Thank you for coming out. Welcome to the announcement of Pearson’s first half results for 2005. Okay, everybody has got a seat. Here are the numbers. I think you will have already seen them on the advanced press release. At this point in the year we always need to remind you that our business is weighted toward the second half, so the story is far from told, but we are pleased with our progress.

Our sales, as you see, up in double-digits. Operating profit is well ahead, though small at this time of year. The prospect for annual earnings growth is really excellent and based on this and our strong outlook, we have raised our dividend again for the 13th straight year.

We think that these results indicate a lot of things, but the most important indication is that our organic growth is accelerating as a result of a couple of factors. First is the trading conditions in the markets we’re in are improving and secondly, that our strategy is working. I’ll say more about both of those things and give you our outlook for the full year, but first I'm going to turn over to Rona and she is going to go through these first half numbers.

Thank you Marjorie. Good morning everybody. Starting with our financial priorities for 2005, as you know those are about growing our earnings, our cash flow, our return on invested capital and maintaining our strong balance sheet.

As Marjorie said, you have to exercise a degree of caution as you interpret the numbers as our results are so heavily weighted towards the second half. But even with that caveat, I think you'll see that we're making good progress on all of those measures.

So turning first to sales. Overall our underlying sales were up 10% at £1.6b. Our worldwide School business grew almost 20% in the first half with the strong adoption cycle helping our US Publishing business to grow in the mid single digits, even though the Texas adoptions have been delayed until the second half.

Our Testing business grew 30%+ and we were particularly phased in the first half with the start up of our new long-term contracts, including the key stage tests in the UK and the SAT in the US. Our full year Testing growth will still, however, be strong at over 20%.

Higher Education was up 5% with continued strong performance in our custom publishing and a strong front list.

Professional was up 12% as our Contracting business continued to grow in double-digits because of the start up of our new contracts.
Our Technology Publishing business is stabilising after four pretty tough years. Together, these increased sales in our Education businesses by 14%.

FT Publishing was up 2% as advertising growth continued to pick up. The FT’s advertising, for example, although still erratic grew 5% year-to-date.

IDC continued its growth with a further 8% in the first half as we benefited from new products and a consistently high renewal rate of 95%+. And Penguin was up 5%. This increase is a little flatter, particularly in the UK, by relatively easy 2004 comparators. However, the result also reflects strong publishing and some early signs of success in our strategy to rephase sales more easily through the year. In the US, for example, we increased our list of major first half titles by more than 10% and this of course will reverse in the second half.

The mass market category in the US continued to be a little weak, though this was broadly offset by excellent publishing and with particular successes in our home grown authors and in the new imprints.

Turning to operating profits. These grew from £7 to £33m for our continuing operations. Overall, our Education businesses improved some 30%. In Schools, profit increased from £3 to £15m, benefiting mainly from our Testing businesses which more than offset the higher cost in our US Publishing businesses ahead of the big second half.

Higher Education losses increased fractionally as we invested ahead of the second half selling season. And our Professional profits have bounced a little ahead of sales.

The FT Group profit increased by over 30% with excellent performance in IDC and further progress in FT Deutschland. The FT reduced its loss from £7 to £2m and would have broken even under UK GAAP.

Penguin’s profit increased from £9m to £13m after absorbing £4m in restructuring costs. This result was also helped by year-on-year net currency gain of £2m. This resulted from the netting the negative translation effect with the FOREX gain on receivables and actually just reversed what happened in the first half of last year, if you remember that.

Our total operating profit was £30m after a £3m in the first two months of the year from Recoletos.

Now before moving to adjusted earnings per share I just wanted to spend a moment on IFRS. This is the first set of results that we've reported under IFRS. We have included in your packs a chart reconciling these numbers back to UK GAAP and you'll see that in line with our guidance, the level of absolute adjustment is very similar to the first half of 2004.

As you will be aware, practice is not yet well developed in agreeing the appropriate adjustments to show underlying business performance and we’ll keep this under review and seek to provide you with sufficient disclosure so that you can compare us to our peers on the basis that you think is appropriate.

We plan to present our adjusted earnings per share with just two adjustments. We’ll exclude the impact of IAS39 fair valuing of derivatives as it is not tied to our underlying business performance and secondly, any significant non-recurring items such as material loss or profit as we've have had in the first half this year on disposals, or costs arising as a result of significant acquisition or closure.

So turning to our adjusted earnings per share for the first half of 2005. As a result of the improvement in our underlying trading we have reduced our adjusted loss per share from 2.8 to 1.9p. Our finance charge was marginally lower than in 2004 despite higher interest rates as we benefitted from the impact of cash proceeds from the sale of MarketWatch and Recoletos in January and April respectively.
Looking ahead to the full year, we expect our finance charges to be a little lower than 2004 as the lower interest on our reduced level of net debt more than offset the one-off gain last year of £9m. Our tax line shows a benefit of £3m, down £5m from last year, as our adjusted losses before tax improved.

We now expect our full year effective tax rate under IFRS to be 32% +/- a percentage point. That’s a slight improvement from our previous guidance of 33% under IFRS.

You have in your packs a slide which shows the sensitivity of our EPS to movements in the US dollar and you will see that our guidance on that is unchanged.

Turning to the statutory results. As you see these are materially higher than we have previously reported for our first half under UK GAAP as under IFRS, as you know, these no longer include the amortisation of goodwill. This factor more than offsets a number of other adjustments such as share based payments which are now charged through the P&L.

Moreover, under IFRS, there are three further differences from the first half of 2004. Firstly, our statutory operating profit from continuing operations, which you will see here as £73m, includes £40m of net gain on the MarketWatch disposal.

Second, you’ll see in the finance charges we’ve had to traditional what we always used to have, the additional pension associated finance cost because the pension that is now included in the finance cost line.

And then finally IAS39, which in the first half benefited us to the tune of £40m.

And finally towards the bottom you’ll see discontinued operations £300m. That is the profit for the period from the sale of Recoletos which is now deemed discontinued business and takes place in a different part of the P&L from MarketWatch.

Our statutory profit for the first half is therefore £346m compared to a loss of £9m last year and a statutory EPS of 42.3p.

Turning to cash. As you will be aware we’ve worked hard to improve our overall cash management and here again we are pleased with the result. Despite increasing our investment in working capital we’ve held our operating cash flow and our free cash flows level with last year, helped by a higher profit and our lower capital expenditure. We remain confident that our cash flow for the full year will be ahead of 2004.

It is also pleasing to see a further material improvement in our average working capital to sales from 30.7 to 28.7%. This performance is the result of two factors. Firstly, business mix. The increasing sales from our Testing and Professional businesses, which don’t use much working capital, as well as the continued improvement in our working capital efficiency.

This is the third year of improvement and although we expect the rate of improvement to moderate a little going forward, we will still be seeking to reduce average working capital to sales as we maintain our efficiency improvement programme.

Our balance sheet reflects this good cash management, which coupled with our disposals proceeds helped us reduce our net debt from £1.75b in June 2004 to £1.3b.

So to summarise. It is of course early in our trading year and we will once again be providing you with a third quarter trading update, but we are making progress on all our financial goals and we are confident that we will meet our goals for the year as a whole.

I’ll hand back to Marjorie now to explain why.
Marjorie Scardino
Chief Executive

Thank you very much Rona. Well the six month results that Rona just talked about do support our confidence in the full year and beyond because they do reflect accelerating growth and that’s what we’ve been predicting for a while.

As I said at the start, we think that growth comes from two directions. First, the fact that our markets are improving, but also the fact that our strategy for taking advantage of those improving market conditions really is paying off.

That strategy, as you'll remember because you've followed us for a while, is really based on getting and growing market leadership and that in turn is based on our quality content, which we generally enhance with services; on our innovation, particularly using technology where we’re strong; on operating efficiency, which we have been working on based on our scale and on our focus businesses and on our international expansion. And by the way, all of these we can now achieve more effectively because we’re one company. Whether it is operating efficiencies or new markets or new technologies, we approach all of these as Pearson.

So let me talk about what that means for us in the rest of this year, starting with Business Information. Our business newspapers and magazines and financial data share a series of advantages – unique, reliable content, completely integrated online services, international reach and a focus on operating efficiency.

For the past few years these advantages, particularly in the newspapers, have been partially obscured by our very, very tough trading conditions, but we've continued through that time to invest time and money in them and now as the markets improve, that is paying off.

For the Financial Times, for instance, the size and quality of our audience continues to rise according to the main readership surveys. Just to list a few of them. Europe 2005, which covers 2 million executives in 16 countries, found the FT to be Europe’s leading business title for the sixth straight year with the largest concentration of senior business people and 20% more readers than our closest rival. That same survey listed FT.com as the leading and as the fastest growing business website. 11% year-on-year audience growth and by the way, the ad revenues in FT.com are up 20% this year on last.

The latest UK National Readership survey for the six months to March reported our newspaper readership also up 11% on last year and that’s the fastest growth of any UK newspaper.

And the FT, we’re proud to say, was recently named the world’s best newspaper. Not the world’s best business newspaper; the world’s best newspaper in a survey of 1,000 senior business people, politicians and journalists across 50 countries.

So that exclusive reading audience and reputation is now attracting some revenue growth. The FT’s ad revenues, as Rona said, are up 5% as of today. A good trend and a significant contrast to our major international and UK peers. That’s partly due to our global strategy really. The ad growth has been greatest in corporate advertising which is booked on a worldwide basis or on a Europe wide basis. But as you see here, while revenues have been improving for a while, the trajectory is slow and the picture is still erratic.

We do get help, however, in the FT Group from our ownership of IDC – our data and pricing business. IDC adds growth and stability to the publishing side of the FT Group. It’s grown faster than its market for seven years now and its momentum continues for many of the same reasons as the FT is beginning to pick up. IDC has invested in content, including the capability to address all of the big issues of the time like new tax legislation, like integrated real time data feeds. It’s also
continued to innovate. It’s been the quickest to develop products to help customers deal with regulation and compliance and it’s added a lot of new categories of financial instruments to its portfolio of derivatives and securities are now all in its pricing services. But part of IDC’s secret, like the rest of Pearson, has always been its operating efficiency. Taking out costs as it acquires new businesses, sharpening its operations and you see that reflected here in its consistent margins around 30% annually.

For the whole year the outlook for the business information market and our business is that the market data industry grew about 2% last year after three years of single digit falls. We think that will accelerate, though slowly, over the next three years. But IDC has been able to grow through the down years and it’s going to continue to do that helped by a mood of tighter regulation and compliance and helped by the increasing complexity of financial instruments.

So for this year, I’ll repeat IDC’s announcement because I think it bears repeating. They intend to be at the upper end of their high single digit to low double-digit range for revenues and net income under US GAAP. You can find that in their press release.

In Business Newspaper Advertising, the signs are conflicting. We've got good demand from companies selling luxury goods and cars and jobs, and we've got rather weak demand from those that are selling IT systems and business services and things like mergers and acquisitions. But our competitive ad performance is encouraging. Our financial progress is solid. Our global mix helps us. So our guidance at 80% of any additional revenue drops to the bottom line still is good guidance. That still stands.

Our strategy for Penguin is based on the same things as the strategy for Business, Information – investment in content. For Penguin its bestsellers and new authors and back list, innovation in publishing new genres, new channels, new formats and operating efficiencies also by joining together with another part of Pearson.

These factors have been important to us for some time, but we've emphasised them far more relentlessly over the last year or so to adapt to all the changes you know about in the consumer book market. Those changes made 2004 a very tough year for Penguin and will make 2005 something of a transitional year, as we've said, but we will make progress in several areas. For instance, in the UK, we’re making a major push into commercial fiction. This gives us 30 first time writers and more books to share around the world. It’s an area that we've been under-weighted in in Penguin. In the US we have eight special focus imprints now. They are selling much better than we planned. They're spreading our risk. They're lowering our cost of authors' advances as a percentage. Also in the US, we’re tackling the weakness in the mass market that we saw last year. We’re really tackling it from both ends. At the quality end we’re doing it by rolling out what we've told you about before, a new premium paperback. That’s a format that is better quality paper, higher price, bigger type with six of our biggest authors. We’re going to be doing that this year. The first one went straight to the bestseller list. Some of our competitors have followed us into this format, which is always a good sign.

At the value end we’re doing this with publishing something we call hotshots which are shorter, more popular, more hard-to-put-down books and we’re selling those for $2.99. So we’re trying to, in a pincher movement, get the whole market rounded up. Around the world we’re making the most of our position as one of the few truly international publishers by publishing in all our markets simultaneously some great authors like Nick Hornby and his latest book. Some great books like Nelson Mandela’s Prison Diary and like the bestselling book in China which is called Wolf Totem.
We’re also, I’m happy to say, making the operating progress that we need to. We have corrected the flaws in our UK warehouse. We’ve moved the Education business into it and we are beginning to realise the cost savings and the service improvements that that warehouse was built for.

We’re also cutting Penguin’s costs to match the market conditions. So they have reorganised the sales force, they’ve integrated their travel publishing organisation, taken out layers of management. We've expensed about £4m for that action in this year and those benefits will show through starting next year.

It’s early in Penguin’s year, but there are some encouraging signs that all of these are the right things to do. In the UK we outpaced a healthy market. That market itself was up 6% in the quieter first half. We've had solid performance across every part of Publishing from illustrated to children’s to adult fiction and non-fiction.

DK had a particularly strong six months and the newly formed Travel Group I mentioned saw immediate lift in sales.

The year has begun relatively well in the US too. The total industry sales are up 5% at the end of May according to the AAP, but the mass market category, which as you know is very important to us, remains weak where sales were down 2% in the first half and that left our sales roughly flat in the first half.

So for the full year, as we said, it’s going to be a transitional year. We have publishing phasing changing. We’re trying to move more books to the first half. We’ve succeeded in doing that in Penguin to some extent, so we have more bestsellers in the first half in ’05 versus ’04. That will reverse in the second half. We have no Rugby catch up in the second half as we did from ’04 and we’re being prudent about this mass market. Last year at this time, the mass market for us was up double-digits. We don’t want to expect anything because it is a volatile market at this point.

So we are confident that the cost actions we’re taking, that the innovations we’re making are going to put on track to once again be firmly in position as the most profitable consumer book publisher ultimately.

In Education, we’ve been pursuing the same strategy as Penguin and the FT Group here too. We've been investing in content, adding innovative testing and technology and customised services and applying all those capabilities across the board from pre-school to professional markets around the world. That strategy has given us, and has maintained for us, the world’s largest and broadest Education company with a distinct competitive advantage and the returns from that are coming in strongly.

We've said for some time that ’05 would be a promising year for the School business and it is. In the new adoption market we estimate we’ve taken a share of more than 30% where we competed.

The details are in the back of your packs. We've made a good start in open territories and in supplemental publishing. So overall, our US School business is in line with the market, even though we’re only participating in 70% of that new adoption opportunity.

We also took the view five years ago that testing was going to become more central to the learning process and it really has. Our Assessment businesses are in the sweet spot of education policy around the world. We’re helping more than 20 States, which cover about 60% of American school children. We’re helping them meet the No Child Left Behind testing requirements. We’re also helping the UK government modernise the exam process here.

Worldwide, as Rona said, we expect our Testing business this year to grow at least 20%. And worldwide outside the US, we also expect our school curriculum and particularly our English Language Teaching business to grow briskly as we discussed in the Education Seminar about our international business I think a lot of you came to a couple of weeks ago.
So School business now firing on all cylinders both in its traditional publishing and capitalising on its breadth which runs from Publishing to Software to Testing. Although the dynamics are slightly different, our Higher Ed business is also benefiting from similar advantages to those in our other businesses. We have a strong schedule of new programmes, particularly for growing disciplines where we’ve been underweight, such as Allied Health and Hospitality and lots of different kinds of vocational subjects. And innovation continues to set our Higher Ed business apart. [Dibry] University, which is a large US for-profit university, recently adopted a customised version of our Math system called My Math Lab for 43,000 students in their 69 locations and for their online students. They’ve done this because it is a technology platform. Professionals can use it to run their course, to communicate with their students and to teach the course and because it registers student performance, they have been particularly attracted to it. At the University of Alabama where we have tested this, the number of students passing their math course almost doubled in the five years they were using our programme. From 41% to 76%. So [Dibry] was very, very attracted to that because they’ve got students with a lot of challenges. We’ll sell that system for several of our major disciplines this year and next around the country. Our Custom Publishing operation also continues to be a real growth machine. Up again, more than 20% in the first half and now we offer not just a customised a book, we offer an integrated learning programme with customised curriculum design, texts, technology and teacher support. And we continue to blaze new trails in format. Our online textbook service SafariX will have its first full year starting in the fall, as will our downloadable audio study guides that we’re doing in partnership with Audible.com. We’re beginning also to offer these kinds of services in markets outside the US. Our competitors in those markets are lacking in the scale and the raw material to compete at this level. So we are continuing to gain higher education share internationally. In the Professional business, in the first half, we won a series of long-term contracts, helping governments and professionals and citizens all over the world. But one of the most important was our $800m 10 year contract with the US Department of Education. That’s a contract to manage the whole student loan programme there and we’re very proud of that. And while we continue to build on those sorts of healthy pipelines and an outstanding new business win rate, our focus this year really is on education because a lot of the contracts we've won over the last few years are going live now. In the UK we have this year delivered 1.2 million driving theory tests since taking over the contract late last year. In the US we've now tested and certified 40,000 securities professionals for the National Association of Securities Dealers. We have, by the way, given them a list of a few people who could do with certifying, but we’ll see what they do with that. Around the world we have successfully introduced in Asia and Europe the US Nurses qualification that we've been running for three years and we’re now piloting the Business School admission test GMAT. We’ll go live with that January 3rd of ’06 for 250,000 students a year in 96 countries. So a word on the outlook for our Education business. With the stable technology market and rapid growth in the demand for our services side, our Professional division can sustain good sales growth in the mid to high single digits. Demand for higher education remains strong, particularly in community and vocational colleges. That growth more than offsets some slower price inflation, so we will continue to expect our Higher Ed business to grow again at 4% this year which is ahead of the market for the seventh straight year.
In School, the policy and funding environment remains firmly in our favour. George Bush continues to propose additions to the No Child Left Behind programme. State tax receipts increased another 12% in the first quarter of this year and education spend per student is forecast to increase 4% this year to $8,500 per student.

So our overall School business will grow in double-digits this year with good growth in every single part of the business and we do believe that our $1.2b International Education business which contributes to each of those worldwide categories can grow sales in the mid to high single digits and can grow their profits faster than that.

We don’t see any of these trends going away and that points to long-term sustainable growth over several years for this Education business.

So that’s the run down for the first half and the outlook for the rest of the year. I hope what you heard and what you’ve read in our release reinforces what we’ve been saying for several years about this business and about our strategy and our markets.

Thank you for listening. We’ve got all of the experts you could hope for to answer your questions. We have Will Etheridge from Higher Ed and International; Steve Dowling from School; Olivier Fleurot from the FT Group and John Makinson from Penguin and Rona.

So I doubt there are any questions, but if there are, fire away.

**Question and Answer Session**

**Polo Tang, UBS**
I've just got a question on the college market. You're expecting 4% growth in the college market for yourselves for this year, but what do you expect for the market as a whole and also could you just talk about trends in terms of what you're seeing in terms of growth in enrolments and also growth in pricing for this year?

And the second question is obviously the reports in the weekend press just about potentially a new business paper coming into the London market. Do you think that’s going to have any impact at all on the FT?

**Marjorie Scardino**
Well I’ll let Olivier answer that and then Will can talk to you about the Higher Ed market. Olivier, do you think the new business paper will have any impact?

**Olivier Fleurot**
Well I have not seen it yet. Apparently the journalists had a tough time to reach the founders. But you have to remember that we are a global business newspaper. We have less than a third of our circulation in the UK. I think what we offer to each market is very different from what a national free newspaper could offer.

**Will Etheridge**
In the US college market, enrolments are strong. I think the reason that we think we’re projecting 4% is there is some price pressure short-term. We’re off to a good start first half. It’s only 25% a year, so we’re still holding the 4%.

**Polo Tang**
Pricing pressure, are you implying that prices are coming down?
Will Etheridge
Not coming down, just not going up as much. In years past you had price increases of 4 or 5%. That would get to an industry out growth of 6 to 7%. We don’t see those kinds of price increases.

Polo Tang
And you're seeing 4% growth for yourselves, but what do you expect for the market because you're saying that 4% and yet 4% in the market?

Will Etheridge
We think we’ll be ahead of the market.

Polo Tang
So 2%, 3% growth in the market?

Will Etheridge
We generally feel we will be a point or two ahead of the market.

Marjorie Scardino
Really that pricing pressure is trended mostly on the textbook, Computer Textbook business and now we’re so servers in technology. A little bit less for us. Next.

Paul Sullivan, Merrill Lynch
Can you just provide some clarity with respect to the margin on the incremental Testing growth you're seeing at the moment and just sort of go through give us a run down of the margin expectations within the Schools business by subdivision? And perhaps you could do the same for the Professional business as well in terms of your full year outlook there?

Marjorie Scardino
Yes I, you know Rona has been dying to do this for you and she will do this. I will say that you will notice that we’re supplying you with one School number this time. Partly in response to IFRS, partly because people have indicated they have a hard time getting these details and so we’re trying to make it a bit easier by giving you that top line and the margin for the total.

Rona Fairhead
I think one of the things with that is that as our School business has the technology and the Basal and the Testing to become more and more intertwined, it’s going to become less and less meaning frankly to be viewed specific breakdown. So we've moved to that and I think a lot of you indicated to us that you didn't like the piecemeal guidance that we gave you in our School business, so we've gone to, as we do with all our segments, the overall. So that’s the plan. I think what we will be planning to do is to go back to 2004 so you can use that as your starting point and just broad brush. If you looked at the Basal that’s around 40% of our business. Our Testing is around 25% both US and UK being broadly the same. 25% is in the other International business and about 10% is at the moment in our Software. That’s kind rough order of magnitude. In terms of guidance, I think what we've said is that what we would expect is a cycle around an 18% on the School Basal business and we've said that we expected those margins to increase a percentage point or two. So given you the total School business with a percentage point or two we think is better guidance for you. Just give you more clarity.
In our Testing business there is two parts. In the US we said it is in the 10 to 15% range because we’re on the more process side. The test development tends to be slightly higher around the mid teens.

Our UK business we are investing in Edexel and therefore that’s not as profitable as our US Testing business and I think we’ve given you the International margins which are sub 10%. And our Technology business we said last year we will broadly breakeven. We should make some money this year. Through the long-term we expect that to grow to the 15 to 20% range. But we’re not there yet.

**Unidentified Participant**
Three questions if I may?

**Marjorie Scardino**
Three?

**Unidentified Participant**
The first one is just in terms of your expectation for the paid circulation of the FT over the coming year, can you give us some indication of how we should be thinking about that. Are you looking for the paid circulations to go up by a certain percentage or down? Could you give us a little clarity on that, excluding the FT.com?
The second question is on the College business. You were talking about the pricing pressure. What is it that’s stopping you putting the price up? Could you give us a little more colour to why you have decided not to put prices up since your decision how you price it?
Then the third question which I think is not for your Marjorie but over to Dennis. In terms of the Chairman or Chairperson rather,

**Marjorie Scardino**
We only call it the Chairman whatever it is.

**Unidentified Participant**
Okay. How far advanced are you on that and when can we expect some announcement on that?

**Marjorie Scardino**
Well I can answer that. I think we have a great process and we have some excellent candidates. Lots of people interested in being the Chairman of Pearson and we’re going through that process. We, like all companies, think we’re quite special and we want just the right person. So we’re going to work on that and not announce it until we get just the right person. So no time frame put on that. But I think we’ll going to have a good Chairman.
Will do you want to talk about pricing, why don’t you raise the price?

**Will Etheridge**
I think the best way to answer it is our business right now is in transition. Higher education today is not like it was before. If you're just looking at just the traditional model, those textbooks have a little more pricing pressure. The students have taken more control. The channels are better. I think give you alternatives. Professors, you're raising the prices too high. We’ll just say to go students, their notes or other editions.
On the other hand, if you're adding real value, if you're adding the testing, if you're adding the support – both student support and teacher support – you do have a lot of pricing pressure. And
those trends are really starting to accelerate. Marjorie talked about [Dibry]. So we’re finding that as our portfolio moves towards testing, towards technology, that we don’t have those kind of pricing pressures. We think this is a really sort of short-term thing. But in the short-term, I think our price increases will be a little bit slower than they were a few years ago. But long-term, the demand for higher education is so strong and it’s moving more towards technology and assessment.

**Unidentified Participant**

Just to ask you, sticking with that, so are you saying that where you're doing some testing in a particular region or for a particular subject, your ability to put up the price of a textbook by 5% or whatever is higher? That there is some sort of a linkage there?

**Will Etheridge**

Yes, I mean basically there is a real linkage between usage and price. So in a course way, the book is just used as reference. Let's say it’s a sociology course. The professor has their notes and everything else and so you can read this book. It’s good background reading versus let's say it’s a psychology course or a NAF course, we’re going to test from the book on these problems. You're going to get a grade. That I'm going to use the publisher’s course [manuscript]. You're going to register in this. You better buy the book and you're going to be able to charge a lot more because we're offering a lot more value.

**Marjorie Scardino**

Remember, they don’t test in regions. They only test in connection with the course. It’s assessment. All about learning, not just a testing contract.

**Unidentified Participant**

Yes.

**Marjorie Scardino**

Olivier, paid circulation.

**Olivier Fleurot**

To be very clear, I have no fixed objective for my global circulation. I'm focused on quality on that circulation. The currency we have is the number of readers at the top end of the market. This is what allows us to sell ad pages at a very high yield and the yield is still increasing this year. So whether we are 2% down or 2% up, frankly is not a problem to me. What I can say is we've stabilised the UK circulation this year. We've increased slightly in Asia. But there again I could grow much faster in Asia. I'm not looking for growth for growth and more and more when you look at our business, I think you should look at the global reach of the FT you know that reading habits are changing very fast. So what we need to do now is to reach the right kind of people in all markets in print and online and then many monetise that for its advertisers.

**Unidentified Participant**

Just to be clear then, this is not a point that I'm making. Just be clear. Is that you are actually indifferent. You don’t care if the paid circulation falls because you're chasing after a quality of readership?
Olivier Fleurot
I care a lot about reaching the right people, making sure my circulation is paid and well paid for. And as you know, we are a very expensive newspaper. So for instance, I wanted more circulation and although the elasticities maybe not as high as it is with general interest newspaper, I could take the cover price down and I would get more readers. I don’t do it.

Simon May-Smith, CSFB
Two quick ones I hope. The first one is in a good adoption year you'd expect a bigger outflow in the first half in your working capital and I'm just wondering if there is anything more to say other than what Rona has already said on the working capital because it actually looked like quite a good number. Is there any more detail you can give us on why it was basically flat year-on-year? The second one is that there is an amendment to the Texas Bill which is going to increase funding in the classroom from 50 to 65% over the next five years. I understand that’s part of … there's a number of other amendments in other State Bills across the US to do the same thing. Just wondering whether Steve can give his thoughts on what that means for Textbook funding?

Marjorie Scardino
Steve, do you want to do that?

Steve Dowling
Sure. Yes I think the thing in Texas is there has been a lot of discussion of options of how it is funded, increasing funding for technology, giving a larger pool, giving some amount of money that can be spent on hardware and that sort of thing. I think it is a little up in the air. It’s mostly good news for us because they have increased the funding. Mostly there's really no other move in another major State right now. California has just funded at $525m; $80 a kid. Florida’s funding has gone up consistently over the last few years at 6%, 7%. Those three States represent 25% of the student population in the United States. All State adoptions. So they’ve all come up. Texas, as you know, is in the middle of legislative session right now, but the debate is not about funding the Textbooks; the debate is about a larger tax legislation. The Governor has got a Tax Bill that he wants to change the taxes of the State, but we’re confident they’ll fund the adoption and it will fund at the level we expected.

Simon May-Smith
It’s not so much whether they're going to fund it or not; it seems to be a change in direction of the shape of the funding. Is that they are focusing more and more into the classroom rather than just spending it on education?

Steve Dowling
I don’t see that. I think again they’ve talked about varying levels. They’ve talked about ways of allocating the money. And they’ve talked in some cases about giving more choice at the local district, but again they’ve kept the notion of categorical funds which is critical to us. The money has to be spent on instruction materials. So generally, it is good news. It is how … you know the rules might change a little bit. We’re confident we can play with it and that the funding levels will stay robust.

Marjorie Scardino
In other words, it’s sort of the opposite of what you were saying. Categorical funding means it has to be spent on school programmes. The general educational allocation is not good for us because
you can spend that on buses and buildings and all that. So we like that approach. Yes. Sorry, I forgot about the working capital. How could I?

**Rona Fairhead**
In terms of working capital, I don’t think there's a huge amount more to add really. We increased our pre-pub spend. We’re investing in new reading and new science programmes, so there was a slight increase from first half last year.
On our inventory we managed well. Our receivables I think we had a slightly better receivables performance than ’04. So I think in the main, we’re very happy because we were spending in the right places and we were doing efficiencies in the right places. So nothing.

**Paul Gooden; ABN Amro**
Just two questions on the Schools business. Going back to the Texas situation, is there a danger that some of the purchasing actually gets delayed out of '05 and takes place in ’06?
Then secondly, on the margin enhancement, you're talking about 1 to 2% this year. Is that likely to be reversed next year as presumably K12 and Testing slows, or could that perhaps be a permanent increase?

**Marjorie Scardino**
Steve.

**Steve Dowling**
I don’t think the funding of Texas will be delayed into '06. School starts in Texas in about three weeks. It starts early. It starts in middle of August in most districts in Texas and there's a huge uproar, as you can imagine about students not having their books to start school. Texas is I think the only State that has the right for every student to have a textbook in the constitution and if you know any Texans, this is one over here, they're pretty strong willed. So I think it will get spent this year in terms of the spending this year.
In the terms … next year you have to look at our overall business. Adoption is 10% of our business, or 10% of our worldwide School business. So it’s important. It’s easy to focus on because you know we all see what the numbers are. But it is not that big a piece of the business. There’s good growth in the other segments of the business next year. We’re still forecasting growth on our Basal business even with the adoption off a little bit. We’re participating in over 90% next year versus 70% this year. So there is some things going on that are positive for us, even though the adoption market is down a little bit.

**Marjorie Scardino**
We will however participate in a larger portion of that adoption next year, which helps us keep level. Our Software business continues to grow. We've got that strong Testing business with the big margin. So we’re feeling pretty confident.

**[Sam Cassell], Exane BNP Paribas**
Can I please ask you whether, in your assessment of the 2006 Basal Publishing environment and in the numbers you have do you factor in any change in the competitive landscape of the industry, possibly given investments what were missing given that certain social studies? That is the one they report. How do you factor that in into your view of the industry?
Sam Dowling
Into next year? Did you say 2006?

Sam Cassell
Into next year and maybe if you can comment on market share changes or competition changes in social studies this year?

Steve Dowling
Yes I think that they have clearly invested more money in a couple of subjects and they’ve done well on social studies. They did particularly well in Florida and they got out early. We actually, toward the end of the campaign made up some lost ground. Several other States we actually took a larger share. I think the School business you're investing year in and year out for these programmes. We’re investing now for ’08, ’09, looking at California and Texas reading coming up and math and so on. So you know while you do have campaign to campaign, you’ve got a longer cycle. [Hope Riplands] if you look at their performance numbers are not very good. Their share will be good in social studies. We think they’ll probably lead in social studies, but if you look at their financials, they're going to have to do something sooner or later. Most likely sooner. Our traditional competitors – Harcourt and [McCawley] – we compete in some of the same markets. They're in some markets we’re not and vice a versa. But I don’t see any fundamental change there. I think the bigger change to the business probably has to do with technology. It has to do with new technology players. That may be smaller players who are entering where there is an opportunity to introduce instruction materials and use technology to do it. I think the good news there for us is that we’re the largest in that segment, certainly among our major competitors, that you would think of and we’re the largest really of any of the groups. There are some smaller ones. We've got a good footprint both in the ILS (Individualised Learning Systems) and we've launched a new platform where we’re delivering our content, our basic textbook content assessment towards the kind of stuff Will was talking about only at the School level. We’re launching that too. So not to sound cocky, but I think we’re pretty well positioned on the technology side and we remain competitive. I think we’ll finish first in math, science and music this year, a very close second reading, language, arts and third in social studies in the adoptions in which we have participated.

Marjorie Scardino
We’ll go to the back now. I can't see who is sitting next to you Colin? Hi.

John Clark
I'm looking to perhaps a slightly more long-term question. I don’t know percent in Education. I don’t know what percentage of your revenues now are derived from online, but this is outside the Test. I'm not thinking of the straight Testing area here. But could you give us some idea of the sort of inflection points of changes in the cost profile here as you're having to invest more in online resources and perhaps less in print resources? Whether this has any indication for margins in any one particular period coming up perhaps over the next three years?

Marjorie Scardino
We have been investing in online consistently and fairly relentlessly ever since the dot com boom and the end of the dot com boom because we felt, as you see talked about here today, that that was going to fundamentally reform the School business and the Higher Ed business. And we carry on
doing that. But as you see from something like our SafariX programme, which is selling digital college books online, that is about the same margin. We get to charge half as much for the book which is very attractive to the customer. So this is not going to make very much a difference in margin terms.

You can figure out it has no paper, printing, binding, distribution for online delivered programmes, but of course we have software development. But I don’t think that you should look for that to fundamentally change any of our margins. Next.

Meg Geldens, Investec
I'm wondering if you can give us a bit more on advertising in the FT Group, what you're feelings are for the second half? I think Dow Jones gave a bit more optimistic comments at their results. And also you say you're taking continued cost action. Can you tell us a bit more about what's going on at the different newspapers and also can you possibly give us an idea of when the German FT will break even?

Marjorie Scardino
Do you want to about the cost actions and outlook for the second half?

Olivier Fleurot
So on the advertising front, what we know is that we had an increase of 5% in the first half. What we see is that bookings are still pretty late. You know short-term. That has no change. So it’s really difficult to predict prices what's going to happen in Q4. The level of bookings at the moment is on track with our expectations, but again it’s very short-term.

Cost saving initiatives, it’s really an ongoing process. We've taken a lot of cost out of this combined business in print and online in the last three years. We continue and we do that in many different ways. We negotiate contracts, printing and distribution contracts. We optimise their overall net worth of distribution worldwide. We are very … on buildings, or office space. Obviously we work on every aspect of our cost base.

Meg Geldens
And your perspective for FT … the German joint venture. Can we put a time frame on break even for that newspaper?

Olivier Fleurot
Soon. To be fair, I mean you know, clearly when we launched this newspaper it was based on forecast that were made in '98, '99. You remember those years. Good years. And if you extrapolate that, you know can imagine … and then we launched in February of 2000 one month before the bubble burst. So clearly the market has never been what we expected in the first place. The newspaper sector is now after just a few years, very well established in the German market. Its quality is recognised by all the business people in Germany. It’s gaining market share every day, every month against the [Handeslatt] in terms of … we just had the results of a readership survey which gave us +20%. Again, which will help us in raising the yield. We increase the yield over ad pages by between 10 and 15% every year. So soon we’ll break even.

Marjorie Scardino
Advertising, even though Germany is a terrible market, has continued to grow through the whole piece. So we think that’s a good sign. Back in the back.
Chris Collett, Goldman Sachs
Just a couple of questions. First was just on the Testing growth. You said Testing growth for this year over 20% which is clearly a great performance. I was just wondering whether you expect growth to continue in Testing in double-digits in 2006, or is there some sort of effect of a pull forward from future years?
The second was just on you had talked in the past about the £20m of cost savings between Pearson Education and Penguin. I think they got a bit disrupted. I wonder if you could just remind us what's happening with the cost savings.
And then I guess just related to that was if you were able to just give us an indication of what you think the margins at Penguin would do for this year?

Marjorie Scardino
As far as the Testing growth, obviously a large part of the growth this year is the big No Child Left Behind test that had to be begun in this school year and we have over 60% of the school kids in America as I said. So that is a big growth. We’ll continue to see a good performance in our Testing business, but obviously we’re preparing for ourselves quite a hard year to match ourselves to and I don’t think we’re ready to make any predictions for 2006 at this point.
As far as the costs, Rona do you want to speak to that?

Rona Fairhead
Yes, the £20m was what we said would be annual savings from integration which is more than just the UK consolidated and we did the same in Australia, in Canada, in India and basically what we've said was that until we got the Rugby warehouse and we got rid of the dual running costs, that would be delayed. But we’re very confident that we’ll have £20m of savings as we expected, certainly for the full year of 2006. And Chris, that’s part of the overall cost savings that we gave out last year from over £360m since 2000 and that’s part of that cost savings. And that’s why you see part of what's coming through is improving margins in our Education business.

Marjorie Scardino
John, would you like to give a prediction for your margin? I didn’t think so.

John Makinson
No. Thank you very much.

Marjorie Scardino
We obviously are making progress in Penguin yes.

Connors, Teather & Greenwoods
Just one question on your acquisition strategy in the Schools division. Would you anticipate spending a lot in the software outside of things? You are the clear leaders, but it is still quite fragmented thinking about role playing software companies and so on. Are you looking at any of these and would you anticipate some extensive spending in that particular area?
And secondly, just on the FT in terms of 5% growth, is that all volume or is there a price element?

Marjorie Scardino
On the School acquisition programme you will have seen we did one smallish acquisition and that is AGS, which is special education students. That's an area that we like being in and we weren’t very big in. But you really will see us do very small bolt ons. Whether it might be a tiny bit of
software or something like that, but extensive was one of the words you used, I don’t think you'll see us doing anything massive in that area. We are the biggest user of software to deliver teaching products and I think we’ll continue to hold that, but we’ll do that mostly in organic growth. As far as the 5% Olivier.

Olivier Fleurot
It’s about half and half. Half volume and half yield.

Marjorie Scardino
Over by the post.

[Indiscernible], Citigroup
A couple of questions. On Penguin, given your outlook and given what you're saying about your phasing, are you making any changes in your shipment levels and also could you talk a bit about returns?

Then on the Schools business, conscious that it was only a small part of the adoptions, from memory you were talking about participating in 75% of the adoptions before and now you're saying 70%. Is that because the overall adoption market has got bigger, or there are bits that you're not competing in as such?

Marjorie Scardino
It did grow a bit and so our calculate … we try to adjust our calculations all the time and it’s about 70% and you really ought to be looking at that for every publisher to find out what their percentage of participation is and match that to the whole market and their performance to figure out how they're doing.

Penguin shipments, returns.

John Makinson
Well on returns the picture in the US is that returns are reasonably stable at the moment through the first six months of the year. We are cautious as you know in thinking about this predictably because the returns levels are fairly volatile, particularly in the mass market category. We have been trying very actively to manage those returns levels by taking a pretty disciplined approach to supply of a number of high returning clients, particularly in this mass merchandising area. But at the moment, the pattern is pretty stable.

In the UK, just to add some colour on that, there has been in the last couple of months some pick up in returns rates in the UK industry because of changes in ordering patterns in Waterston’s and in WH Smith. They’ve been introducing new systems which has resulted in some increase in returns rate, but we expect that to unwind and subside in the next couple of months. We’re already seeing some evidence of that early in July.

As far as shipments are concerned, I may not have completely gripped the question here. But to the extent that there was a rephasing of sales, that is obviously reflected in a changing in shipment patterns. Is there more to the question?

Unidentified Participant
I guess actually I phrased it very badly. I meant just given that you again still don’t have a very positive outlook in the US, have you managed down your shipment levels to reflect that and do you risk therefore missing if you're positively surprised?
Marjorie Scardino
I suppose the surprise we’re going to get.

John Makinson
I think we will get [indiscernible]. But no I'm honestly not concerned about that. I mean there is enough. The returns levels you know about in the US. There is sufficient slack in that returns level for me not to terribly concerned that we’re going to be under supplying the customer base.

Marjorie Scardino
Anything else from anybody?

Mark Braley, Deutsche Bank
I think there was a question earlier on about margins in the Professional business. I wonder if you can give us some guidance there for this year?
And then just to come back to the FT again, sort of more fundamentally in terms of how we should think about pricing this business. Can you just tell us how the rate card has moved on average over the last few years and what you would expect in the next couple of years? Is it 2% a year, 5% a year? Sort of how should we think about that?

Marjorie Scardino
Rate card.

Olivier Fleurot
Well actually, as I said, the fact that we get more high quality readers for instance in the readership survey that Marjorie mentioned allows us, as this is the main currency, allows us to increase the rate card and we've done that this year on the worldwide package and the European package. We’re going to do it again and again. As long as we have more readers in that top end of the market, advertisers are ready to pay quite a lot for it and we are way above all our competitors on that criterion. But I'm never going to tell you exactly by how much I'm going to increase in 2006, or 7. This is very highly competitive information.

Mark Braley
Can you give us some idea of what the last few years have been then?

Olivier Fleurot
Well on average I would say that it’s been at least 3% or 4%.

Marjorie Scardino
On an annual basis.

Olivier Fleurot
On an annual basis yes.

Marjorie Scardino
Okay and the margins for Professional, Rona do you want to?

Rona Fairchild
In terms of Professional, this is a quick breakdown. You’ve got the Professional Technology Publishing which is around 20% of our Professional business. That as we've said before, really
tough years and it is stabilising. We’re not saying it is growing; it’s stabilising. So I think you
would have margins similar to the levels of last year.
You have Government Solutions which is around 40% of that business and we’ve said consistently
that’s around a 10% business and obviously we have some costs as we bring in this new
Department of Education contract.
Our Assessment and Testing business is around say 15% and that is a growing business. We said
that we would expect margins over time in the next few years to reach maybe around the 15%. But
we’re not there yet. It’s sub 10%. I think if you did want the whole picture of the Professional
business overall, that margins are probably a nudge up, that would be where I would go. But this is
a broad sense of where they're coming from.

Marjorie Scardino
Patrick. Oh right. Can Steve just add to that?

Steve Dowling
I want to say something about markets.

Marjorie Scardino
Do you want ask a question?

Steve Dowling
What's your budget?

Marjorie Scardino
What is the budget?

Steve Dowling
I was going to say something about market share if I could because I know a lot of these guys
follow the School business quite closely and you're going to hear results from everybody in the next
whatever short amount of time. It’s very confusing. I think the thing to focus on and we started
doing this two year’s ago is to focus on the total market that is up for grabs that year. We said it’s
about 950 this year, 900, 950. What you'll hear from people is somebody might say well it is 650
and somebody might say it is this that and the other. When you get the stations which are hard to
fare it out are in social studies, for example. Someone might say they're number one in social
studies. We might say we're number one in social studies. They may have participated in US
government or they may not participated in US government, or economics, or psychology.
If you take the total amount of spend that was spent on social studies that States are adopting all the
subjects, but if you didn’t participate in those then you could cast yourself as finishing number one
in those subjects. Social studies is particularly true. Science where you might do chemistry, physics,
biology or you might not do chemistry and physics, or environmental science for example.
I know it is confusing. You come back to us with questions. I think that’s probably the denominator
you want to look at is what is the total spend in the market for all social studies that is spent, all
science that’s spent. Reading is another one. Some publishers will put ESL in their reading
language arts number. Other publishers won't. We’ll put it in other for example.
So if you're getting comparisons like that I think are quite difficult for you and we’d be happy to
give you as much insight as we can into what's going on. But in anticipation of this sort of question
we have every year on this subject, I think that is one way to look at it that might be helpful.
Marjorie Scardino
He’s trying to go on holiday and he doesn’t want to have to hang around answering questions.
Patrick, did you have a question.

Patrick
Marjorie, do you want to say a bit more about the dividend policy? Dividend is only up 3%. You’ve had a good start. It could have been a bit more and maybe relate that to uses of cash in the future because your cash is going the right way. You’ve made a few disposals. Arguably you're a bit under leveraged. Just made an acquisition. Biggest acquisition since 2000. So what are you doing on cash?
And then maybe John can give us an idea of when we’ll get back to the sort of 90m EBITA mark for Penguin?

Marjorie Scardino
Rona would you like to talk about cash.

Rona Fairhead
In terms of cash and dividends, we have been concentrating on improving our overall cash flow on our balance sheet and as you said we've made these disposals which have netted us some proceeds. I think our policy has been that we've had some great businesses that we want to invest in so that’s what we will do. We've talked about adding to those businesses by sensible bolt on or fold in type acquisitions and that will be where our first priority is.
In terms of looking at any return of cash to shareholders, our very strong belief is the dividend is the best form of that because it’s a predictable source of cash to our shareholders. It provides a lot of discipline on the companies and that’s why you can slip in and out of other forms of cash free distribution which is why we’re so strong on this strong policy.
3% frankly is ahead of the rate of inflation. It’s at the half year and we have a policy as you know which is to raise the level above the rate of inflation and I don’t see any mood in the Board to change that policy. So that will continue to be our fundamental route.
In terms of looking forward about what is it that we’re looking for in terms of the future, we have to bear in mind the interest of bondholders and the rating agencies. Our commitment is to be BAA1, BBB+ and so we have to take that in mind and clearly although we’re expecting the cash flow to be very strong in 2005 and to be ahead of 2004, we’re still halfway through 2005. So our sense is that even if there is need, we believe that we don’t have value opportunities for shareholders, then I think that some time in the future that we’ll be thinking about it. But our prime remains at the moment of returning cash to shareholders is through dividend and 3% is above the rate of inflation and is the half year dividend.

Patrick
Rona, do you want to say something about cover because your cover is very thin, but your ability to pay dividend is quite substantial? There will be no restriction in terms of the cover to which you're prepared to talk?

Rona Fairhead
Are you talking about … I think if you look in the last couple of years we've had, as you're all very aware, advertising downturn, weak School markets. We are saying we’re looking forward to 2005 being the start of several years of improvements and therefore we expect that dividend cover to grow naturally and as our cash flow improves, the free cash flow cover will to.
Marjorie Scardino
John, is there anything you would like to say about Penguin’s [indiscernible]?

John Makinson
Well I suppose I can say a couple of things about [indiscernible] Patrick. What's happening, as you know in Penguin at the moment is that there is sort of reorientation of margin going on within the business. So historically the US business has been by some distance our most profitable business and what made that company so profitable over a period of years was the high margins that were achieved on the repeat bestselling author cycle.

That kind of publishing has become across the industry less attractive both because the rate of authors’ advances has outstripped the growth in the sales to which those authors relate and also because the channels into which those books have historically been sold have become … there has been margin pressure and returns pressure, returnable pressure in those channels.

So in the US we are in a period of transition, reorienting our publishing somewhat. I mean we know a lot about the [Scott] publishing and the bestselling authors we are keen to keep doing that. But there will be some reorientation towards either new print activity, new author activity that Marjorie was talking about in her presentation and that certainly for a transitional period is going to mean that there is some suppression of margin in the US.

Over here we are expecting an improvement in the margin at DK and at Penguin. Indeed, we've seen that in the first six months of the year. We certainly expect that to be sustained through the balance of the year.

So you'll be moving towards a business which has, if you like, more consistent margin levels across the Group. We have relatively good margins in the Australian business, which is increasingly important to us, particularly when you consider that is a distribution business as much as it is a publishing business. In Australia those margins are strong.

When does that get you back to £90m? Obviously I'm not going to answer that question quite, but Marjorie did talk about getting back to industry leading margin and that does certainly mean a double-digit margin. So I think that is something that one would have to presume.

Marjorie Scardino
Is there anything else? You're the last man.

Charles Peacock, Alfred Berg
Perhaps just as a follow on on Penguin, I wonder whether you can just say whether there are any restructuring costs expected in the second half after the £4m in the first half? And when you expect the duplication running cost to wash out of the UK business?

And then just on the FT, where are we now with FT.com, the number of subscribers and is the growth in advertising and the drive for readership online changing the way that you're thinking about that business?

Marjorie Scardino
Do you want to answer that first Olivier.

Olivier Fleurot
The online part of our business is profitable so which means that any extra advertising now is very profitable. We are growing at about 20% and that was the case last year. It is the case this year. Clearly, as I said, and tried to explain, you will have to look at our business as a source of information which is disseminated in many different ways and the way we talk to, for instance,
corporate clients now they clearly want a combination of print and online channels. So I'm very confident actually about the future of online. It’s going to be a very, very important part of our business in the future.

**Marjorie Scardino**
I think it is very notable that the FT.com is the fastest growing business website. I think in Europe 11% growth is quite good for that business. You want to talk about dual running costs and restructuring costs?

**John Makinson**
On the dual running costs we would expect those dual running costs to have run off by end of September/early October as planned. So that is in line with what we were expecting. That’s not to say that at that time we will have gained all the benefits of the consolidation of Pearson Education and Penguin. There is a lot more still be done and we’re getting benefit of freight consolidation, for example, obviously on the two companies. So there is still a lot of initiatives that we are working on, but the dual running cost has ceased. That will be resolved at that time and as far as restructuring costs, no we are not anticipating any material restructuring costs in the second half.

**Marjorie Scardino**
Thank you all very much. I hope you go back to your offices with a positive outlook like we've got on our year and as always Luke is available to help in any way he can. So thank you very much for coming.