As you all know, our first half numbers by themselves don’t tell you too much because of the phasing of our business. That is why as you’ll have seen from our announcement this morning, we’ve decided to give an additional trading update around the end of October, which is our key trading period of the new school and college years. Our goal today is to tell you about the strong start we’ve made to the year and to explain what that means for our prospects for the full year and I’ll finish with our latest thinking on the outlook for 2005 and beyond.

When we presented the 2003 full year results to you, these were our headlines. We said that we expected progress in underlying terms in 2004, and, at the same time [as] we would be investing for 2005 and beyond, where we see very strong gains on our three key financial goals: earnings, cash and returns. Our theme today is even simpler. We are still planning to perform as expected, both this year and next.

So here are the main numbers. In underlying terms, sales are up 1%, operating profit, pre-tax profit and earnings are all ahead. Free cash outflow is better by over a million -- GBP100m. And, once again, we’re demonstrating our confidence in our business and have increased our dividend ahead of inflation by 3% to 9.7p.

So, first, turning to sales. Sales were relatively flat as growth in the FT Group and Higher Education was mostly offset by the already predicted weak school adoption calendar. The currency impact for the half year on sales was GBP129m.

Turning to profits. These were up in double digits, with cost savings at the FT Group being the main contributor.

Moving down the P&L, the variances, as you see, against last year’s are pretty small. The finance charges improved a little, but we’d expect the second half charge to be marginally ahead as the cash flow improvement is likely to be offset by the expected interest rate rises. Adjusted earnings per share moved from a loss of 2.3 to 1.8p. Obviously, the weak dollar has effected our reported half-year results and has hit Penguin particularly hard with a combination of both translation and transaction exposure. But our guidance on full year exchange sensitivity remains unchanged. On earnings per share a five-year move in the full-year average increases or decreases our results by about a penny. On return on invested capital the headline number is effected by both the full-year average and the year-end rate, as shown. To give you a sense of the potential impact on ROIC, if we applied the current rate to last year’s results the headline ROIC would fall from 6.3% to 6%. But, as we said at the Prelims, ROIC will be the toughest measure to advance on in 2004, [given] our investments and the weak [euro adoptions], but we’re aiming for some improvement this year ahead of significant uplift in 2005.
Our [statutory] result has also improved, largely through the continued reduction in our goodwill amortization charge. Our full-year amortisation charge is currently forecast to be around GBP230 to GBP240m, down from GBP264m last year.

So turning now to cash. As you are aware, we have focussed hard on improving our cash, and the half-year result demonstrates our commitment to both cost and cash management. It is particularly heartening as we continue to increase our investments ahead of 2005 and 2006. Working capital improved by more than GBP140m, even without the payment of the $151m TSA receivable, which we remain confident will be paid in full. The working capital improvement was largely due to cash collected following Penguin’s very strong publishing performance in Q4 last year, business phasing and the continued reduction in DSOs. And although some of this improvement will unwind, we expect to make year-on-year progress on cash and underlying terms for the full year.

As you know, we don’t just focus on working capital at the half year and the full year, but we also focus as a rolling average as a per cent of sales. We’ve continued to drive down our working capital to 30.7% of sales. And we achieved this even, as you see from the chart, we increased our pre-publication spend and our authors’ advances, effectively increasing the investment in the R&D of Pearson.

This strong cash performance allowed us to reduce our net debt by GBP163m at the half year, and we continue to take actions to improve our overall financing position. In the first half of this year, for example, we issued a $750m dual tranche [bond] and completed (technical difficulty) [a 5b] syndicated bank facility. Both replace similar financings that were maturing, leaving our debt structure unchanged, but adding about two years to its average life. We expect the average life of our debt at year end to be about six years. We are very pleased that both transactions were over subscribed in syndication and that, in secondary trading, both have traded very close to their issue price.

So, the half-year numbers showed good progress on our financial goals. Let me take a few minutes now to review our business performance and what that tells us about our prospects for the year as whole.

Firstly, the FT Group. IDC once again makes up the lion’s share of profits. Its sales and profits are ahead 2% underlying, its fundamentals remain strong, at institutional remain rates continued to run above 95%. And its market is showing early signs of a recovery. So IDC has provided that solid counter-cyclical base, while our business newspapers have laid the ground for a profit recovery which is now underway.

The FT’s first half loss improved by GBP9m over (technical difficulty). We are on track for profits to be ahead by GBP20m for the full year, even without any pick up in advertising. Les Echos and FT Business increased their contribution by more than 50%, and good performance at the Economist and continued progress with FT Deutschland moved our Associates and Joint Ventures back into profit. We achieved this profit uplift even as we continued to invest in the quality of our newspapers in order to increase their circulation and their readership. So let me update you, firstly on circulation, and then on our recent results from the key readership surveys.

At the FT, as you know, our goal has been to build a major international business newspaper, and, as we showed you at the full year, this has allowed us to increase the number of paying customers.
of the FT and FT.com to around half a million. We are down a little at the half year, mainly driven by the UK, although our performance on the main international readership surveys remained very strong, as I’ll show you in a minute.

Looking at our other business newspapers, at Les Echos newsstand sales are up 2% in a market where our competitors are flat or falling. La Tribune, for example, is flat, Le Monde is down 10%, Expansion is up 3% on circulation and 11% in our readership. And, at FT Deutschland, we have increased our circulation by a further 5% to 96,000 and we have narrowed Handelsblatt’s readership lead in Germany significantly. Three years ago our readership was less than one third of Handelsblatt’s; today, it is more than two thirds.

So looking at readership for the FT, we have had two important surveys in the first half, one in Europe, one in Asia. In the Europe 2004 survey, which covers a universe of 10m senior business people across continental Europe and the UK, the FT has maintained its lead as Europe’s number one business newspaper and online service. We have more than four times as many readers as the Wall Street Journal in Europe and more than the Journal, the Herald Tribune, Business Week and Fortune combined. As you see on the chart, we’re even further ahead online.

Asia, a small part of the FT now, but an important growth opportunity. And, as you’ll remember when we launched our Asian edition last September, we focussed our investment on a small number of markets. The Asia business readership survey has reported significant improvements in our readership in each of those. We’re up 8% in Singapore, 26% in South Korea and 41% in Hong Kong.

These strong competitive performances position us well to attract advertisers, particularly in the current environment. FT ad revenues are up 3% for the first half. The Technology and Business-to-Business categories are still weak, but Recruitment advertising, which has traditionally been a leading indicator, is up more than 20%. Les Echos is up 7%, helped by the advertised and [related determine] activity and the French Government’s privatisation programme. Expansion is up 5% for the first half and 11% for the second quarter. And FT Deutschland is up more than 30%, still growing off a small base.

The profile is still erratic and forward visibility does remain poor. But, after three years of double-digit declines, this is the first half of positive advertising revenue growth across all our major business newspapers.

Turning now to Penguin. Underlying sales were flat and profits down 15%. Looking at the headline numbers, our profits are down GBP11m with the currency impact accounting for GBP7m of the variance. The full-year exchange sensitivity for Penguin, however, remains as we’ve guided: every five cent change in the average full-year rate has about a GBP3m to GBP4m impact.

The remaining GBP4m variance is made up of a number of factors. Firstly, we’ve had some supply disruption in the UK as we’ve moved into our new distribution centre in Rugby. We are now close to restoring fulfilment standards to their previous levels ahead of our busy second half selling season. We have deferred the transfer of our Education business into the warehouse until next year and we are offsetting the dual running costs with savings elsewhere. We may have lost some sales in Penguin, for example books that are time critical, maybe some travel books, but we also believe that many of the sales will simply have been deferred.
Secondly, we’ve been investing in new channels and that investment was weighted to the first half. And, thirdly, along with other publishers, Penguin was affected by the bankruptcy of Thomas Cork, a major distributor to the UK mass market. On the positive side, we’ve had another front list performance in both the US and the UK, and we believe that that will continue into the second half when our publishing will be strong in all parts of Penguin.

[Best] fiction, we have new titles from many of our biggest selling fiction writers, including Patricia Cornwell, Norah Roberts, Clive Cuffler, and Madonna is continuing her series of children’s books. And we have major non-fiction from our new imprints about the Bush administration and the Kerry campaign. In the UK, we have our first Jamie Oliver book for two years, going out as a preview to his TV series, and several other major TV tie-ins. And at UK -- and at DK, we’re turning our photographic journal of A Week in the Life of the US, American 24/7, into fifty individual books, one for each and every State.

Looking a little further ahead, our growth at Penguin will come from three things: strong publishing, innovative ways of reaching new readers and making the most of our scale. We talked to you earlier in the year about our plans to grow our publishing by adding new imprints and we are really happy with the early results. Let me give you just two examples. [Ann Goodall’s] Penguin Press has already published two New York Times best sellers and has attracted more than a hundred authors to Penguin. And, secondly, one of our editors at Gotham, another new (technical difficulty), believed that there was a market in the US for the UK’s best seller about punctuation. Other publishers were pretty sceptical, but I’m happy to say that our editor was right and that “Eats, Shoots and Leaves” has now been a US best seller for three months now, with 800,000 copies in print.

Secondly, Penguin will benefit from its reaching new readers through its new channel investment. We’ve launched our direct to consumer sales operation, Family Books At Home, and expect the first revenues from September this year.

And, thirdly, we continue to reap the benefits of our scale as the world’s largest book publisher. Despite the distribution difficulties in the UK, our integration programme is on track, our combined book publishing companies in Australia, Canada and India continued to perform well and we are confident we’ll achieve the GBP20m of annual cost savings from 2005, shared between Pearson Education and Penguin.

Moving on now to Education, and starting with School. Sales were down 2% with operating profit up 29%. The reported numbers include the impact of London qualifications, Edexcel, which we acquired last year in May and which is loss making in the first five months. And also, as you’ll see, because of the second half weighting of our School business, small changes in absolute terms have quite large percentage impacts. The key point is that our performance is strong across the board and around the world. First, outside the US, we’re having a good year, especially in Testing, in English Language Teaching and Software in schools from Spain to South Africa. Inside the US, our Supplementary business and Open Territories are showing good early signs of growth, though it is still early in the year. In Testing, we’ve picked up add-on contracts for California, Florida, Minnesota, New Jersey, North Carolina and Virginia, and we see the flow of bigger NCLB related opportunities continuing to build.
And we have once again posted a good performance in new adoption business. Let me give you the
detail. As always, we’re showing our estimates for the entire adoption market, not just the market
in which we choose to participate. Our participation rate in new adoptions this year was around
90%. We took 26% of the maths opportunity, which is the largest subject this year, with a number
one position across K12. We took 22% of the elementary reading and secondary literature
adoptions, and we took more than 50% of the smaller secondary science market. Overall, that gave
us 31% of adoption opportunities we competed for, or 27% of the total new adoption market. And
we believe that that means we’re tied for first place.

So, our School business as a whole is on track to meet our expectations for the full year, with
revenues broadly level with ’03 as a mid-single digit decline in US basal publishing is offset by
good growth elsewhere.

Now one factor in that leading market share was the strategy we’ve been talking about now for
three years. We are now joining up assessment, student information and instruction, using
technology to meet each child’s learning needs. We believe that this approach will help schools
translate No Child Left Behind, NCLB, policies into practice, and we are the only company that has
all the pieces to do this. So let me just touch on a few ways that this has helped us in 2004 to date.

Firstly, this year, we offered online intervention as part of our elementary and secondary maths
adoption programmes. This means that children take the tests online, their teacher gets immediate
feedback on what they’ve learned, and, more importantly, what they haven’t, and our programme
then provides remedial exercises to move each child ahead.

In Curriculum Software, we’ve seen a good response to our improved content in two of our major
programmes, NovoNET, which is for Grades 9 through 12, and SuccessMaker for younger students.
And Waterford, our individualised early reading programme, is benefiting from the Federal Reading
First Fund.

Thirdly, joining up instructional and enterprise software, Concert is now installed in twenty
districts, providing tests, content and detailed performance reporting for each child. That data is
linked to the teachers’ grade book and the district student information system, and helps them to
meet the rigorous NCLB State applications.

And we’re breaking new ground in online testing and State data reporting. This spring, we tested
more than 400,000 children online in Virginia and we are linking test reports and student
information through a State-wide data warehouse. This is a first for any State and others are
watching with interest.

So we think that the school market continues towards -- to move towards this vision of personalised
education, and this is a vision that also sets us apart in higher education. So let’s turn now to
Higher Education. Here we are up 4% in the US and we’re on track to grow ahead of the market
and somewhere in the 4% to 6% range in the US, as we’ve said all year. Three things in particular
are helping us. Our Custom Publishing business continues to grow at more than 20%. We continue
to have successful sales efforts and our investment in publishing areas like Health and Languages is
generating strong growth. And we’re also gaining share in high enrolment Basic English and Basic
Maths courses. And, thirdly, we are producing online learning systems for more imprints and more
subject areas and now becoming embedded in day-to-day study, teaching and instruction. As a
result, we expect to have 1.5m paying online users in Higher Education by the year end. And, as some of you know, we are making some moves with our product offering this year which should help keep us ahead.

We’re seeing some important changes in this market. More [two year] (technical difficulty), larger class sizes, more remedial education and, most of all, an increasing focus on value and choice in the context of the rising overall costs of higher education. Our strategy is one of a classic market segmentation by the market leader. We are offering the widest range of formats and of prices and aim to provide every student with a package that fits his or her study goals and budget. So, we take a leading author like John Macionis in sociology and make his content available in many ways. You can see his traditional textbook on the left side of the slide, and on the right, based on that core text, a range of options. Firstly, a premium package of the textbook with online learning resources. Then, a low cost print alternative. Then, a new custom programme that’s built to order for an individual faculty. And, for this new academic year, we’re adding a new choice to the mix, [Sofarex]. It will offer web-based textbooks with the same content as the print equivalent but at a 50% discount. Even ahead of the new academic year there has been a huge [interest from students] (technical difficulty) in this new option.

With this range, we are going after segments of the market where we are not currently reaching students and we are reducing the appeal of second-hand books. And, from a business point of view, we’re pretty agnostic about the choice of format that the student or the professor makes. Our margins are actually quite similar across all these formats. For example, with Web-Based Textbooks, we have no print or distribution costs. In Custom Publishing, we have high origination costs, clearly, but much lower book returns. We believe that this strategy of choice and value puts us in a great position to carry on growing ahead of the industry over the next few years, and to maintain our industry leading margins.

In our Professional Education business, sales are flat and profits are GBP2m ahead. Technology publishing remains tough around the world but the rate of decline is slowing. We expect a stronger performance in the second half, in part as a result of some new software, but mainly new games releases. We have continued to build our market share, which now stands at around 35% in the US, and we are announcing today that we are partnering with IBM as worldwide publisher of the IBM Press. They are joining a number of leading technology companies such as Cisco and Adobe who have chosen to partner with Pearson.

Sales in Government Solutions are up double digits. So far this year growth is mostly from increased volumes and add-ons to existing contracts, with customers including the Department of Health and the Immigration Service. Our pipeline of bids remains strong and our win rate at over 30% means we’re very confident about the outlook here.

In Professional Testing, this is a year of investment as we expand our network of testing centres in support of the major contracts we won last year. As we have said, profits will be held back by around GBP15m this year, as we build the business and invest in its infrastructure. Sales are up 14% and we expect that rate to continue to accelerate.

So that’s 2004. As we said at the Prelims, we’re expecting a significant acceleration in all our financial measures from next year. Our Education business will drive much of that growth, so I’d like to finish by giving you a brief update on the factors that underpin that.
Starting with Professional, those of you who were here for our seminar on this business will recall the key points. Firstly, our markets are growing fast, supported by the need for certification of professional skills, the move to computer-based testing and the outsourcing of Government services. Second, we have a great record for winning new business and a strong pipeline of new business under bid. And, third, they have very attractive financial characteristics, low capital intensity, little seasonality and highly predictable revenue.

In our more traditional book publishing businesses, the first [set] point to note is that Education Publishing has been a good market, growth market, for the past decade and more. And although the adoption cycle can move the school market up and down a little from year to year, the kindergarten through college market had grown at a compound annual growth rate of 7% over the past ten years. We believe the growth is set to continue and here’s why.

Firstly, in the short term, and as you all know, the 2005 adoption calendar is very strong. Our estimate is unchanged at around $900m of new adoption spend against a little under $500m in 2004. There are some bigger projections out there and we think this is probably explained by the fact that we have chosen not to compete in Health; we are therefore not tracking spending plans in that subject so closely. And though our view of the adoption outlook is unchanged, the health of the State budget is changing fast. Those budget funds, those budgets fund the purchases of our products, not just adoptions but Open Territories, School Testing, Software and Supplementary Publishing. This recent survey from the Rockefeller Institute shows seven consecutive quarters of increases in State tax receipts, with the growth accelerating. And the National Conference of State Legislatures last week reported on the spending plans of 44 States for fiscal year 2005. That’s the year that just started on July 1 this year. They are budgeting for their spend on K12 education to grow 5% this year, up from 3% last.

So that recovery underpins our confidence that our US Schools Publishing business will grow in double digits next year.

So, to summarise, we’re making good progress financially and competitively in 2004. Though it is early in our trading year, we’re on track to meet our financial goals. We are confident that our progress will accelerate from 2005 and we have concrete reasons for that. Sales at our Services business are growing in double digits. The outlook for our School business is strong. And in Business Newspapers, cost savings are coming through, our franchises are strong, advertising is showing signs of improvement and profits are on the up.

So thank you for listening. Now I’d just like to ask some colleagues to join me to answer your questions.