

PEARSON

IFRS Briefing

4 May 2005

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Introduction

Transition date 1.1.03 (2 years comparatives)

IAS 39 from 1.1.05

2004 figures in this presentation

See website for details of 2003 and 2004

Basis of preparation

The financial information presented in this presentation has been prepared in accordance with International Financial Reporting Standards (“IFRS”). This includes International Accounting Standards (“IAS”) and interpretations issued by the International Accounting Standards Board (“IASB”) and its committees up to 31 December 2004, and as interpreted by any regulatory bodies applicable to the Group. These standards and interpretations are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change. As a result, information contained within this presentation will require updating for any subsequent amendment to or interpretation of IFRS required for first time adoption or those new standards that the Group may elect to adopt early.

The UK GAAP information has been extracted from Pearson’s 2004 audited accounts; all other financial information, including adjustments and IFRS amounts, is unaudited pro forma information. It is possible that certain practices will emerge or develop around the policies and procedures applied under IFRS which could affect our actual 2005 financial reporting under IFRS.

IFRS 2004 Summary

£m	2004 UK GAAP	2004 IFRS
Sales	3,919	3,696
Statutory results		
Operating profit	231	404
Profit before tax	171	325
Basic earnings per share	11.1p	32.9p
Business performance		
Adjusted operating profit	455	421
Adjusted profit before tax	386	345
Adjusted earnings	239	217
Adjusted earnings per share	30.0p	27.3p
Free cash flow	288	282
Net borrowings	1,206	1,221
Return on invested capital	6.2%	6.1%

IFRS P&L Adjustments (2004)

£m	Statutory Op. Profit	Adjusted Op. Profit	Adjusted Earnings
UK GAAP	231	455	239
Goodwill	224	-	-
Intangible assets	(5)	(5)	(3)
Capitalised software	(2)	(2)	(1)
Share based payments	(20)	(20)	(14)
Employee benefits	11	11	6
Leases	(16)	(16)	(12)
JV / Associate income	(4)	(4)	(2)
MML deconsolidation	(3)	(3)	-
Other	5	5	5
Deferred tax	-	-	(1)
Reclassification from non-operating	9	-	-
Discontinued	(26)	-	-
IFRS	404	421	217

Summary IFRS Balance Sheet Adjustments

at 31 December 2004

£m	Total Assets	Total Liabilities	Total Equity
UK GAAP	5,986	(3,170)	2,816
Goodwill	394	-	394
Other intangible assets	48	-	48
Capitalised software	-	-	-
Share based payments (deferred tax)	22	-	22
Employee benefits	-	(338)	(338)
Leases (including deferred tax)	14	(47)	(33)
JVs / Associates	(8)	-	(8)
MML deconsolidation	(18)	12	(6)
Deferred tax (on unremitted earnings)	-	(7)	(7)
Dividends	-	125	125
Other	(1)	2	1
Reclassification of deferred tax (grossed up)	141	(141)	-
IFRS	6,578	(3,564)	3,014

NOTE: PRE-PUBLICATION EXPENDITURE RECLASSIFIED FROM STOCK TO CURRENT INTANGIBLES

Summary IFRS Cash Flow Adjustment (2004)

£m	Net Cash From Operating	Free Cash Flow	Net Movement in Cash
UK GAAP	387	288	27
MML Deconsolidation	(6)	(6)	(4)
Re-definition of “cash”	-	-	(7)
IFRS	381	282	16

Goodwill and intangible assets

Goodwill

- Amortisation ceases from 1.1. 03
- Annual impairment reviews

Impact: £224m increase in 2004 statutory profit
£394m increase in net assets at end 2004

Intangible Assets

- Fair value ascribed to acquired intangibles
- Amortisation over estimated lives

Impact: £5m reduction in 2004 operating profit
£48m increase in net assets at end 2004

Capitalised software

Minor increases in capitalisation at 1.1.03 and thereafter

Subsequent annual amortisation

Impact: £2m reduction in 2004 operating profit

Share based payments

Imputed value of grant charged over vesting period

IFRS adopted fully retrospectively

£5m cost previously charged in 2004 under UK GAAP

Impact: £20m reduction in 2004 operating profit

Employee benefits

Old SSAP 24 charge under UK GAAP broadly aligned with actuarial assumptions

P&L assumptions to be set at start of the year
(investment returns; discount rates; salary assumptions)

SORIE to be used for actuarial gains and losses

Net financing element of pension charge taken to interest

Pension assets/liabilities to be brought on balance sheet

Deferred tax asset fully provided for

Impact: £11m increase in 2004 operating profit

£5m increase in 2004 finance cost

Net increase in PBT £6m

£338m deficit on balance sheet (£237m after tax)

Leases

Lease incentives and fixed increments spread over total lease term

Stable P & L charge in future years

Impact: £16m reduction in 2004 operating profit
£33m net increase in 2004 liabilities

Joint ventures/associates

Equity accounting adopted

JV / Associate income credited to operating profit post tax

IFRS adjustments within JVs/Associates recognised

South African 50% interest (MML) no longer consolidated

Impact: £7m reduction in operating profit (MML = £3m)
£2m reduction in adjusted earnings
£14m reduction in net assets

Taxation

Tax effect of above IFRS p&l adjustments

Deferred tax asset created on historical tax-amortisable goodwill

Deferred tax liability in respect of undistributed earnings of non-wholly owned subsidiaries

Deferred tax assets and liabilities separately disclosed (£141m “grossed up”)

Impact: £55m net increase in deferred tax asset on balance sheet at end 2004

1 - 2% increase in 2004 effective rate

Dividends

Final dividend accounted for only when Board approved
(usually post year end)

Reserves increased at transition date

Year-on-year timing difference only

No change to dividend policy arising from IFRS

Impact: £125m increase in 2004 reserves

Balance Sheet Reclassifications

Pre-publication expenditure

- Reclassified from stock to intangible current assets
- No change to amortisation policy
- Amount to be included for working capital measurement

Impact: Nil on operating profit

Reclassification from stock to intangibles of £352m at end 2004

Capitalised software

- Reclassified from tangible to intangible assets

Impact: £70m reclassification at end 2004

Cash Flow

No change to the cash resources of the group

Change to definition of “cash”

MML de-consolidation impact only

Impact: £6m reduction in 2004 free cashflow
£15m increase in year-end 2004 debt

IFRS Segmental Analysis (2004)

	Sales			Operating Profit		
	UK GAAP	IFRS adj	IFRS	UK GAAP	IFRS adj	IFRS
Pearson Ed						
School	1,118	(31)	1,087	117	(9)	108
Higher Ed	731	(2)	729	133	(4)	129
Other (Professional)	507	-	507	43	(3)	40
Penguin	786	-	786	54	(2)	52
FT Group						
FT Publishing	318	-	318	8	(4)	4
IDC	269	-	269	78	(16)	62
Total Continuing	3,729	(33)	3,696	433	(38)	395
Discontinued	190	(190)	-	22	4	26
TOTAL	3,919	(223)	3,696	455	(34)	421

Financial Instruments

Adoption date: 1.1.05

Translation risks not hedged

Debt hedging through interest rate and currency swaps

Derivatives on derivatives not hedged under IFRS (our pay-fixed swaps)

Hedge accounting achieved in 2004 for key derivatives

Low potential for volatility due to interest rate change

Higher potential for volatility due to yield curve movement

Effects of derivative movements to be disclosed

Impact on 2004 profits: Nil

Summary

Timetable going forward

- H1 comparatives and segmental analysis: June 2005
- H1 actuals under IFRS: 25 July 2005

Questions?