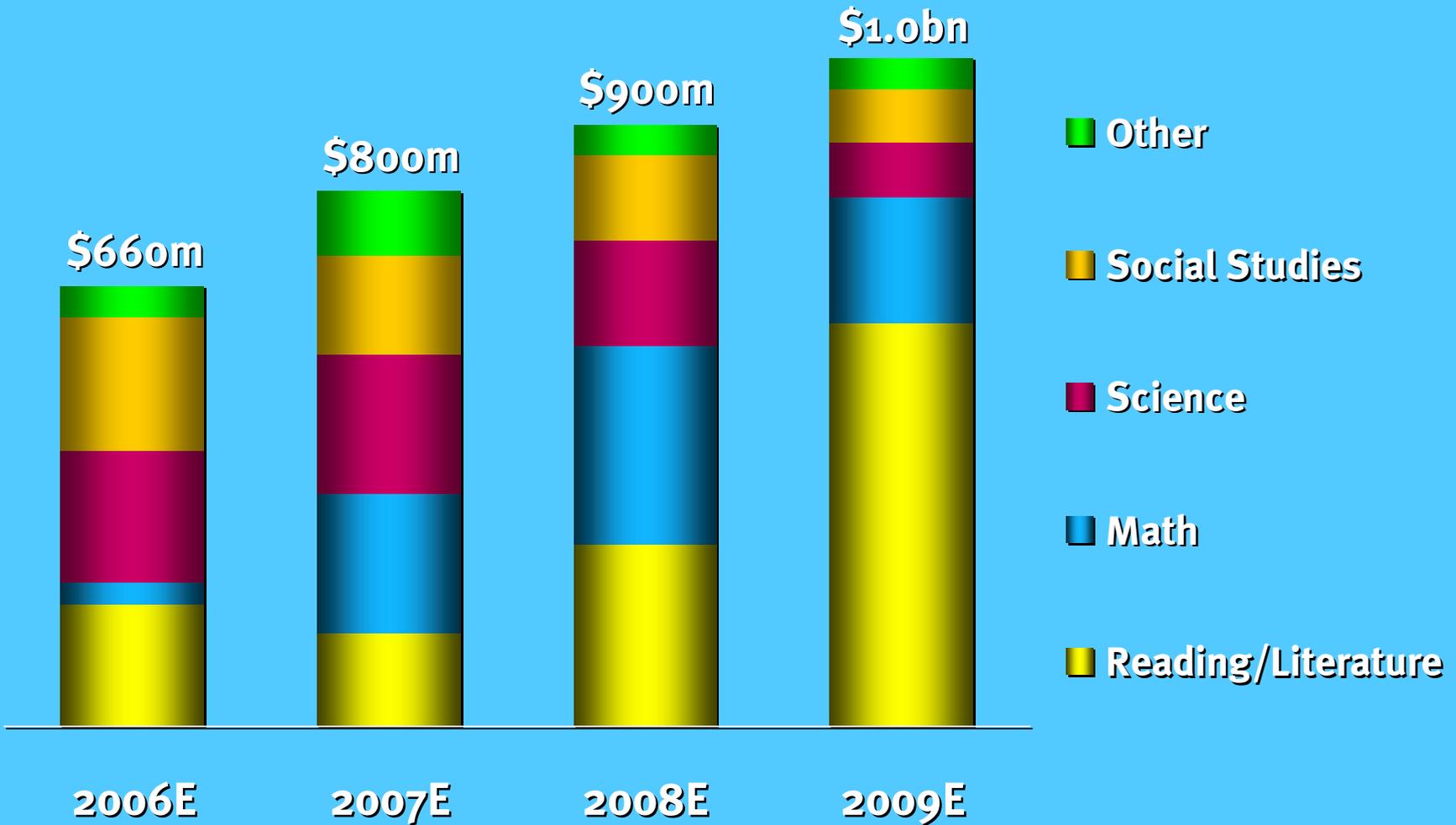
Appendices

Gaining share in school publishing

2006 estimated share of new adoptions

Subject	Total opportunity	Market share (where we compete)	Position
Science	\$200m	29%	#1/2
Social Studies	\$170m	30%	#1
Reading/literature	\$155m	35%	#2
Maths	\$30m	35%+	#1
Other	\$45m	40%+	#1
Total competed for	\$600m	33%	#1
Total – all adoptions	\$660m	30%	#1

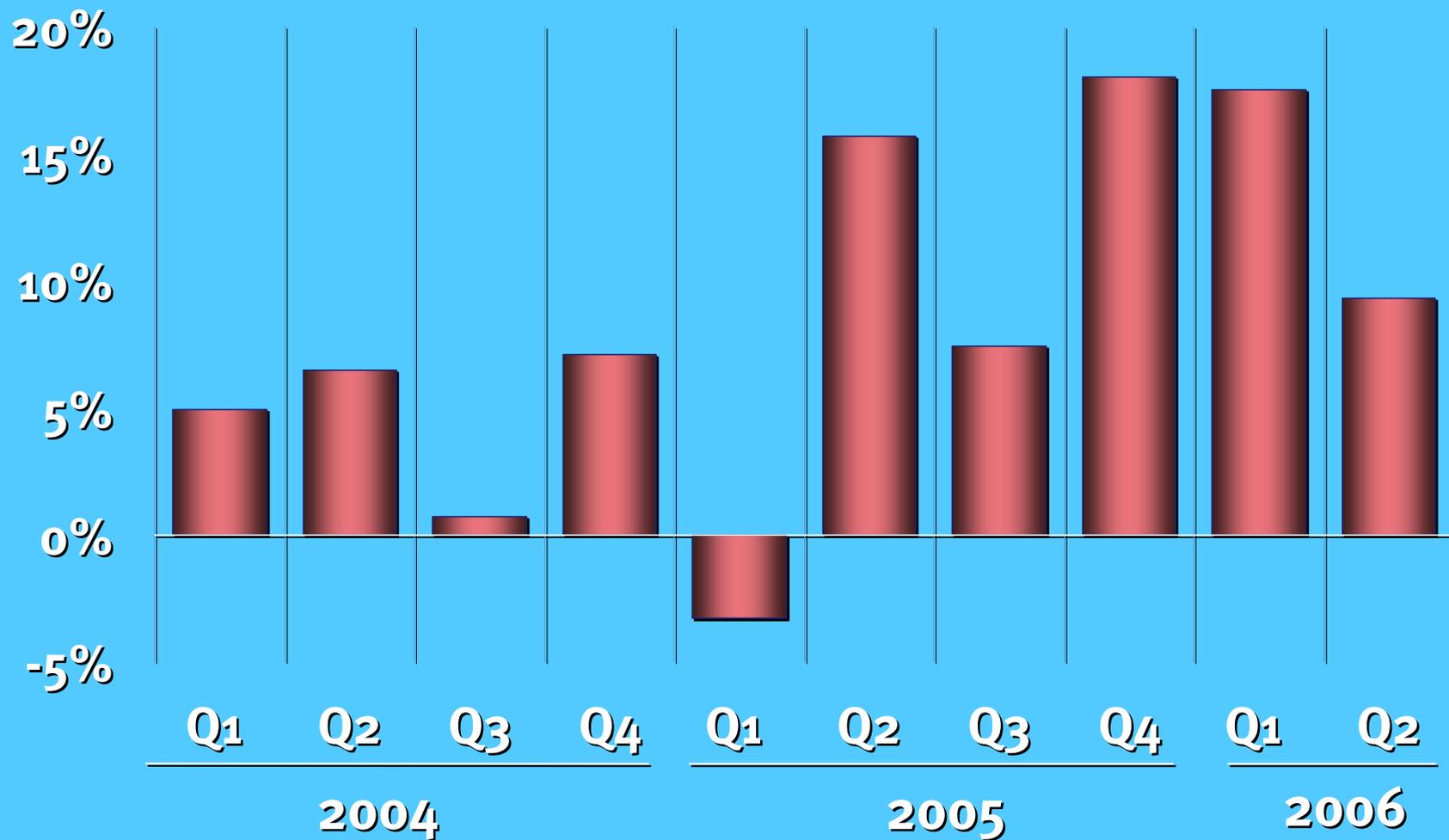
2006-2009 adoption cycle



Pearson estimates

Financial Times

Advertising revenue growth



\$ sensitivity

\$:£	2006	2005
HY average rate	1.79	1.87
HY end rate	1.85	1.79
FY average rate	-	1.81
Year end rate	-	1.72

EPS 5¢ change in average rate = +/- 1p

ROIC 6¢ weakening in average rate = (0.2)%

6¢ weakening in year end rate = 0.2 %

Reconciliation: half year net debt

£m	2006	2005
Non current assets		
Derivative financial instruments	39	63
Current assets		
Derivative financial instruments	31	49
Cash and cash equivalents	649	810
Non current liabilities		
Borrowings	(1,703)	(1,832)
Derivative financial instruments	(37)	(5)
Current liabilities		
Borrowings	(590)	(368)
Derivative financial instruments	-	(15)
Total net debt	(1,611)	(1,298)

Reconciliation: pre-publication costs

£m	2006	2005
Opening balance	426	356
Exchange	(25)	18
New spend capitalised	112	93
Acquisitions (net)	8	-
Amortisation	(79)	(65)
Closing balance	442	402
Education sales	1,147	953
Amortisation as a % of sales	6.9%	6.8%

Reconciliation: statutory to adjusted earnings H1 2006

£m	Statutory	Discontinued	Other gains / (losses)	IAS39	Purchased intangibles	Adjusted earnings
Gross profit	945	-	-	-	-	945
Operating expenses	(890)	-	-	-	9	(881)
Other net gains / losses	-	-	-	-	-	-
Share of results of JVs & Associates	10	-	-	(1)	-	9
Operating profit	65	-	-	(1)	9	73
Net finance costs	(40)	-	-	(2)	-	(42)
Profit before tax	25	-	-	(3)	9	31
Income tax	(8)	-	-	1	(3)	(10)
Profit after tax	17	-	-	(2)	6	21
Discontinued operations	-	-	-	-	-	-
Profit for the period	17	-	-	(2)	6	21
Minority Interest	(10)	-	-	-	(2)	(12)
Earnings	7	-	-	(2)	4	9

Reconciliation: statutory to adjusted earnings

H1 2005

£m	Statutory	Discontinued	Other gains / (losses)	IAS39	Purchased intangibles	Adjusted earnings
Gross profit	801	27	-	-		828
Operating expenses	(776)	(30)	-	-	3	(803)
Other net gains / losses	40	304	(344)	-	-	-
Share of results of JVs & Associates	8	-	-	-	-	8
Operating profit	73	301	(344)	-	3	33
Net finance costs	(25)	-	-	(14)	-	(39)
Profit before tax	48	301	(344)	(14)	3	(6)
Income tax	(2)	(1)	2	4	(1)	2
Profit after tax	46	300	(342)	(10)	2	(4)
Discontinued operations	300	(300)	-	-	-	-
Profit for the period	346	-	(342)	(10)	2	(4)
Minority Interest	(9)	-	-	-	(1)	(10)
Earnings	337	-	(342)	(10)	1	(14)

Retirement benefit obligations

	2006	2005
Income statement		
Operating charge		
Defined benefit schemes	14	12
Defined contribution schemes	18	18
Post retirement medical benefit schemes	(2)	1
	30	31
Interest	(2)	4
Total	28	35
Balance sheet		
UK pension scheme liability	179	320
Other pension scheme liabilities	26	39
Post retirement medical benefit liability	43	62
Other pension accruals	22	15
Total	270	436