

Pearson ▶ Interim results

28 July 2003

On track for full year

- ▶ Strong competitive performances
- ▶ Continuing efficiency gains

Financial highlights

£m	H1 2003	H1 2002	change as reported	change underlying
Sales	1,665	1,813	- 8%	- 3%
Operating profit	38	76	- 50%	- 71%
Profit/(loss) before tax	(1)	26	-	
Adjusted earnings per share	(2.3)p	0.5p	-	
Dividend per share	9.4p	9.1p	3%	

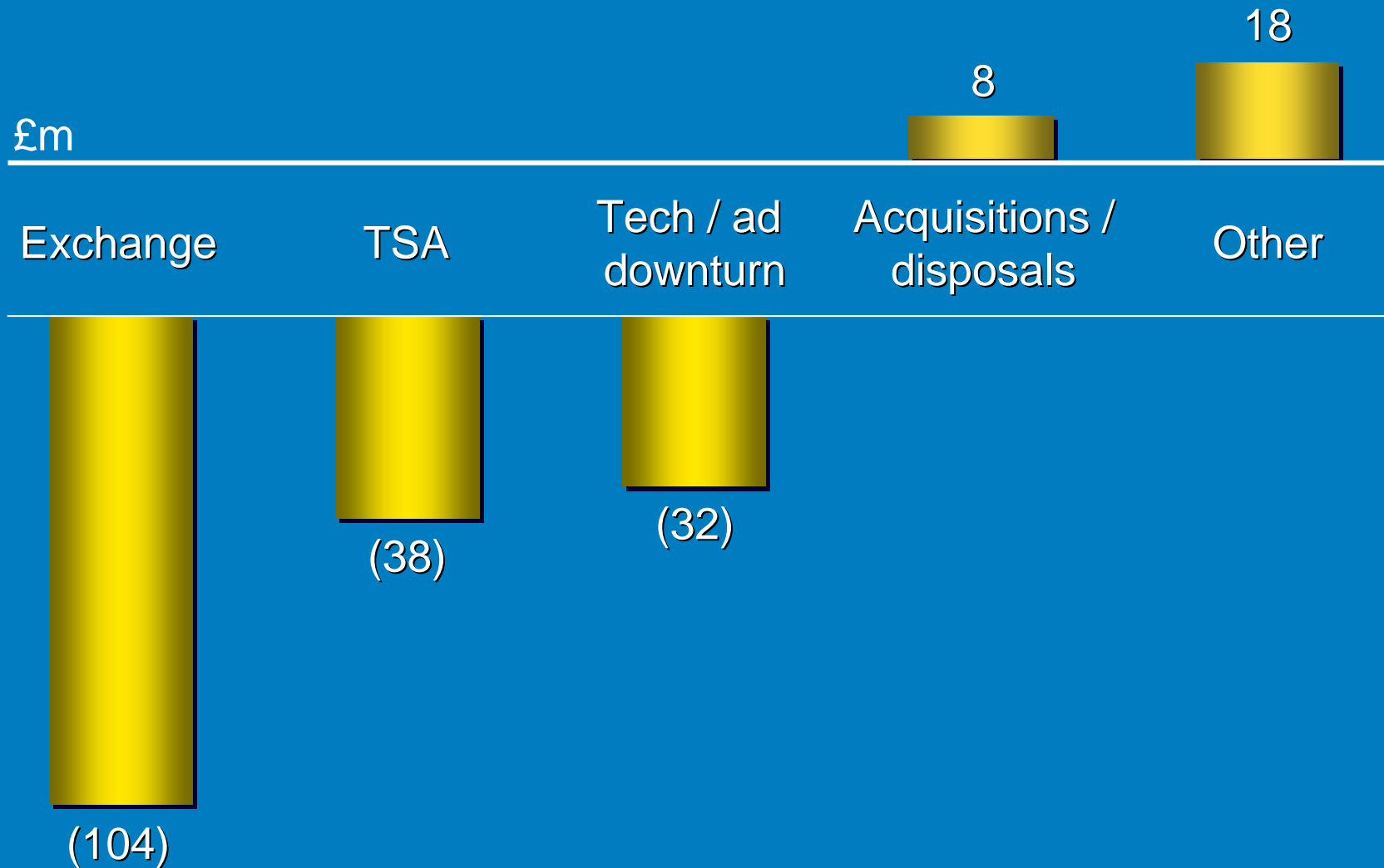
Continuing operations before goodwill, non-operating items & integration costs

Pearson › Financial performance

Sales

£m	H1 2003	H1 2002	<i>change as reported</i>	<i>change underlying</i>
Education	927	1,049	- 12%	- 1%
FT Group	370	370	0%	- 5%
Penguin	368	394	- 7%	- 3%
Total sales	1,665	1,813	- 8%	- 3%

Sales analysis

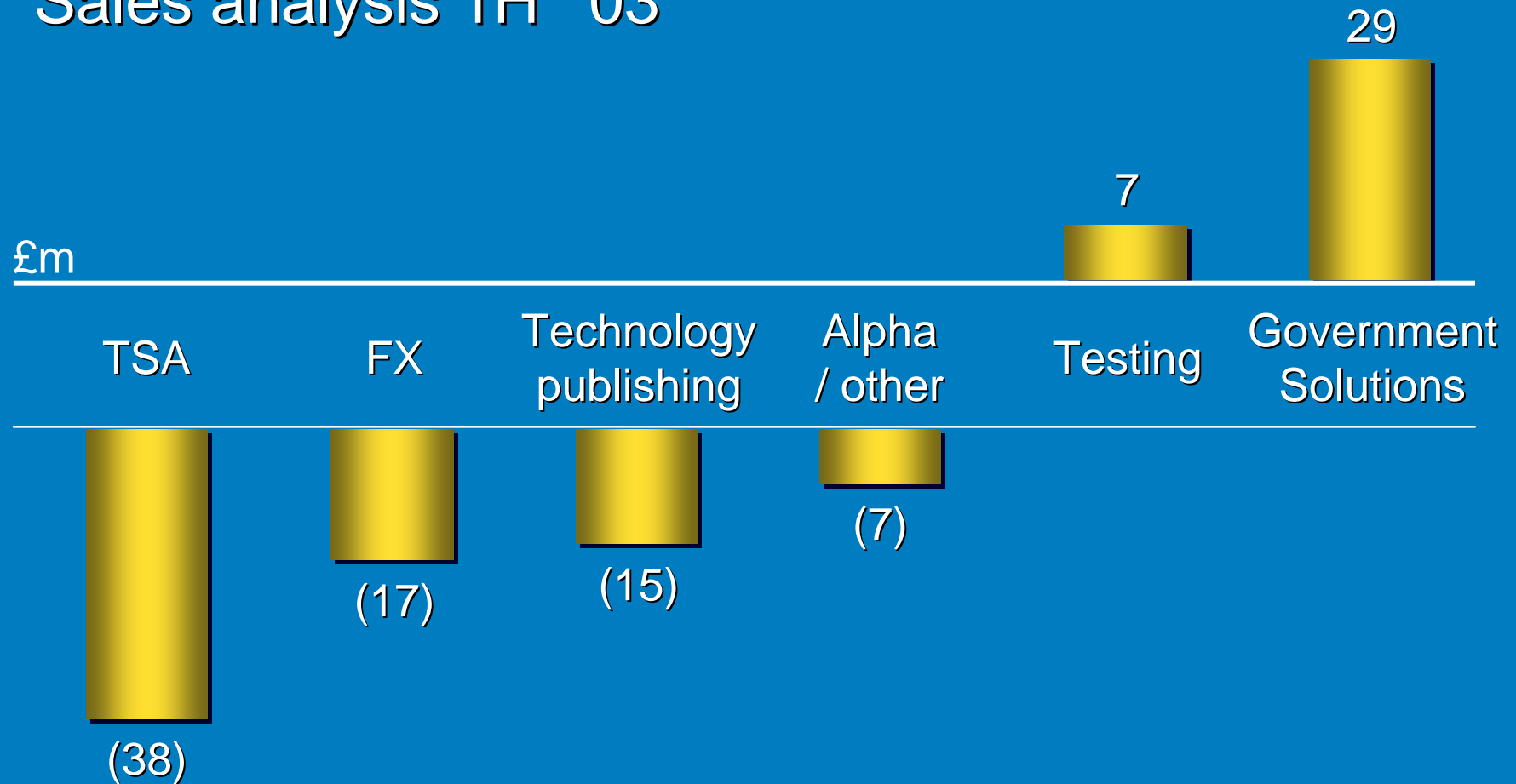


Sales

£m	H1 2003	H1 2002	change as reported	change underlying
School	487	519	- 6%	0%
Higher education	196	222	- 12%	3%
Professional	244	285	- 14%	- 6%
FT Knowledge	-	23	-	-
Pearson Education	927	1,049	- 12%	- 1%
News	238	244	- 2%	- 9%
IDC	132	126	5%	3%
FT Group	370	370	0%	- 5%
Penguin	368	394	- 7%	- 3%
Total sales	1,665	1,813	- 8%	- 3%

Pearson Education – Professional

Sales analysis 1H '03



Sales

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Operating profits

£m	H1 2003	H1 2002	<i>change as reported</i>	<i>change underlying</i>
Education	(26)	0	-	-
FT Group	43	38	13%	17%
Penguin	21	38	- 45%	- 45%
Operating profit	38	76	- 50%	- 71%

Continuing operations before goodwill, non-operating items & integration costs

Operating profits

£m	H1 2003	H1 2002	change as reported	change underlying
School	12	12	-	- 26%
Higher Education	(43)	(32)	- 34%	- 54%
Professional	5	29	- 83%	- 81%
FT Knowledge	-	(9)	-	-
Pearson Education	(26)	0	-	-
News	2	3	33%	- 30%
IDC	41	35	17%	21%
FT Group	43	38	13%	17%
Penguin	21	38	- 45%	- 45%
Total	38	76	- 50%	- 71%

Adjusted earnings per share

£m	H1 2003	H1 2002
Operating profit	38	76
Finance cost	(39)	(50)
Profit/(loss) before tax	(1)	26
Taxation	-	(9)
Profit/(loss) after tax	(1)	17
Minorities	(17)	(13)
Adjusted profit/(loss)	(18)	4
Adjusted earnings/(loss) per share	(2.3)p	0.5p
Dividend per share	9.4p	9.1p
Continuing operations before goodwill, non-operating items & integration costs		

\$ sensitivity

	2003	2002
Average HY rate	1.61	1.45
Average FY rate	1.62 (e)	1.51

5 CENT CHANGE FOR FULL YEAR = APPROXIMATELY 1P EPS IMPACT

P&L

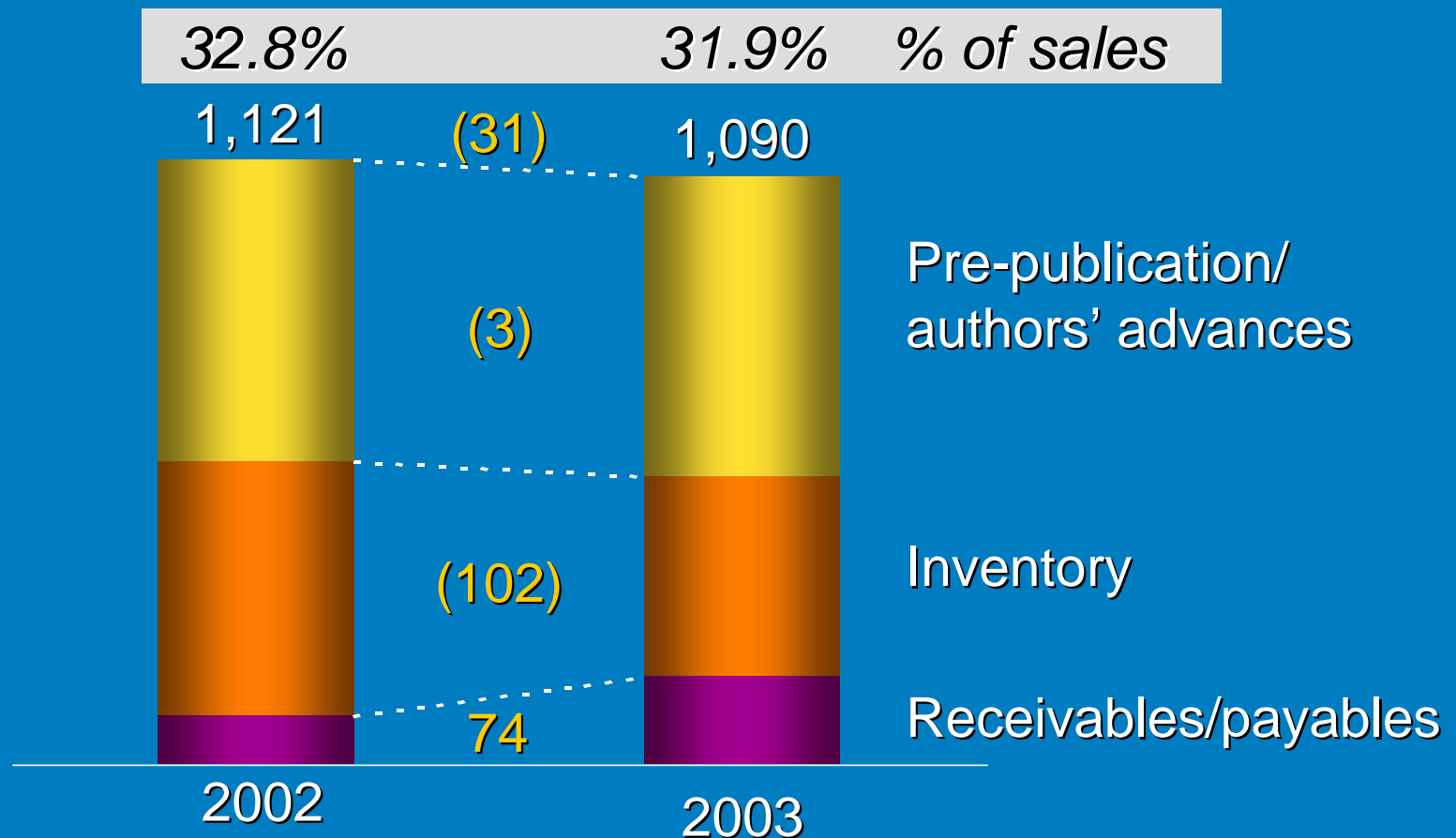
£m	H1 2003	H1 2002
Operating profit	38	76
Goodwill	(148)	(182)
Integration costs	-	(5)
Total operating loss	(110)	(111)
Non operating items	11	10
Finance costs	(39)	(87)
Taxation	(9)	(6)
Minorities	(13)	(13)
Loss	(160)	(207)

Free cash flow

	2003 half year	2002 half year	VAR
Operating profit	38	76	(38)
Working capital	(370)	(277)	(93)
Net tangible fixed assets	(52)	(69)	17
Depreciation	56	63	(7)
Other movements	(10)	(22)	12
Operating cash flow	(338)	(229)	(109)
Operating tax paid	(1)	(19)	18
Operating finance charge	(36)	(56)	20
Operating free cashflow	(375)	(304)	(71)
Non operating / integration	(6)	(85)	79
Total free cashflow	(381)	(389)	8

Average annual working capital

Pearson Education and Penguin, £m



Balance sheet

£m

	H1 2003	H1 2002
Intangible assets	3,560	3,939
Tangible assets	498	528
Operating working capital	1,107	1,129
Other net liabilities	(12)	(47)
Net trading assets	5,153	5,549
Shareholders' funds	3,077	3,509
Provisions	148	174
Minorities	211	189
Deferred tax	(180)	(280)
Net debt	1,897	1,957
Capital employed	5,153	5,549

Financial priorities

- ▶ Earnings growth
- ▶ Cash generation
- ▶ ROIC
- ▶ Balance sheet strength

Pearson ▶ Interim results

Market

Performance

Outlook

Market

Performance

Outlook

PEARSON
Education

US School

- ▶ State budgets under pressure; education a priority
- ▶ Flat market in '03; pressures linger in '04
- ▶ Federal funds beginning to flow

Market

Performance

Outlook



US School

Agenda

Progress

Gain share in publishing

#1 in new adoptions

Build on #1 rank in testing

Make online leadership pay

Market

Performance

Outlook

PEARSON
Education

#1 in new adoptions

subject	opportunity (est)	market share (est)
Secondary social studies	\$200m	23%
Secondary literature	\$110m	40% +
Elementary social studies	\$100m	58%
Elementary reading	\$80m	30% +
Total competed for	\$585m	35%
Total – all adoptions	\$690m	30%

Market

Performance

Outlook

PEARSON
Education

School

Agenda

Progress

Gain share in publishing

#1 in new adoptions

Build on #1 rank in testing

\$150m of new US business

Make online leadership pay

Market

Performance

Outlook

PEARSON
Education

Scoring in testing

- ▶ 90% of revenues set for the year
- ▶ \$150m of new business including SAT
- ▶ UK schools testing added
- ▶ New US bids in H2 to support NCLB compliance

Market

Performance

Outlook

PEARSON
Education

US School

Agenda

Progress

Gain share in publishing

#1 in new adoptions

Build on #1 rank in testing

\$150m of new US business

Make online leadership pay

Full year costs \$20m lower

Market

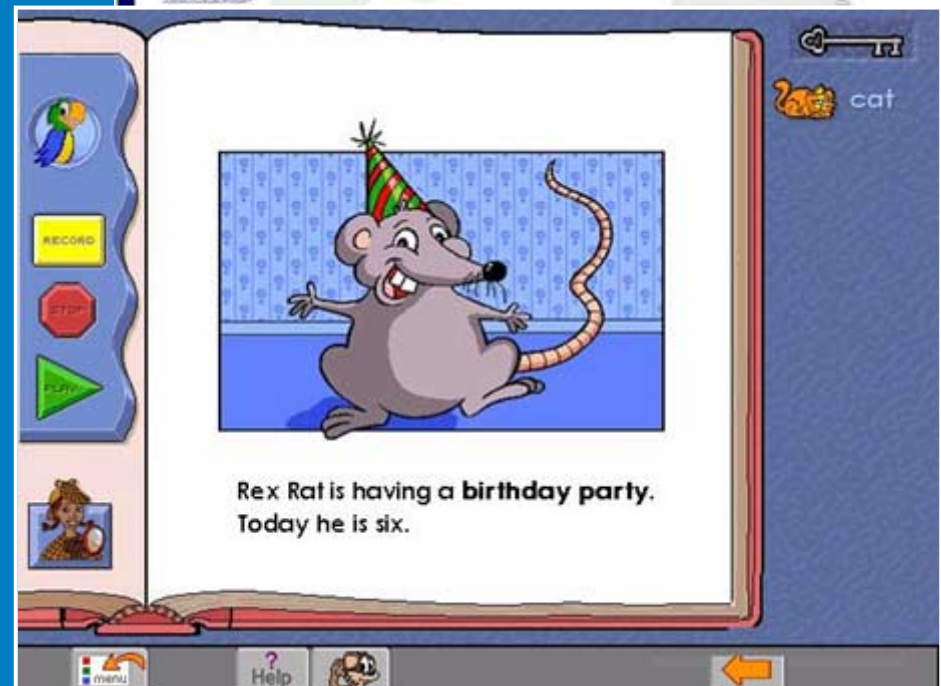
Performance

Outlook

PEARSON
Education

Integrating online learning

- ▶ Costs lower
- ▶ Content integrated
- ▶ Concert launched



Market

Performance

Outlook

PEARSON
Education

US Higher Education

- ▶ Enrolments rising
- ▶ Budget pressures...
- ▶ ...but students pay

Market

Performance

Outlook

PEARSON
Education

Higher Education

Agenda

Progress

Keep growing market share

US sales +4%, flat market

Widen lead in custom publishing

Custom sales up 20% +

Use technology to increase adoptions and sell-through

2m+ students studying with our software in '03

Market

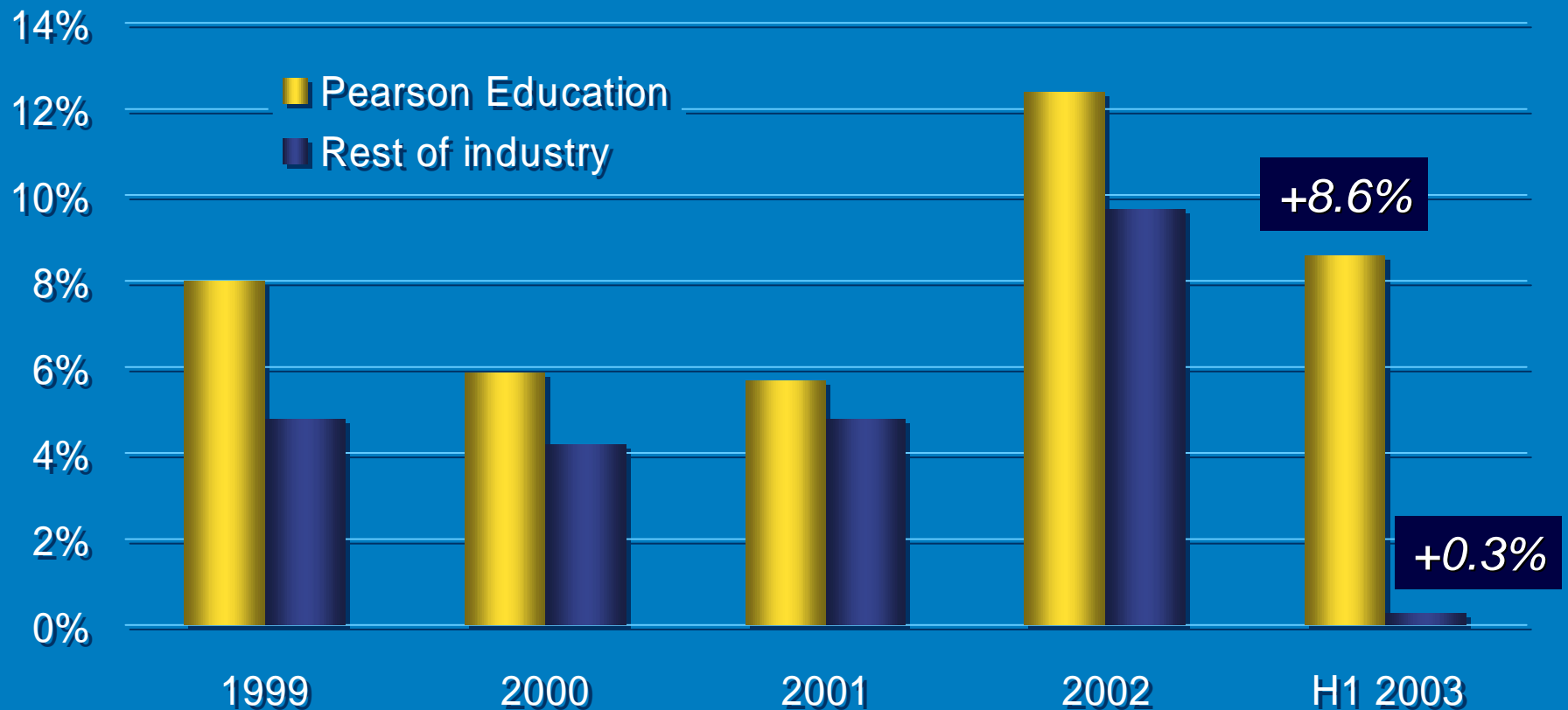
Performance

Outlook

PEARSON
Education

Still beating the market

% change in Higher Ed gross sales vs. prior year



SOURCE: MANAGEMENT PRACTICE DATA

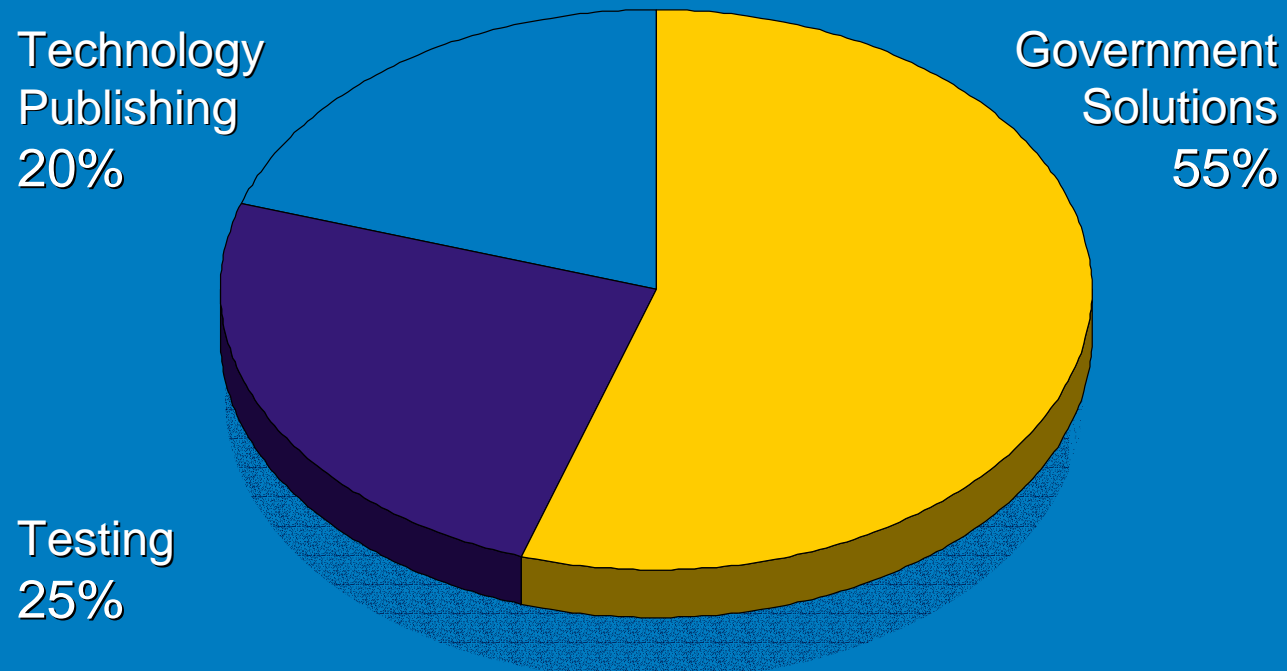
Market

Performance

Outlook

PEARSON
Education

Professional



2002 revenues : £784m

Market

Performance

Outlook

PEARSON
Education

Professional

Agenda

Progress

Maintain technology margins

**Revenues down 20% in H1;
margins up for full year**

Expand certification
contracts

Revenues up 6% in H1

Build government contracts

New contracts ramping up

Market

Performance

Outlook

PEARSON
Education

Pearson Education

30% of
adoption \$
won

**School
market flat;
Pearson out-
performing**

Testing
revenues
90% set;
software
costs \$20m
lower

**Benefit from
breadth**

Higher Ed
still out-
performing

**US higher ed
up 5-7%;
Pearson
growing
faster**

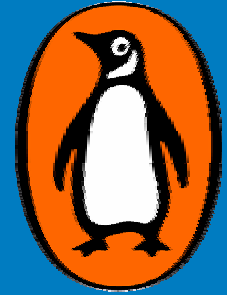
Professional
growing
strongly
ex. TSA

**Tough '03
comparisons**

Market

Performance

Outlook



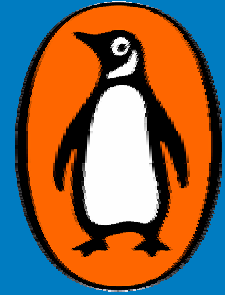
Penguin

- ▶ UK continues to grow
- ▶ US market down in H1

Market

Performance

Outlook



Penguin

Agenda

Progress

Sustain bestseller performance

Strongest frontlist ever

Further progress at DK

**Strong list in H2;
further cost savings**

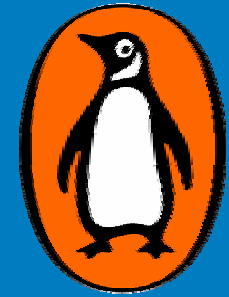
Benefit from scale with
Education

**Australia, Canada integrated;
UK back office integration '03**

Market

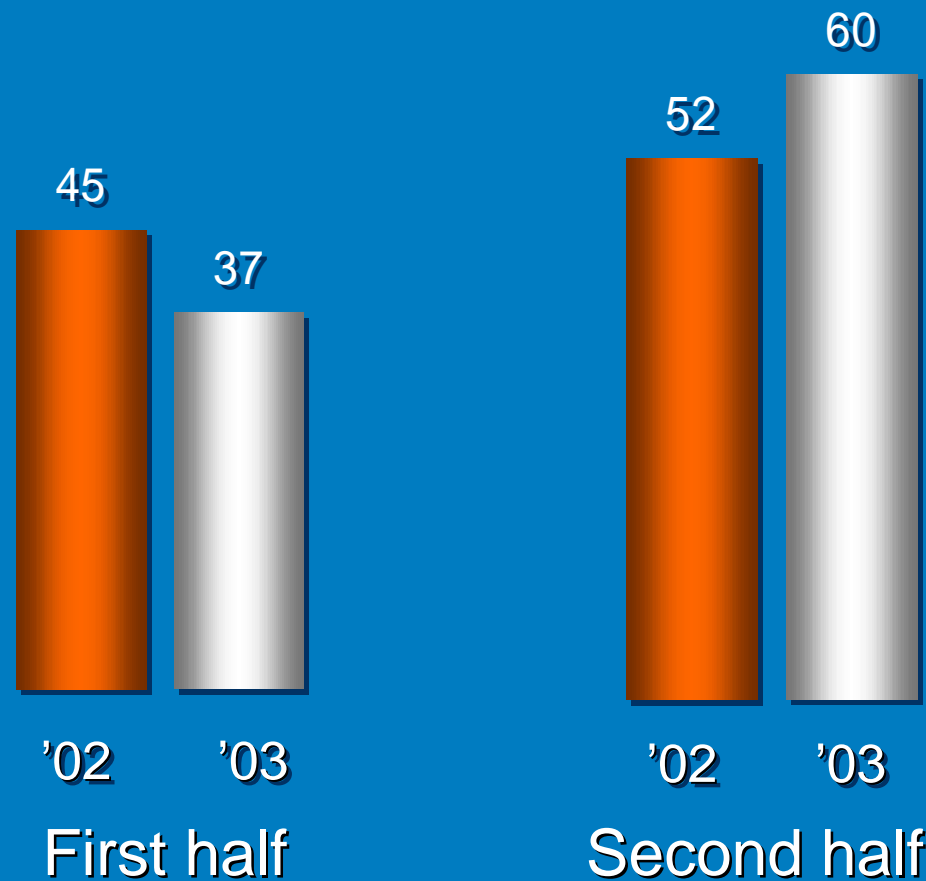
Performance

Outlook



Pick-up at Penguin

Penguin US major titles*

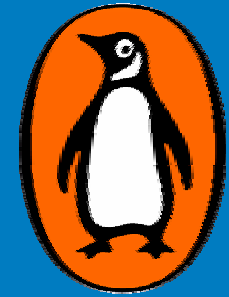


* INCLUDES HARDCOVER TITLES WITH VOLUMES OF 100,000 +; PAPERBACK TITLES OF 500,000+

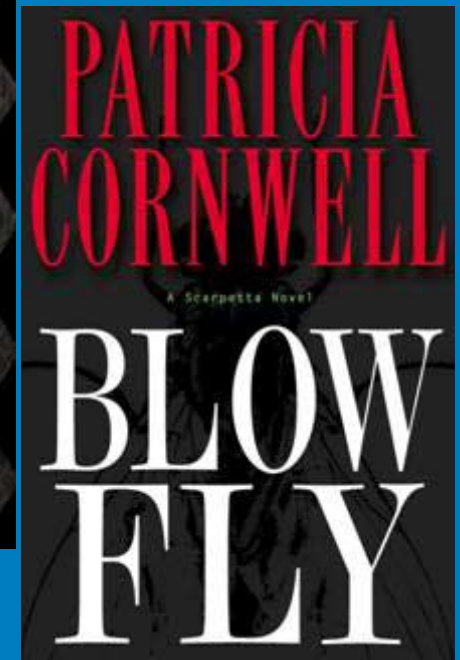
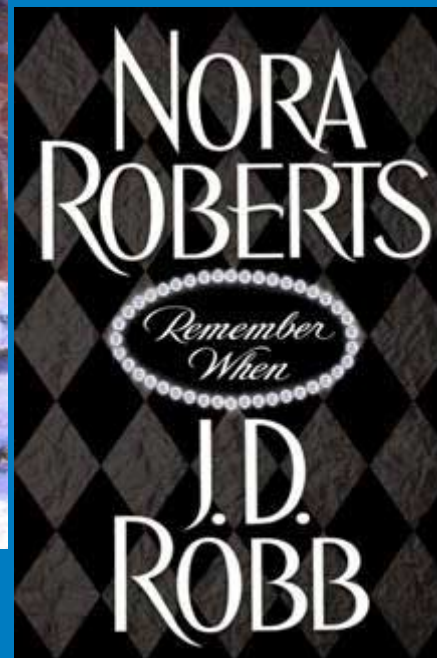
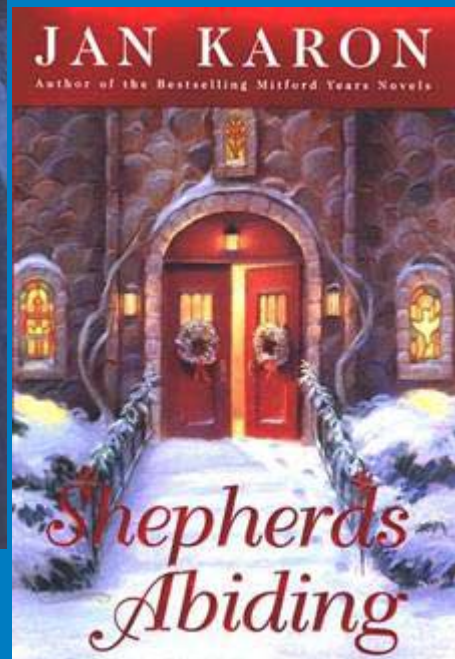
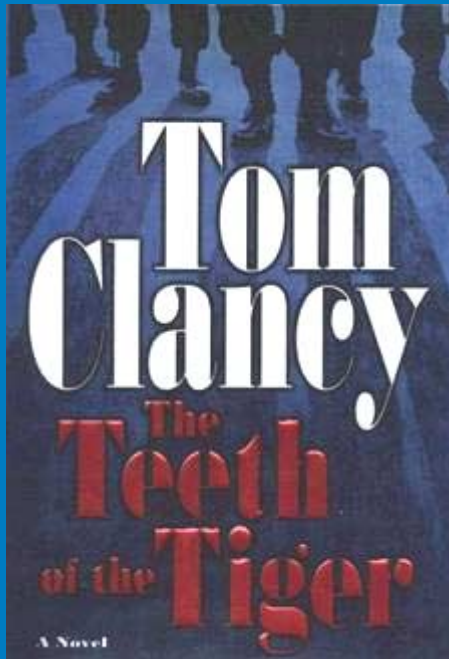
Market

Performance

Outlook



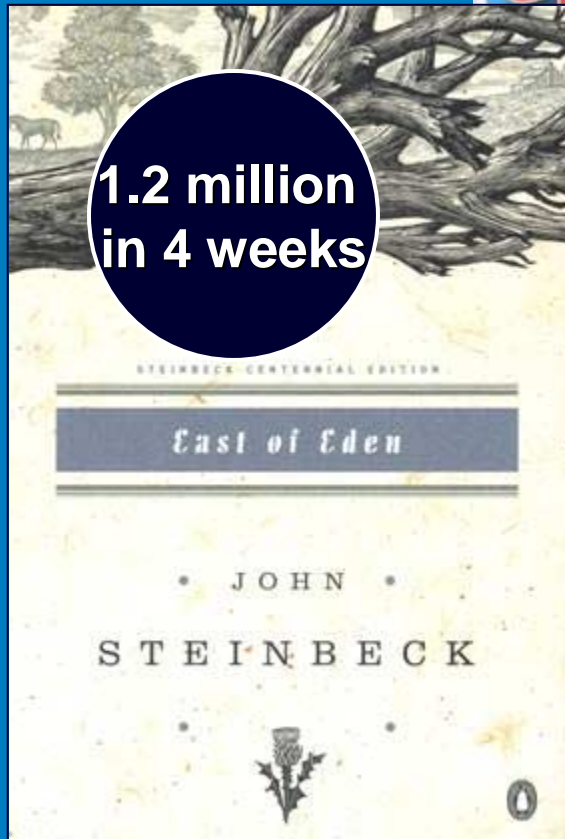
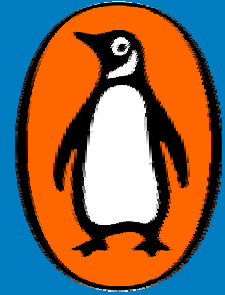
Pick-up at Penguin



Market

Performance

Outlook



1.2 million
in 4 weeks



1 million
sold



680,000
in 2 weeks



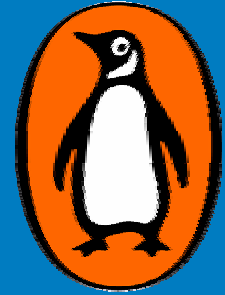
42
languages

100
countries

Market

Performance

Outlook



Further progress at DK

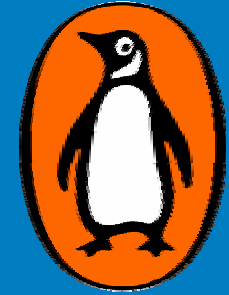
- ▶ Strong frontlist in H2; weak backlist market in H1
- ▶ Investment in business and children's segments
- ▶ Integration complete; further cost reductions in '04



Market

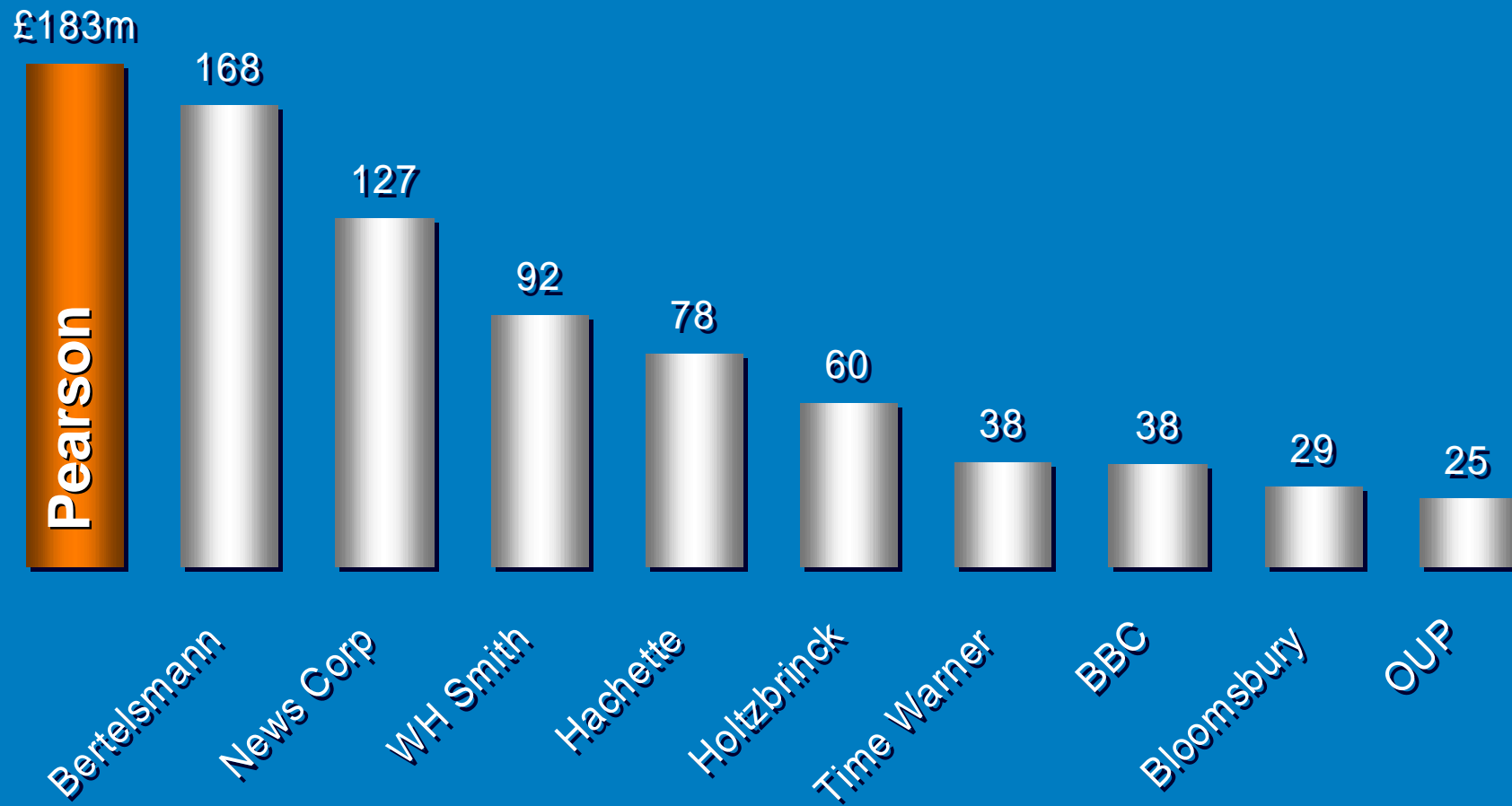
Performance

Outlook



The UK's leading book publisher

2002 UK sales, £m

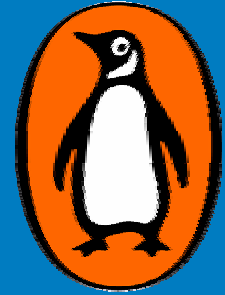


Source: The Bookseller

Market

Performance

Outlook



Penguin

Strongest
frontlist ever;
good start
to H2

Further
consolidation
efficiencies

**Out-perform
flat market**

**Profits
growing
ahead
of sales**

Market

Performance

Outlook



Corporate advertising market

Year-on-year movement in ad revenues



Market

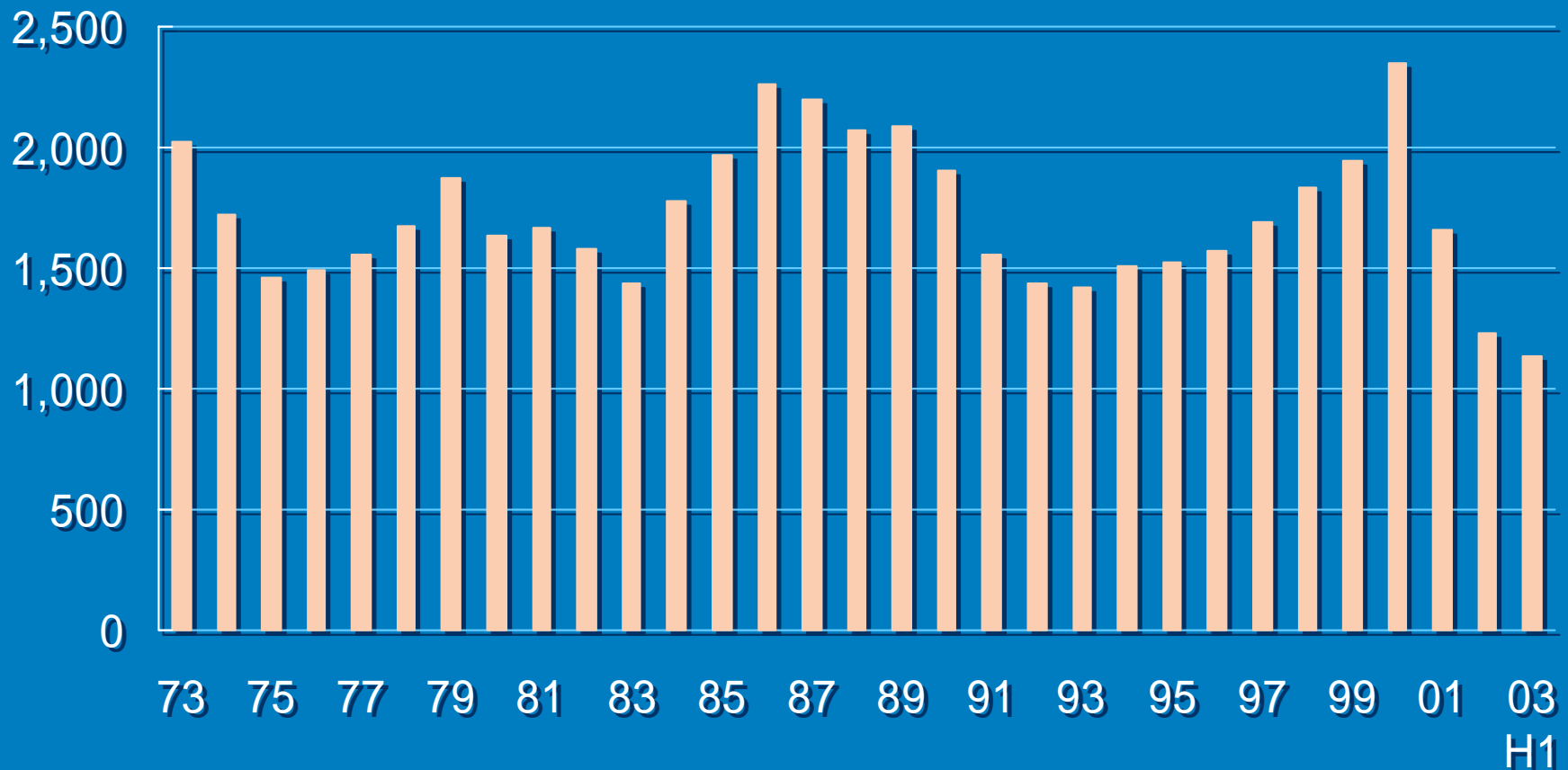
Performance

Outlook



FT advertising : long term trends

Advertising '000 column cms



Market

Performance

Outlook

FT

FT Group

Agenda

Progress

Control costs

**Actions fund '03 investments;
more improvements in '04**

Build the FT's reach and brand

**Successful UK revamp;
Asia launch in H2**

Develop Recoletos and IDC

**IDC growing; acquisitions on
track; Spanish titles gain share**

Control costs

- ▶ £13m cost savings in '03
 - to partially fund international investment
- ▶ £15m cost savings in '04
 - further savings on pagination, marketing, print, distribution, technology
 - global advertising function reshaped
 - UK and Europe regional teams combined

Market

Performance

Outlook

FT

Build the FT's reach and brand

- ▶ UK revamp improves circulation trends
- ▶ FT.com audience still growing
 - 3.5m users; 57,000 subscribers
- ▶ Asian edition to launch in Autumn



Market

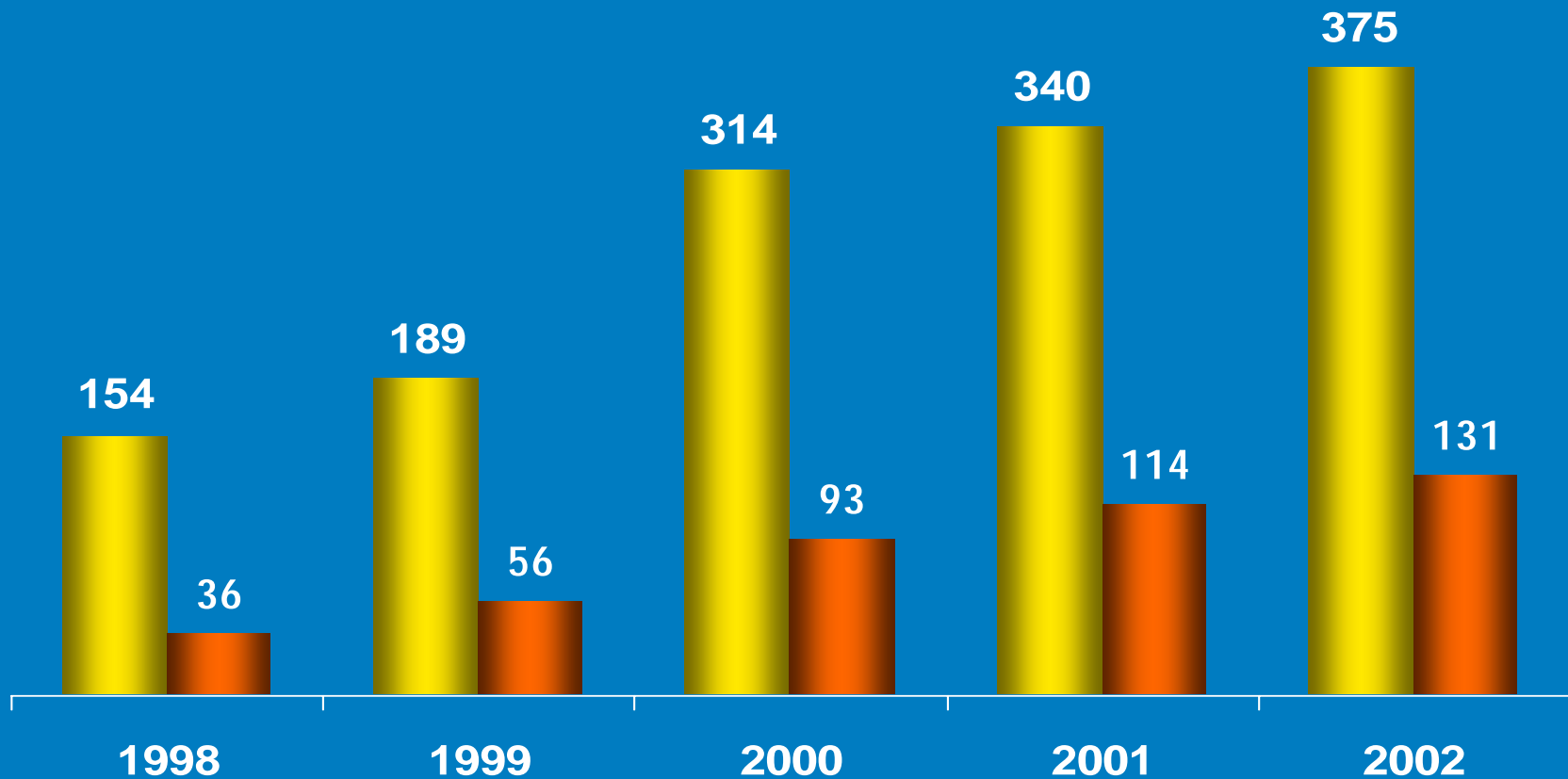
Performance

Outlook

FT

IDC's transformation

Sales and operating profits*, \$m



*before depreciation and amortisation

Market

Performance

Outlook

FT

FT Group

Reliable
growth at
IDC

Circulation
trends
improving

Cost base
lower

**FT Group
profits
ahead of
'02**

**Ad market
uncertain**

**Highly
geared for
recovery**

On track for full year

1. Good portion of business in hand
2. Costs and efficiencies
3. Strong products

Pearson ▶ Interim results