<u>Transcript of conference call with European investors</u>

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Thank you for joining us this morning. The purpose of this call is to bring you as up-to-date with current trading and the outlook for the full year as we can. We are basing our guidance for the rest of the year on some hard data: our sales performance for the 9 months to September 30. This is not a prelude of quarterly sales reporting but more a reflection of these very exceptional times we are in.

We indicated back at the end of July that this was a tough and unpredictable year for our business newspapers - the Financial Times, Les Echos, Expansion, FT Deutschland and The Economist – because they generate the great majority of their revenues from advertising.

At that stage, we were expecting FT Group profits to be some 15% lower than last year. We based our guidance on the volume declines we had seen in May and June and we felt we were taking a pretty cautious view about the outlook for the year. And, through the first week in September, our newspapers were tracking those forecasts.

Since then, as you know, we have seen another major nosedive in advertising. In the week of September 10th, advertising sales were down 24% on the same week last year. For the next three weeks, revenues were down 48%, 50% and 43% respectively. The last time we saw drops of this magnitude was in the early 1990's and then it took four years for volumes to fall as far as they have in the last six months. More than half of this fall has come in the last month.

If advertising continues at current levels of booking, FT Group profits could be some 40% lower than last year.

Compared with the guidance we gave in July, there are two other areas where our expectations have materially changed:

- The first is caused by the advertising market as well. Back in July, the RTL group, in which we own a 22% stake, was expecting its profits to be some 25% lower than last year. It, too, has said that it is now expecting its profits to be even lower due to the continued lack of advertising. As Europe's largest free-to-air broadcaster, RTL is outdoing its peers, gaining audience share, restructuring its business and putting itself in leaner shape. However this is unlikely to help this year.

- The second is our IT publishing businesses - as you know, we are the largest computer books publisher in the world - and sales of those books have been hit harder than expected. They were suffering in the first half of the year and have taken another big hit in the third quarter. The profit could be some £25m lower than we signalled at the half year. We have cut costs significantly for the last four quarters and focused on more profitable, higher value segments of the market. This will help us to sustain double-digit margins this year. It means we will start next year with a cost base that is some 10 % lower than this year.

> At the same time, we are very confident that, when the technology market recovers, we will be ready as the largest and best publisher in the field.

There are still 10 weeks of trading at this stage to go. No doubt these will be difficult and uncertain weeks. But our other businesses are trading pretty much in line with the guidance we gave you at the half year.

At this stage in the cycle, our US education businesses are proving to be as resilient as we expected.

We are out-performing the market in the US school business. Underlying sales are up 9%. What's driving that growth is the fact that our basal publishing businesses are doing well in the elementary market and having a truly great year in the secondary market. With most of the selling now done, we are very confident that, for the full year, we will perform better than the market as a whole.

NCS is on track to deliver 30% + profits growth for the full year. We're seeing the increasing benefits of NCS's integration with Pearson Education and the continued strength of the testing business.

We are gaining share again in the US college market.

Sales in our US College business are up 4 % and with a big fourth quarter ahead of us we expect to do better than that for the year as a whole.

Looking at Penguin, it continues to top the best-seller charts. In the 9 months to 30 September, we have had 133 titles on the US and UK best-seller lists, up 22% on the same period last year. We talked back in July about worsening industry-wide softness in back-list sales. That continues to be a problem. For example, we have seen a sharp decline in sales of our Rough Guides and DK travel guides and various imprints in the last month. That could reduce profits by several million pounds. But we continue to have a bumper year on the best-seller lists.

Costs of our internet enterprises are falling sharply. This year, pre-tax profits will improve by some £60m as we reduce the costs and increase the revenues of our internet enterprises. Over the last eight weeks, we have moved ahead even more aggressively on the integration plans we talked about in July. For example, you will probably have seen today's announcement on our plans for MarketWatch. We've been making similar moves at Learning Network which has a workforce down by 75% from last year. As a result breakeven targets for FT.com and Learning Network remain in place. Business models are even more focused and confident.

In every one of our businesses, we are gaining ground on our major competitors. Nowhere is that more true, despite the advertising downturn, than in the FT Group.

1. At the FT newspaper, we expect to deliver margins this year of 15%-17% compared to 9% back in the last downturn in the early 1990's. If you look at it across this cycle, the FT newspaper is now generating

margins from the bottom to the top of the cycle of 15%-30%. In the 1990's, the range was more like 10%-20%.

2. We started this quarter with a cost base some 16% lower than a year ago. And we've taken further steps in recent weeks to reduce that by moving on to the next stage of the integration of our newspaper and internet businesses.

3. At the same time, we do continue to increase the FT's audience. We expect to end this year with average daily sales of 500,000, up slightly on last year and up from 300,000 four years ago.

4. Also our internet strategy is starting to pay off at the FT. For example, through the end of September, FT.com revenues are up 82% to £15.5 million. Catching up fast with wsj.com where revenues are down 25% to £18.1 million.

5. Finally journalistically, we are very proud of the way that all our titles have covered the events of September 11th and its aftermath. The FT - with its unique ability to cover business, finance and politics from a really internationalist perspective - is in greater demand than ever, in a world which is responding to press on a multilateral basis. However tight the advertising market, we are giving our journalists all the resources they need to cover this story.

To summarise. We are now expecting profits for this year to be significantly below our original budget. The bulk of that shortfall is directly attributable to the sharp downturn in advertising markets and much of the balance to the technology recession. These markets are cyclical in character and they will bounce back. When they do we will see the benefit from our leading businesses. In the meantime we will manage our costs and our cash to mitigate the impact of weaker demand on our financial performance.