



Merrill Lynch TMT Conference

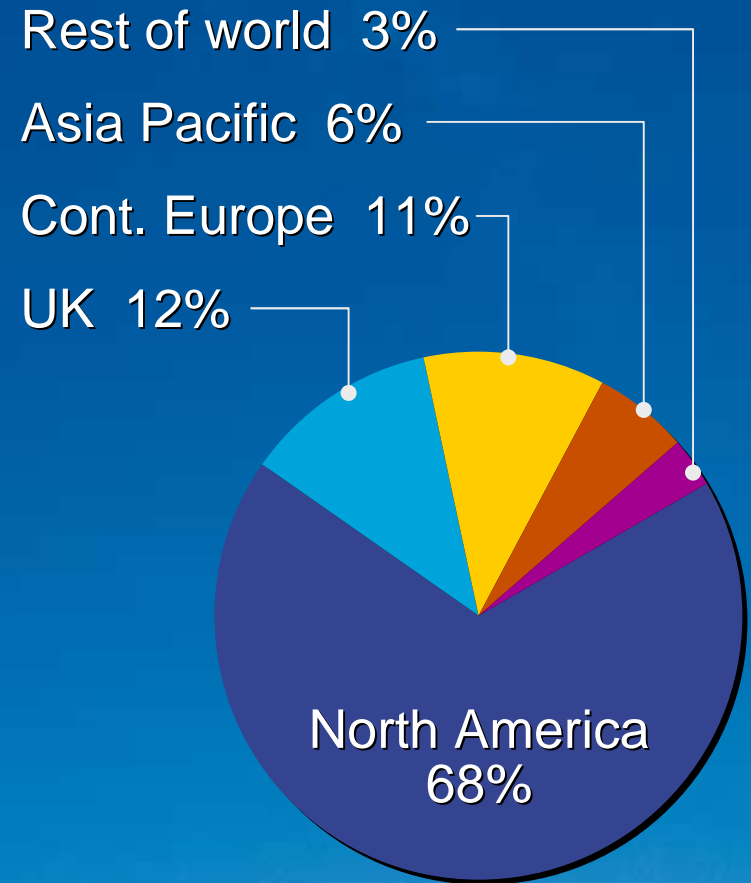
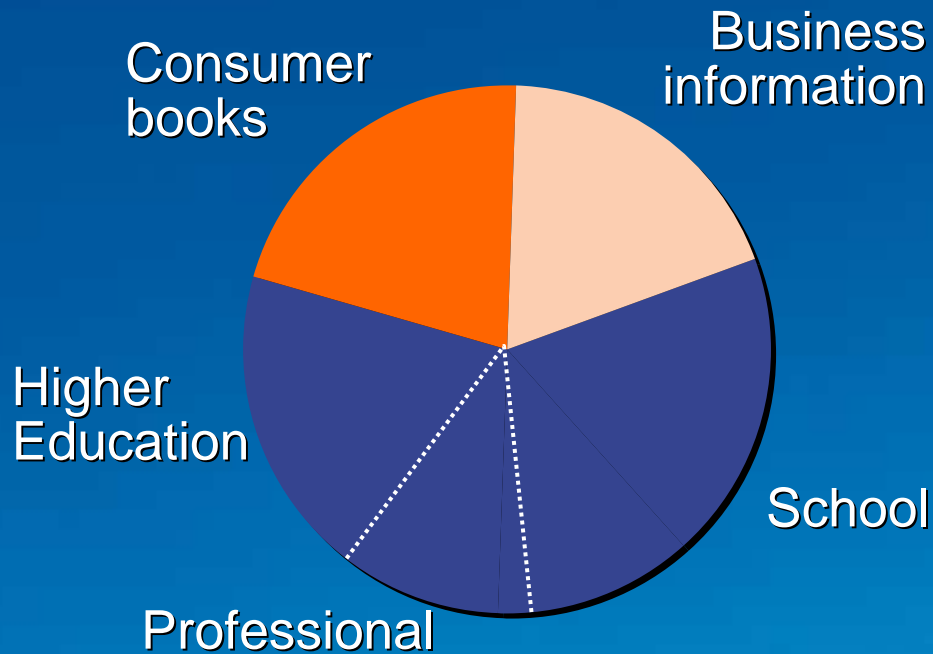
Rona Fairhead
CFO, Pearson

8 June 2004

Agenda

- Pearson overview
- Our financial goals

The shape of Pearson



Financial highlights

£m	2003	2002	<i>underlying change</i>	<i>constant currency change</i>
Sales	4,048	4,320	(4)%	(2)%
Operating profit	490	493	0%	5%
Operating margin	12.1%	11.4%		
Free cash flow	192	215		
Adjusted earnings per share	32.0p	30.3p		11%
Return on invested capital	6.3%	6.0%		
Dividend per share	24.2p	23.4p		

2003

Increased earnings
Market share and efficiency gains

2004

Competitive and financial progress
Investment for...

2005+

Acceleration in earnings, cash and returns

US School publishing

Rebounding in 2005



\$1bn+ contract wins in 2003

Business	contract wins 2003	typical contract term
Government solutions	\$200m	5 – 10
Professional testing	\$600m +	7 – 9
School testing	\$300m +	3 – 6

Business advertising trends

FT advertising revenues



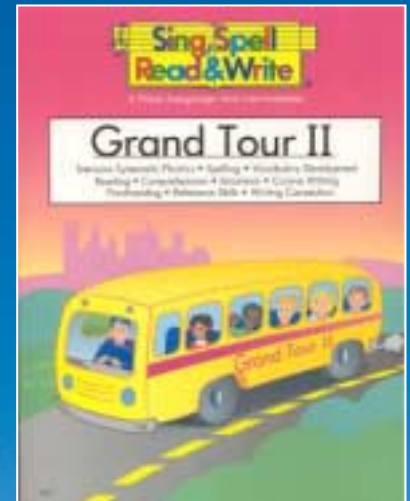
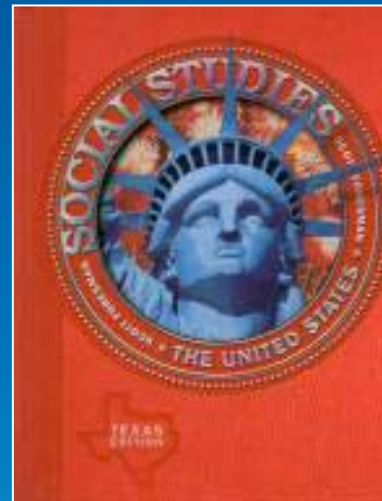
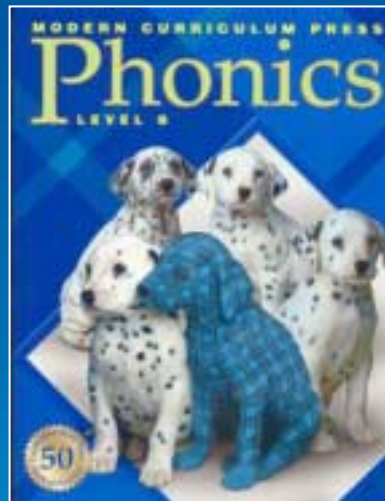
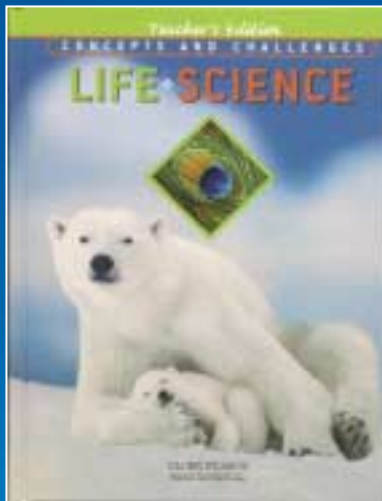
* As at AGM, 30 April 2004

Our financial goals

- **Deliver steady earnings growth**
- Improve cash generation
- Improve return on invested capital

Growth in School

- Adoption rebound and NCLB from 2005
- Breadth across publishing, testing and software



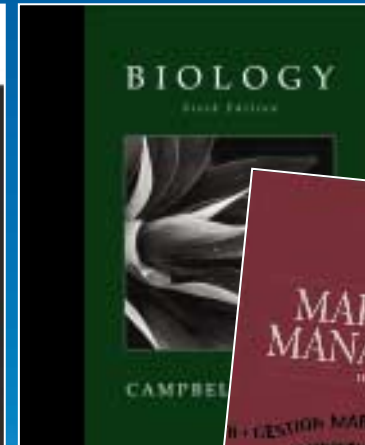
Growth in School publishing

	Pearson position (total K-12 market)		subject as % of total '04 - '06 new adoptions
	1999	2003	
Social Studies	#3	#1	24%
Reading / Literature	#3	#1 / #2	19%
Math	#1	#1	18%
Science	#2 / #3	#2	13%
Music / Art	#1	#1	7%

Pearson estimates

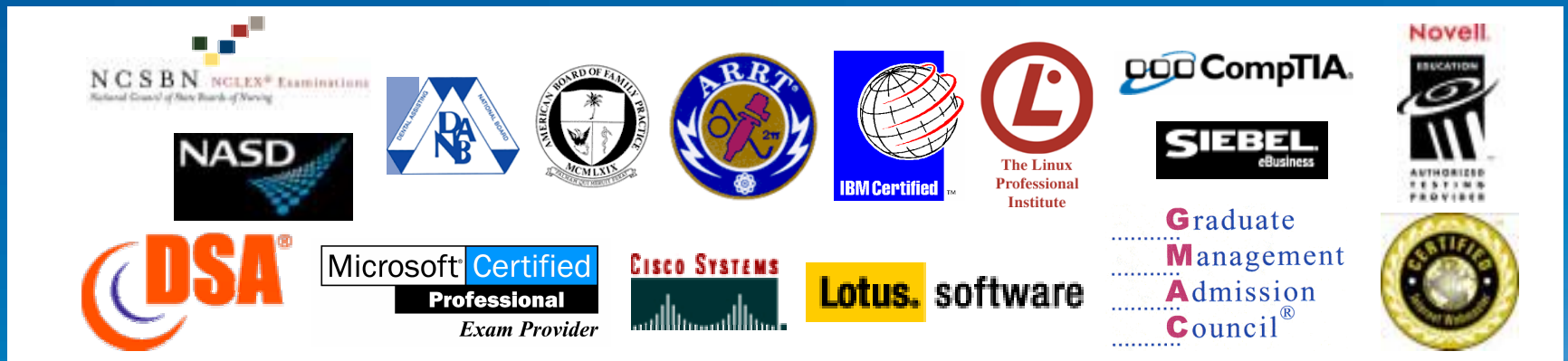
Growth in Higher Education

- Strong demographics and demand
- Leading in technology and custom publishing



Growth in Professional

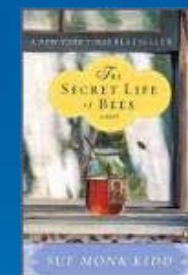
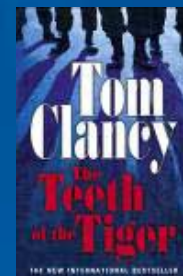
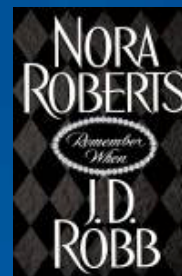
- Government and corporate outsourcing
- New contracts and testing centres
- Healthy pipeline





Growth in consumer publishing

- Major repeat best-sellers
- New talent
- Reaching new readers
- Building our brands



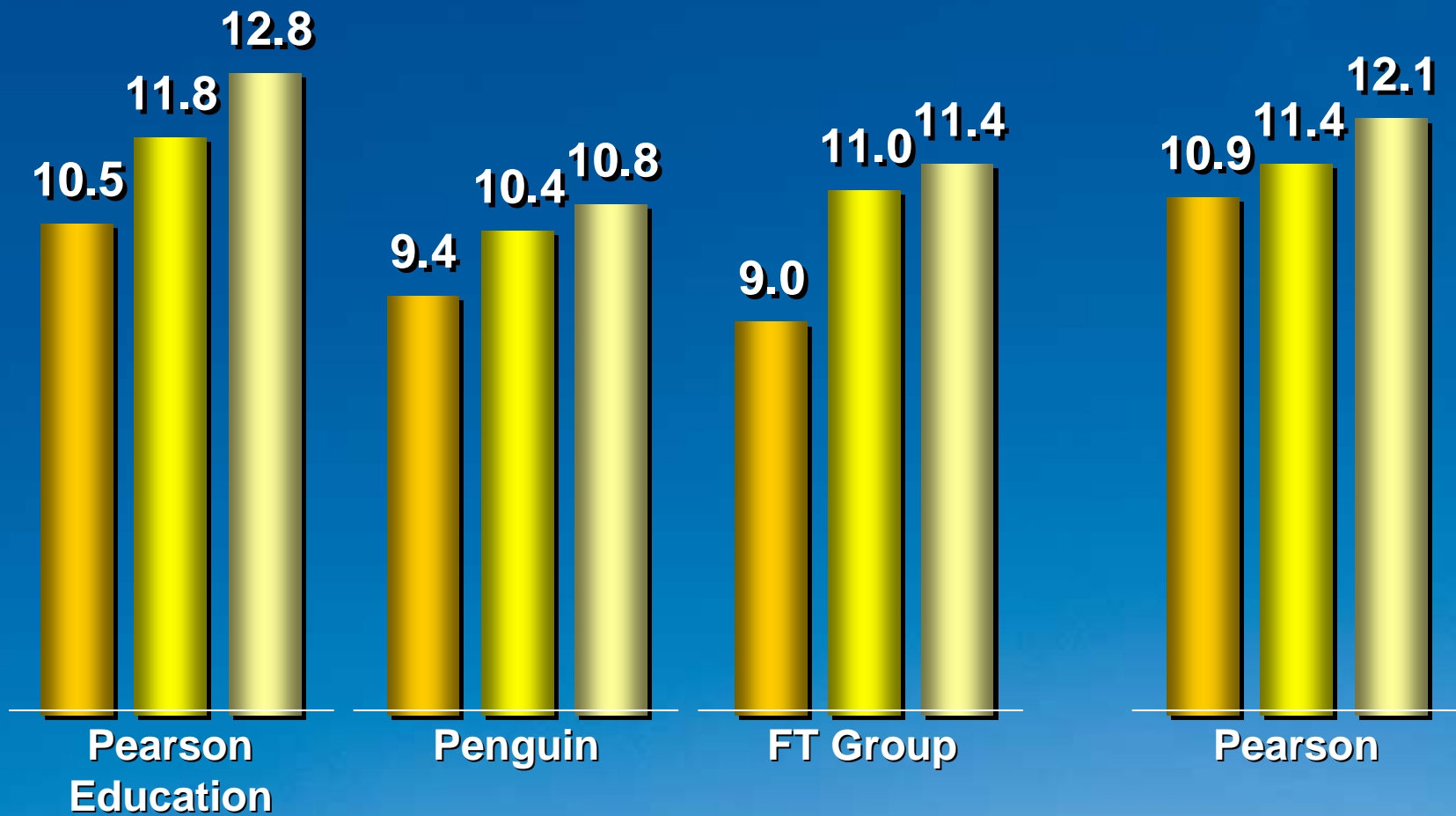
Growth in business information

- Continuing editorial investment
- International expansion
- New asset classes and bolt-ons at IDC



Improving margins

Operating margin %



Our financial goals

- Deliver steady earnings growth
- **Improve cash generation**
- Improve return on invested capital

Improving cash flow

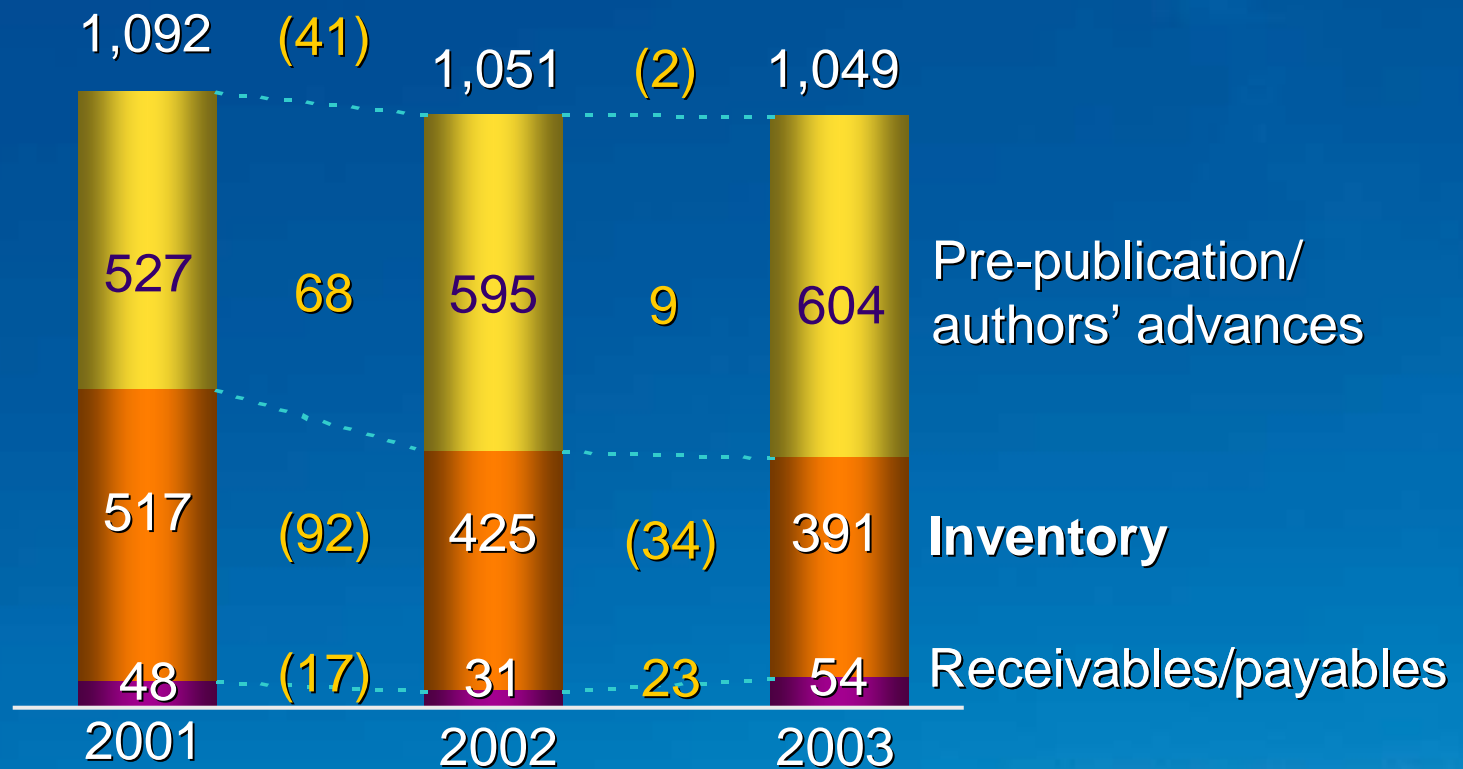
Through transformation

£m	1999	2000	2001	2002	2003
Trading profit	410	419	442	493	490
Change in working capital	7	(124)	(31)	6	(136)
Net investment in fixed assets	5	(32)	(26)	14	11
Other (FX, provisions, assoc divis)	26	39	34	(58)	(45)
Operating cash flow	448	302	419	455	320
Operating tax paid	(63)	(55)	(44)	(46)	(34)
Operating finance charges	(133)	(140)	(157)	(104)	(76)
Operating free cash flow	252	107	218	305	210
Non-operating	(48)	(42)	(27)	(46)	(10)
Integration costs	(110)	(61)	(69)	(44)	(8)
Total free cash flow	94	4	122	215	192
Dividends*	(132)	(143)	(174)	(181)	(188)
Funds from operations	(38)	(139)	(52)	34	4

* All years exclude minority dividends
(2003 excludes Recoletos special dividend of £19m to minority shareholders).

Improving cash flow

Pearson Education & Penguin working capital, £m (excl. TSA)



excl. TSA 31.9% 30.7% 30.6% % of sales

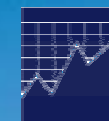
incl. TSA 30.3% 32.9% % of sales

All figures at constant 2001 sales

Improving cash flow

Our contracting businesses

- Over 20% of Pearson revenues
- Predictable, long-term revenues
- Strong cash generation
- Low capital intensity
- Scalability

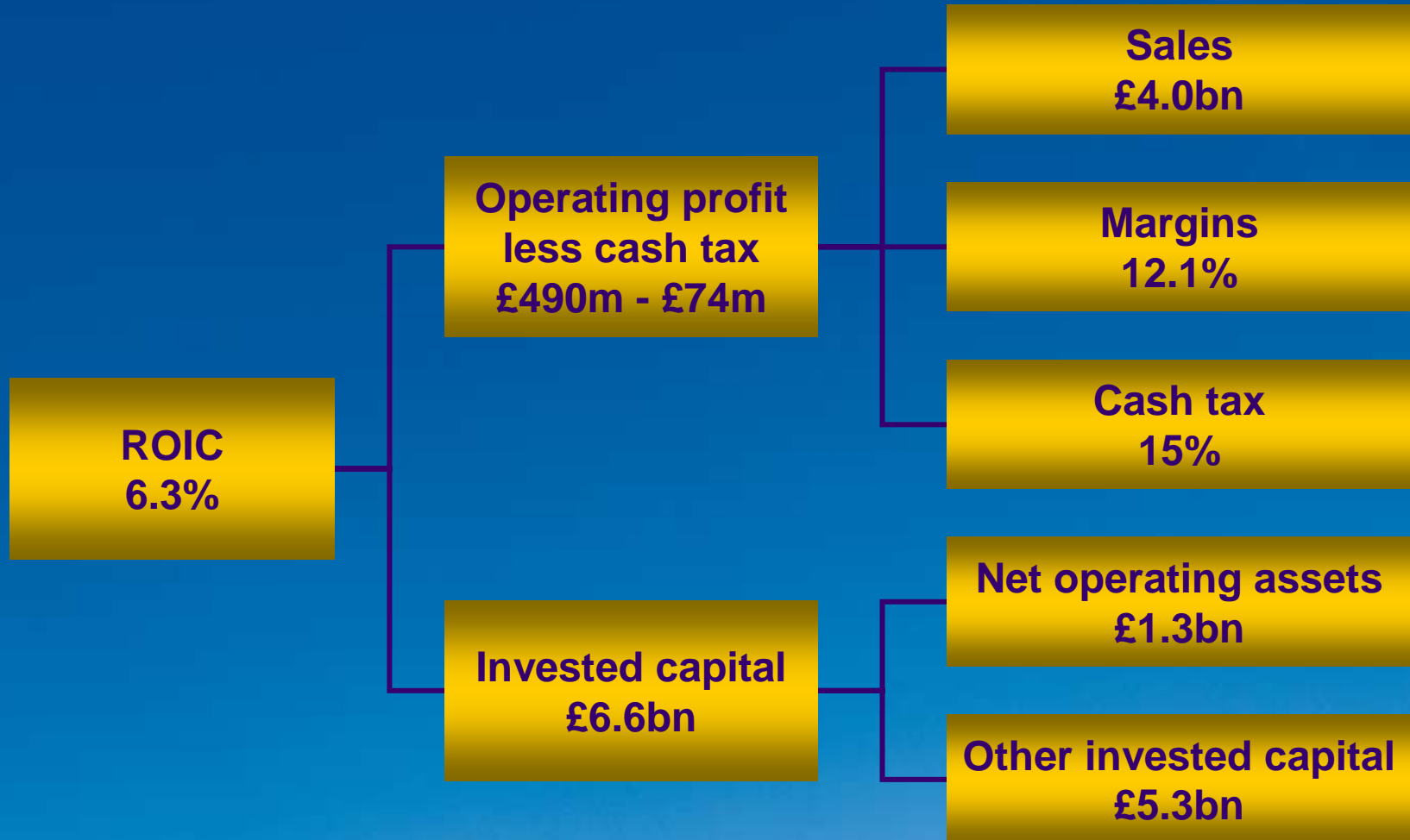


**Interactive Data
Corporation**

Our financial goals

- Deliver steady earnings growth
- Improve cash generation
- **Improve return on invested capital**

Better return on invested capital



Better return on invested capital

£m		2001	2002	2003
Return:	Operating profit	463	493	490
	Less cash tax (15%)	(69)	(74)	(73)
		394	419	417
Invested capital:	Goodwill			
	Intangibles (net)	4,580	3,642	3,260
	Amortisation / reserves	2,227	2,029	2,035
		7,077	5,671	5,295
	Operating assets			
	Tangible fixed assets	542	503	468
	Operating working capital	894	811	851
	Other	71	(9)	(15)
		1,507	1,305	1,304
Total invested capital		8,584	6,976	6,599
Return on invested capital		4.6%	6.0%	6.3%

Our financial goals

- Deliver steady earnings growth
- Improve cash generation
- Improve return on invested capital

PEARSON

