

CONFERENCE CALL 28/12/01: SALE OF 22% STAKE IN RTL
JOHN MAKINSON SCRIPT

Hello everybody and thank you very much for joining us. The purpose of this call is to discuss the announcement we made on Monday - that we have agreed to sell our 22% stake in the RTL Group to Bertelsmann for 1.5 billion Euros – £944 million – in cash.

I know Christmas Eve was not the best of days for making an announcement of this scale, but we'd been working on this transaction for several weeks and only reached final agreement with Bertelsmann over the weekend. And as we knew many investors and analysts would not be around on Christmas Eve, we delayed this conference call until today.

This call is for investors and analysts. Journalists are very welcome to listen in to the call, but if you have any questions, please contact Becca Seymour in our London office.

Firstly, a few words by way of background. Over the past year, we've made no secret of the fact that we didn't see our investment in RTL as a long-term strategic holding for us. Initially, we saw the plans we had agreed with Bertelsmann and GBL to increase RTL's free float as the most likely exit route for Pearson.

Since then, the decline in the value of all media stocks made that a less attractive option – and, following the deal it did with GBL earlier this year we concluded that Bertelsmann saw itself as a buyer not a seller.

After discussions over a number of weeks, we were able to reach agreement on a sale. The terms of the agreement are as set out in the news release we issued last Monday and these are the highlights:

The 22% stake we are selling includes the 1.8% we control through Recoletos, our Spanish media group.

The transaction values our 34 million shares at 44 Euros per share.

We are being paid in cash.

And we've protected our position in the event that Bertelsmann buys out the remaining shareholders (who control 11% of the shares) at a higher price within 18 months.

We expect the proceeds to be largely tax-free and we expect to complete the sale by the middle of February.

There are four messages we'd like to leave you with today.

First, we are selling at a good price.

44 Euros per share represents an 8% premium over last Friday's close, a 22% premium over the average price for the last three months and is higher than the RTL share price has been at any point in the last six months. While the RTL price has obviously fallen from its peak in tandem with other advertising-based broadcasting stocks, it is trading at a slight premium to its industry peers on 2002 and also on 2003 revenue and EBIT projections. A recovery in the advertising cycle has already been discounted in the price.

The price is also at the top end of a range of values that the market attributed to Pearson Television in the sum of the parts calculations immediately before the merger with CLT-Ufa last April. So we have protected the value of our investment in a period which has seen a sharp fall in media asset values.

Second message - we will book a profit on the sale.

On our balance sheet, the RTL stake will be carried at a total equity investment of approx £780m at the end of 2001 – comprising net assets of £190m and £590m in goodwill. We will therefore realise a profit on disposal of £130m, which we will report in our 2002 accounts.

Third, the sale will enhance our earnings, strengthen our cash flow and reduce our debt.

The earnings equation is difficult to calculate because its actual impact obviously depends on how RTL performs next year but we can give you some guidance. The contribution from RTL is taxed at a rate of between 45 and 50 per cent because the RTL profits arise in European jurisdictions with high corporate tax rates and the proceeds which, as I have mentioned, flow through almost tax-free will primarily reduce US Dollar debt and also some borrowings in Euros and Sterling on which the blended interest rate is around 3.5%. After taking account of the tax shield on the debt the benefit of the earnings level of the lower debt will be around £24 million. This means that the transaction will be earnings positive on a proforma operating profit contribution to Pearson of up to £46 million in 2002.

The cash impact is clearly beneficial. We are essentially swapping a financial interest from which we receive a small cash dividend for net proceeds of some £925-30m.

Fourthly and finally, this sale clarifies our structure and strategy.

It marks the last major piece of portfolio restructuring to transform Pearson into a more focused and high quality Education and Business Media Group. We can now focus all of our management efforts and resources on businesses that we control and which will provide us with the growth and security for the future.

That is all I have to say by way of introduction and I would be happy to take any questions.