Pearson plc
IFRS Technical Analysis

Contents

Schedules

A. Introduction

Pearson plc expects to prepare its consolidated financial statements for the year ending 31 December 2005 in accordance with International Financial Reporting Standards (IFRS). This document presents preliminary comparative IFRS financial information for six months to 30 June 2004. Preliminary comparative information for the years ended 31 December 2004 and 2003 together with an explanation of the UK GAAP to IFRS adjustments are already available on the Pearson plc web site at www.pearson.com (Pearson IFRS technical analysis 4 May 2005).

B. Basis of preparation

The financial information, comprising the condensed consolidated IFRS balance sheet as at 30 June 2004, the condensed consolidated IFRS income statement, the condensed consolidated IFRS cash flow statement and the statement of recognised income and expense for the six months ended 30 June 2004, have been prepared as part of Pearson's conversion to IFRS. The applied IFRS accounting policies were selected by management considering all applicable International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) by 31 March 2005. The policies comply with the amendment to IAS 19 that was published in December 2004 which the Group expects to early adopt in its first IFRS financial statements. The applied accounting policies are also based on the Group's expectation of adopting IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' retrospectively from 1 January 2003, its expected date of transition to IFRS. IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 32 'Financial Instruments: Disclosure and Presentation' have not been applied to the six months ended 30 June 2004 because the Group expects to apply a transitional exemption and adopt those standards prospectively from 1 January 2005.

Although the preliminary IFRS financial information is based on management's best knowledge of issued standards and interpretations, and current facts and circumstances, this may change. For example, amended or additional standards or interpretations may be issued by the IASB. IFRS is currently being applied in the United Kingdom and in a large number of other countries simultaneously for the first time. Due to a number of new and revised standards issued after December 2003 there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application of IFRS. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the group's first IFRS financial statements for the year ended 31 December 2005 cannot be determined with certainty. Therefore, until the Company prepares its first full IFRS financial statements and establishes its transition date as defined by IFRS 1, the preliminary IFRS financial information presented in this document may have to be adjusted.

C. Accounting policies

The principal accounting policies applied in the preparation of these condensed consolidated financial statements are set out below.

A Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued and effective or issued and early adopted as at 31 March 2005. The IFRS standards and IFRIC interpretations that will be applicable at 31 December 2005 are not known with certainty at the time of preparing these condensed consolidated financial statements. The condensed consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss from 1 January 2005.

The preparation of condensed financial statements requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements, are disclosed in Note D 'Critical Accounting Assumptions and Judgements'.

B Consolidation

(1) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. See note [E] for the accounting policy on goodwill.

(2) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Joint ventures are entities in which the Group holds an interest on a long-term basis and which is jointly controlled, with one or more other ventures, under a contractual arrangement. Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes related goodwill.

The group's share of its associates' and joint ventures' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates or joint ventures.

C Foreign currency translation

(1) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

Translation differences on other non-monetary items such as equities held at fair value are reported as part of the fair value gain or loss through the income statement. Translation differences on non-monetary items such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity as from 1 January 2005.

(3) Group companies

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows :

i) assets and liabilities are translated at the closing rate at the date of the balance sheet;

ii) income and expenses are translated at average exchange rates;
iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

D Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings (freehold)	20 –50 years
Buildings (leasehold)	50 years (or over the period of the lease if shorter)
Plant and equipment	3 – 20 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

E Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(2) Software development costs

Costs directly associated with the production of identifiable and unique software products, where it is probable that they will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets and are amortised over their estimated useful lives.

(3) Pre-publication costs

Pre-publication costs represent direct costs incurred in the development of educational programmes and titles prior to their publication. These costs are carried forward in current intangible assets where the title has a useful life in excess of one year. These costs are amortised upon publication of the title over estimated economic lives of five years or less, being an estimate of the expected life cycle of the title, with a higher proportion of the amortisation taken in the earlier years.

(4) Acquired intangible assets

Acquired intangible assets comprise customer lists and relationships, computer software licences, publishing rights and trade names and trademarks. These assets are capitalised on acquisition and included in intangible assets and amortised over their estimated useful lives.

F Impairment of non-financial assets

Assets that are not subject to amortisation are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

G Investments

Prior to 31 December 2004

Financial fixed assets include investments in companies other than subsidiaries and associates and other securities. Financial fixed assets are recorded at cost. Current assets also include investments acquired as a temporary investment which are valued at the lower of cost and market.

From 1 January 2005

Held-to-maturity investments are non-derivative financial assets that the Group has the positive intention and ability to hold to maturity. They are included in non-current financial assets.

H Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

I Royalty advances

Advances of royalties to authors are included within trade and other receivables when the advance is paid less any provision required to bring the amount down to its net realisable value. The royalty advance is expensed at the contracted royalty rate as the related revenues are earned.

J Newspaper development costs

Revenue investment in the development of newspaper titles consists of measures to increase the volume and geographical spread of circulation. The measures include additional and enhanced editorial content, extended distribution and remote printing. These extra costs arising are expensed as incurred as they do not meet the criteria under IAS 38 to be capitalised as intangible assets.

K Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

L Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares) the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

M Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

N Derivative financial instruments

Prior to 31 December 2004

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange risk. All the Group's derivative financial instruments are designated as hedging instruments and are held at cost. The Group does not hold derivative financial instruments for trading purposes. Gains and losses on derivative financial instruments are included in the income statement on maturity. Where a derivative instrument is terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

For foreign exchange instruments, the premium (or discount) is included in the income statement, in finance costs, in accordance with the accrual method. For interest rate instruments, the interest rate differential is included in the income statement, in finance costs, in accordance with the accrual method, offsetting the effects of the hedged transaction.

From 1 January 2005

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Group designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or hedges of net investments in foreign operations (net investment hedges).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as net investment hedges are recognised in equity. Gains or losses relating the ineffective portion are recognised immediately in the income statement.

Certain derivatives do not qualify or are not designated as hedging instruments. Such derivatives are classified at fair value and any movement in their fair values is recognised in the income statement immediately.

O Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided in respect of the undistributed earnings of subsidiaries other than where it is intended that those undistributed earnings will not be remitted in the foreseeable future.

P Employee benefits

(1) Pension obligations

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash flows using yields on high quality corporate bonds which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from differences between actual and expected returns on plan assets, experience adjustments on liabilities and changes in actuarial assumptions are recognised immediately in the statement of recognised income and expense.

The service, representing benefits accruing over the year, is included as an operating cost and the unwinding of the discount rate on the scheme liabilities and the expected return on scheme assets as a financing charge or financing income.

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

(2) Other post-retirement obligations

The Group provides certain healthcare and life assurance benefits. The principal plans are unfunded. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. The liabilities and costs relating to other post-retirement obligations are assessed annually by independent qualified actuaries.

(3) Share-based compensation

The Group has a number of employee option and performance share schemes. The fair value of options granted is recognised as an employee expense after taking into account the Company's best estimate of the number of awards expected to vest. Fair value is measured at the date of grant and is spread over the vesting period of the instrument. The fair value of the options granted is measured using whichever of the Black Scholes, Binomial and Monte Carlo model is most appropriate to the award. Any proceeds received are credited to share capital and share premium when the options are exercised. The Group has applied IFRS 2 retrospectively to all options granted but not fully vested at the date of transition to IFRS.

Q Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The Group recognises a provision for deferred consideration in the period that an acquisition is made and the Group becomes legally committed to making the payment.

The Group recognises a provision for restructuring costs in the period in which the Group becomes legally or constructively committed to payment.

The Group recognises a provision for onerous lease contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is based on the present value of future payments for surplus leased properties under non-cancellable operating leases, net of estimated sub-leasing revenue.

R Revenue recognition

Revenue comprises the fair value for the sale of goods and services net of value-added tax and other sales taxes, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows :

Revenue from the sale of books is recognised when title passes. Anticipated returns are estimated based primarily on historical return rates. Circulation and advertising revenue is recognised when the newspaper or other publication is published. Subscription revenue is recognised on a straight-line basis over the life of the subscription.

Where a contractual arrangement consists of two or more separate elements that can be provided to customers either on a stand-alone basis or as an optional extra, such as the provision of supplementary materials with textbooks, revenue is recognised for each element as if it were an individual contractual arrangement.

Revenue from multi-year contractual arrangements, such as contracts to process qualifying tests for individual professions and government departments, is recognised as performance occurs. Certain of these arrangements, either as a result of a single service spanning more than one reporting period or where the contract requires the provision of a number of services that together constitute a single project, are treated as long-term contracts with revenue recognised on a percentage of completion basis. Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated direct and indirect costs of the contract exceed the estimated total revenues that will be generated by the contract.

On certain contracts, where the Group acts as agent, only commissions and fees receivable for services rendered are recognised as revenue. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in revenue.

S Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases by the lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

T Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

U Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. No depreciation is charged in respect of non-current assets classified as held for sale.

D. Critical accounting assumptions and judgements

The preparation of condensed financial statements in conformity with IFRS requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements, are discussed below.

(1) Revenue recognition

Revenue from the sale of books is recognised when title passes. A provision for anticipated returns is made based primarily on historical return rates. If these estimates do not reflect actual returns in future periods then revenues could be under or over stated for a particular period.

Revenue from multi-year contractual arrangements is recognised as performance occurs. The assumptions, risks, and uncertainties inherent in long-term contract accounting can affect the amounts and timing of revenue and related expenses reported.

(2) Pre-publication costs

The assessment of the useful life of pre-publication costs and the calculation of amortisation involve a significant amount of estimation and management judgement based on historical trends. The overstatement of useful lives could result in excess amounts being carried forward as intangible assets that would otherwise have been written off to the income statement in an earlier period. Reviews are performed regularly to estimate recoverability of pre-publication costs.

(3) Royalty advances

The realisable value of royalty advances relies on a degree of management judgement in determining the profitability of individual author contracts. If the estimated realisable value of author contracts is overstated then this will have an adverse effect on operating profits as these excess amounts will be written off.

(4) Pension obligations

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth, longevity and expected return on scheme assets. Differences arising from actual experience or future changes in assumptions will be reflected in subsequent periods.

(5) Deferred income tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, significant judgement is used when in assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income together with any future tax planning strategies.

Schedule 1

Pearson plc
Consolidated IFRS Income Statement for the six months ended 30 June 2004

All figures in £ millions	UK GAAP	Disclosure adjtmt from UK GAAP to IFRS format	Goodwill amortn IFRS 3	Intangible assets acquired IFRS 3	Intangible assets - capitalised software IAS 38	Intangible assets - pre-pub expenditure IAS 38	Share based payments IFRS2	Employee benefits IAS19	Leases IAS 17	Joint ventures / associates	Joint ventures / associates MML IAS28/ 31	Income taxes IAS12	Dividends IAS10	Other	Discontinued IFRS 5	IFRS
Sales	1,594	-	-	-	-	-	-	-	-	-	(23)	-	-	-	(90)	1,481
Cost of goods sold	(787)	-	-	-	-	-	-	-	-	-	11	-	-	1	28	(747)
Gross profit	**807**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**-**	**-**	**1**	**(62)**	**734**
Operating expenses	(889)	-	116	(2)	(1)	-	(4)	6	(8)	-	5	-	-	1	46	(730)
Other gains/ losses - net	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Share of profits of JVs and associates	5	(2)	-	-	-	-	-	-	-	(1)	2	-	-	-	(1)	3
Operating profit/ (loss)	**(75)**	**(2)**	**116**	**(2)**	**(1)**	**-**	**(4)**	**6**	**(8)**	**(1)**	**(5)**	**-**	**-**	**2**	**(17)**	**9**
Finance costs - net	(37)	-	-	-	-	-	-	(3)	-	-	-	-	-	-	(2)	(42)
Loss before income tax	**(112)**	**(2)**	**116**	**(2)**	**(1)**	**-**	**(4)**	**3**	**(8)**	**(1)**	**(5)**	**-**	**-**	**2**	**(19)**	**(33)**
Income tax	-	2	(1)	-	-	-	-	-	2	-	3	(1)	-	-	6	11
Loss for the period from continuing operations	**(112)**	**-**	**115**	**(2)**	**(1)**	**-**	**(4)**	**3**	**(6)**	**(1)**	**(2)**	**(1)**	**-**	**2**	**(13)**	**(22)**
Discontinued operations :																
Profit for the period from discontinued operations	-														13	13
Loss for the period	**(112)**	**-**	**115**	**(2)**	**(1)**	**-**	**(4)**	**3**	**(6)**	**(1)**	**(2)**	**(1)**	**-**	**2**	**-**	**(9)**
Less: Minority interest	(11)	-	(4)	1	-	-	1	-	-	-	2	-	-	-	-	(11)
Attributable to equity shareholders	(123)															(20)
Dividends	(77)	-	-	-	-	-	-	-	-	-	-	-	(42)	-	-	(119)
Loss retained	(200)	-	111	(1)	(1)	-	(3)	3	(6)	(1)	-	(1)	(42)	2	-	(139)

Schedule 2

Pearson plc
Consolidated IFRS Balance Sheet as at 30 June 2004

All figures in £ millions	UK GAAP	Disclosure adjtmt from UK GAAP to IFRS format	Goodwill amortn IFRS 3	Intangible assets acquired IFRS 3	Intangible assets - capitalised software IAS 38	Intangible assets - pre-pub expenditure IAS 38	Share based payments IFRS2	Employee benefits IAS19	Leases IAS 17	Joint ventures / associates	Joint ventures / associates MML IAS28/ 31	Income taxes IAS 12	Dividends IAS 10	Other	Discontinued IFRS 5	IFRS
ASSETS																
Non-current assets																
Property, plant and equipment	458	-	-	-	(70)	-	-	-	-	-	(1)	-	-	-	(43)	344
Intangible assets	3,106	-	291	38	70	-	-	-	-	-	-	-	-	-	(96)	3,409
Investments in JVs and associates	73	-	7	-	-	-	-	-	-	(7)	4	-	-	-	(25)	52
Deferred income tax assets	-	308	36	-	-	-	17	-	12	-	-	-	-	-	-	373
Other financial assets	21	-	-	-	-	-	-	-	-	-	-	-	-	-	(7)	14
Other receivables	-	110	-	-	-	-	-	-	-	-	-	-	-	-	-	110
	3,658	**418**	**334**	**38**	**-**	**-**	**17**	**-**	**12**	**(7)**	**3**	**-**	**-**	**-**	**(171)**	**4,302**
Current assets																
Intangible assets - pre-publishing	-	-	-	-	-	358	-	-	-	-	-	-	-	-	-	358
Inventories	760	-	-	-	-	(354)	-	-	-	-	(5)	-	-	-	(4)	397
Trade and other receivables	1,192	(110)	-	-	-	(4)	-	-	-	-	(13)	-	-	(3)	(69)	993
Deferred taxation	173	(173)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Cash and cash equivalents	753	-	-	-	-	-	-	-	-	-	(8)	-	-	-	(100)	645
	2,879	**(283)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(26)**	**-**	**-**	**(3)**	**(173)**	**2,394**
Non-current assets classified as held for sale	-														344	344
	2,879	**(283)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(26)**	**-**	**-**	**(3)**	**171**	**2,738**
Total assets	**6,537**	**135**	**334**	**38**	**-**	**-**	**17**	**-**	**12**	**(7)**	**(23)**	**-**	**-**	**(3)**	**-**	**7,040**
EQUITY																
Capital and reserves attributable to the Company's equity shareholders																
Share capital	201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	201
Share premium	2,470	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,470
Reserves	(4)	-	324	40	-	-	20	(240)	(27)	(7)	(1)	(5)	77	(2)	-	175
	2,667	-	324	40	-	-	20	(240)	(27)	(7)	(1)	(5)	77	(2)	-	2,846
Minority interest	203	-	10	(2)	-	-	(3)	-	-	-	(7)	(1)	-	-	-	200
Total equity	**2,870**	**-**	**334**	**38**	**-**	**-**	**17**	**(240)**	**(27)**	**(7)**	**(8)**	**(6)**	**77**	**(2)**	**-**	**3,046**
LIABILITIES																
Non-current liabilities																
Borrowings	1,801	3	-	-	-	-	-	-	-	-	-	-	-	-	-	1,804
Deferred income tax liabilities	-	135	-	-	-	-	-	-	-	-	-	6	-	-	(9)	132
Retirement benefit obligations	-	76	-	-	-	-	-	240	-	-	-	-	-	-	-	316
Provisions for other liabilities and charges	139	(92)	-	-	-	-	-	-	5	-	-	-	-	-	(2)	50
Other liabilities	96	(3)	-	-	-	-	-	-	34	-	-	-	-	-	-	127
	2,036	**119**	**-**	**-**	**-**	**-**	**-**	**240**	**39**	**-**	**-**	**6**	**-**	**-**	**(11)**	**2,429**
Current liabilities																
Trade and other payables	945	(61)	-	-	-	-	-	-	-	-	(12)	-	(77)	(1)	(62)	732
Borrowings	686	2	-	-	-	-	-	-	-	-	-	-	-	-	-	688
Current income tax liabilities	-	59	-	-	-	-	-	-	-	-	(3)	-	-	-	(4)	52
Provisions for other liabilities and charges	-	16	-	-	-	-	-	-	-	-	-	-	-	-	-	16
	1,631	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15)**	**-**	**(77)**	**(1)**	**(66)**	**1,488**
Liabilities directly associated with non-current assets classified as held for sale	-														77	77
Total liabilities	**3,667**	**135**	**-**	**-**	**-**	**-**	**-**	**240**	**39**	**-**	**(15)**	**6**	**(77)**	**(1)**	**-**	**3,994**
Total equity and liabilities	**6,537**	**135**	**334**	**38**	**-**	**-**	**17**	**-**	**12**	**(7)**	**(23)**	**-**	**-**	**(3)**	**-**	**7,040**

Schedule 3

Pearson plc
Consolidated IFRS Cash Flow Statement
for the Six Months Ended 30 June 2004

All figures in £ millions	UK GAAP	Short term deposits	Adjustments	IFRS
Cash flows from operating activities				
Cash generated from operations	(147)	-	-	(147)
Interest paid	(43)	-	-	(43)
Income tax paid	(29)	-	-	(29)
Net cash generated from operating activities	**(219)**	**-**	**-**	**(219)**
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired	(13)	-	-	(13)
Acquisition of joint ventures and associates	(7)	-	-	(7)
Purchase of property, plant and equipment (PPE)	(50)	-	-	(50)
Proceeds from sale of PPE		-	-	-
Purchase of available-for-sale financial assets		-	-	-
Disposal of subsidiary net of cash disposed		-	-	-
Disposal of joint ventures and associates		-	-	-
Disposal of investments	3	-	-	3
Interest received	7	-	-	7
Dividends received from jvs and associates	1	-		1
Net cash used in investing activities	**(59)**	**-**	**-**	**(59)**
Cash flows from financing activities				
Proceeds from issue of ordinary shares	1	-	-	1
Purchase of treasury shares	(2)	-	-	(2)
Proceeds from borrowings	469	-	-	469
Liquid resources acquired	(84)	83	-	(1)
Other borrowings	(2)	-	-	(2)
Repayments of borrowings	(43)	-	-	(43)
Finance lease principal payments	(1)	-	-	(1)
Dividends paid to Company's shareholders	(119)	-	-	(119)
Dividends paid to minority interests	(1)	-	-	(1)
Net cash used in financing activities	**218**	**83**	**-**	**301**
Effects of exchange	**(4)**	**(9)**	**-**	**(13)**
Net (decrease)/increase in cash and bank overdrafts	**(64)**	**74**	**-**	**10**
Cash and bank overdrafts at beginning of year	286	249	(7)	528
Cash and bank overdrafts at end of year	**222**	**323**	**(7)**	**538**

Schedule 4

Pearson plc
Consolidated Statement of Recognised Income and Expense
for the Six Months Ended 30 June 2004

All figures in £ millions	UK GAAP	Adjustment	IFRS
Exchange differences on translation of foreign operations	(32)	(9)	(41)
Actuarial gains / losses on defined benefit pension schemes	-	45	45
Taxation on items taken directly to equity	-	2	2
Net income recognised directly in equity	**(32)**	**38**	**6**
Loss for the financial period	(123)	103	(20)
Total recognised income and expense for the financial period	**(155)**	**141**	**(14)**