

Pearson plc

IFRS Technical Analysis

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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). Pearson's expected date of transition to IFRS is 1 January 2003 which will have the advantage of providing two years of comparatives in its first IFRS financial statements. This document presents preliminary comparative IFRS financial information for the years ended 31 December 2004 and 2003.

Summary consolidated income statement information :

£ millions	2004	2004	2003	2003
	UK	IFRS	UK	IFRS
	GAAP		GAAP	
Sales	3,919	3,696	4,048	3,850
Operating profit	231	404	226	406
Profit before income tax	171	325	152	313
Income tax expense	(62)	(63)	(75)	(61)
Profit for the year	88	262	55	252

Summary consolidated balance sheet information :

£ millions	2004	2004	2003	2003
	UK	IFRS	UK	IFRS
	GAAP		GAAP	
Goodwill and intangible assets	2,890	3,278	3,260	3,550
Other fixed assets	538	878	553	929
Current assets	2,558	2,064	2,523	2,257
Non-current assets held for sale	-	358	-	-
Total assets	5,986	6,578	6,336	6,736
Equity and reserves	2,816	3,014	3,088	3,161
Current liabilities	1,275	1,080	1,704	1,593
Non-current liabilities	1,895	2,403	1,544	1,982
Non-current liabilities held for sale	-	81	-	-
Total equity and liabilities	5,986	6,578	6,336	6,736

B. Basis of preparation

The financial information, comprising the condensed consolidated IFRS balance sheets as of 1 January 2003, 31 December 2003, and 31 December 2004, the condensed consolidated IFRS income statements and the condensed consolidated IFRS cashflow statements for the years ended 31 December 2004 and 2003, 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 years ended 31 December 2004 and 2003 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. UK GAAP to IFRS adjustments

First-time adoption exemptions applied

IFRS 1, 'First-time Adoption of International Financial Reporting Standards' sets out the transition rules which must be applied when IFRS is adopted for the first time in reporting IFRS financial information. In general the Group is required to select accounting policies in accordance with IFRS valid at its first IFRS reporting date and apply those policies retrospectively. The standard sets out certain mandatory exceptions to retrospective application and certain optional exemptions. The most significant optional exemptions adopted by the Group are set out below:

1. Business combinations

The Group has elected not to apply IFRS 3, 'Business Combinations' retrospectively to business combinations that occurred before the date of transition. Consequently, goodwill arising on business combinations before the date of transition is grandfathered at the date of transition from the UK GAAP financial statements.

2. Employee benefits

The Group has elected to recognise all cumulative actuarial gains and losses from employee benefit schemes at the date of transition. All cumulative actuarial gains and losses have been recognised in full in the period in which they occur in the statement of recognised income and expense in accordance with IAS 19, 'Employee Benefits' (as amended on 16 December 2004).

3. Share-based payments

The Group has elected to apply IFRS 2, 'Share-based Payments' retrospectively to all options granted but not fully vested at the reporting date. Consequently the share-based payment charge from 2003 reflects all options granted and not fully vested at 31 December 2002.

4. Financial instruments

The Group has elected to apply IAS 39, 'Financial Instruments: Recognition and Measurement' and IAS 32, 'Financial Instruments : Disclosure and Presentation' from 1 January 2005. After this date, where hedge accounting cannot be applied under IAS 39, changes in the market value of financial instruments will be taken to the profit and loss account. No adjustment to the 2003 or 2004 UK GAAP financial statements was required due to the chosen adoption date of IAS 32 and IAS 39.

5. Cumulative translation differences

The Group has deemed the cumulative translation differences for foreign operations to be zero at the date of transition. Any gains and losses subsequent to disposals of foreign operations will exclude translation differences arising prior to the transition date.

Significant Adjustments

Goodwill amortisation

IFRS3, 'Business Combinations' requires that goodwill is not amortised but instead is subject to an impairment review annually or when there are indications that the carrying value may not be recoverable. The Group has elected not to apply IFRS 3 retrospectively to business combinations before the date of transition. Goodwill amortisation in 2003 and 2004 has been reversed.

Intangible assets acquired

Business combinations since the date of transition have been accounted for in accordance with IFRS 3, 'Business Combinations', with intangible assets recognised and amortised over their useful economic lives where they are separable or arise from a contractual or legal right. As part of the acquisition of Comstock Inc in February 2003, certain intangible assets were acquired, mainly relating to customer lists and acquired technology, which are being amortised over periods of between 2 and 25 years. In addition, other less significant intangible assets, mainly relating to publishing rights, have been recognised for some of the smaller acquisitions made during 2004 and amortised over periods of up to 15 years.

Intangible assets

Capitalised software costs – under IAS 38, ‘Intangible Assets’ computer software which is not integral to a related item of hardware should be classified as an intangible asset. As such, certain computer software costs have been re-classified from property, plant and equipment to intangible assets. In addition, certain costs relating to software development, previously expensed under UK GAAP, have been capitalised under IAS 38 and are being amortised over their estimated useful lives.

Pre-publication costs – under IAS 38, ‘Intangible Assets’ intangible assets are required to be recognised if they meet the criteria of identifiability, control over a resource and existence or probability of inflow of future economic benefit. As such pre-publication costs (the direct costs incurred in the development of educational programmes and titles prior to their publication) have been re-classified from inventory to intangible assets. They continue to be amortised upon publication over estimated economic lives of five years or less, being an estimate of the expected product life cycle of the programme, with a higher proportion taken in earlier years.

Share-based payments

IFRS 2, ‘Share-based Payments’ requires that the expense incurred for equity instruments granted is recognised in the financial statements at their fair value measured at the date of grant and that the expense is recognised over the vesting period of the instrument. The Group has a number of employee option and performance share schemes. The Group has elected to apply IFRS 2, ‘Share-based Payments’ retrospectively to all options granted but not fully vested at the reporting date. Consequently the share-based payment charge from 2003 reflects all options granted and not fully vested at 31 December 2002.

Employee benefits

IAS 19, ‘Employee Benefits’ was amended on 16 December 2004. The Group has elected to adopt the December 2004 amendments to the standard early and differences between actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in full in equity in the statement of recognised income and expense. Therefore the amount recognised on the balance sheet in respect of liabilities for defined benefit pension and post-retirement benefit plans represents the present value of the obligations offset by the fair value of scheme assets.

The service cost of benefits accruing is accounted for 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. The group has adopted the same assumptions under IAS 19 as were used for FRS 17 purposes under UK GAAP in 2003 and 2004.

The restated opening IFRS balance sheet reflects the fair value of the plan assets and the present value of the defined benefit obligation of the Group’s defined benefit schemes.

Leases

IAS 17, 'Leases' sets out additional criteria to be considered in ascertaining whether a lease is a finance or operating lease. Following a review of all lease agreements no properties have been re-classified.

In addition, IAS 17 requires that the expense is recognised on a straight line basis over the lease term, including any rent-free periods given at the inception of a lease. Contracted future lease increments must also be amortised evenly over the full period of the lease rather than the period to which the lease is estimated to revert to market rates. The profit and loss account has been adjusted to take into account the amortisation of lease incentives over longer periods than under UK GAAP and to accelerate the charge in respect of fixed contractual increments in lease payments.

Subsidiaries, associates and joint ventures

The Group has elected to include the results of joint ventures on an equity accounting basis rather than on a proportional consolidation basis.

Following a review of all subsidiaries, associates and joint ventures, the Group has concluded that its holding in Maskew Miller Longman in which it holds a 50% interest should be accounted for as a joint venture under IFRS rather than its current classification as a subsidiary under UK GAAP.

In addition, the results of all associates and joint ventures have been adjusted to take into account IFRS adjustments within their own accounts.

Income taxes

IAS 12, 'Income Taxes', requires that deferred taxation also be provided on all temporary differences, not just timing differences as required under UK GAAP. Deferred tax is provided using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements unless the initial recognition exemption applies. Deferred tax is not recognised for temporary differences arising on initial recognition of an asset or liability in a transaction other than a business combination if at the time of transaction neither accounting nor taxable profit is affected. Deferred taxation has been provided on the post-acquisition difference between the book and tax bases of intangible assets and goodwill if its amortisation is tax deductible. A further tax liability has also been recognised 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.

Deferred taxation has been recognised on the IFRS adjustments at the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the asset is realised or the 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.

Dividends

IAS 10, 'Events after the Balance Sheet Date' requires that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date as they do not represent a present obligation at that date as defined by IAS 37, 'Provision, Contingent Liabilities and Contingent Assets'.

The final dividends relating to the years to 31 December 2002, 2003 and 2004 have been reversed and recognised as a liability in the years 2003, 2004 and 2005 respectively.

Discontinued operations

Consistent with the UK GAAP treatment, Recoletos has been treated as discontinued as at 31 December 2004 and meets the criteria as 'held for sale' at that date. Accordingly the results are disclosed in one line in the income statement, 'profit for the year from discontinued operations' for both 2003 and 2004 and, at 31 December 2004 it is disclosed in the balance sheet in two lines – 'Non-current assets classified as held for sale' and 'Liabilities associated with non-current assets classified as held for sale'.

When an asset or disposal group's carrying value will be recovered principally through a sale transaction rather than through continuing use and certain criteria regarding probability and proximity of the sale are satisfied, it is classified as held for sale and stated at the lower of carrying value and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

D. Performance measures

Income statement

The Group will continue to disclose the *underlying sales increase* at constant exchange rates. Underlying sales are disclosed as the sales movement excluding the impact of acquisitions and disposals and movements in exchange rates. IFRS adjustments have had no impact on this measure.

The Group will continue to disclose an *adjusted Group operating profit*. Adjusted Group operating profit will be defined as operating profit excluding the impact of significant non-recurring items and currency volatility.

The Group will continue to disclose an *adjusted earnings per share*. Adjusted earnings per share will be defined as adjusted profit for the year divided by the weighted average number of shares in issue as shown in the table below.

£ millions	2004 UK GAAP	2004 IFRS	2003 UK GAAP	2003 IFRS
Profit for the financial year	88	262	55	252
Earnings per share	11.1p	32.9p	6.9p	31.7p
Continuing		30.8p		29.4p
Discontinued		2.1p		2.3p
Adjustments:				
(Profit)/loss on disposals	(9)	(9)	(6)	(6)
Goodwill amortisation	224	-	264	-
Taxation	(55)	(36)	(53)	(31)
Minority interest on above items	(9)	-	(6)	2
Adjusted earnings	239	217	254	217
Adjusted earnings per share	30.0p	27.3p	32.0p	27.3p
Weighted average number of shares	795.6	795.6	794.4	794.4

Cash flow statement

The Group will continue to disclose free cash flow per share.

The Group defines free cash flow per share as operating cash flow less taxation, interest and integration costs paid, divided by the weighted average number of shares in issue.

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Consolidated IFRS Income Statement for the Year ended 31 December 2003

All figures in £ millions	UK GAAP	Disclosure	Goodwill	Intangible	Intangible	Intangible	Share	Employee	Leases	Joint	Joint	Income	Dividends	Other	Discontinued	IFRS
		adjtmnt from UK GAAP to IFRS format	amortn IFRS 3	assets acquired IFRS 3	assets - capitalised software IAS 38	assets - pre-pub expenditure IAS 38	based payments IFRS2	benefits IAS19	IAS 17	ventures / associates IAS28/ 31	ventures / associates MML IAS28/ 31	taxes IAS12	IAS10	IFRS 5		
Sales	4,048	-	-	-	-	-	-	-	-	-	(29)	-	-	-	(169)	3,850
Cost of goods sold	(1,910)	-	-	-	-	-	-	-	-	-	13	-	-	(2)	53	(1,846)
Gross profit	2,138	-	-	-	-	-	-	-	-	-	(16)	-	-	(2)	(116)	2,004
Operating expenses	(1,912)	-	257	(4)	(2)	-	(26)	10	(14)	-	10	-	-	-	87	(1,594)
Other gains/ losses - net	6	-	-	-	-	-	-	-	-	-	-	-	-	-	(12)	(6)
Share of losses of JVs and associates	-	(4)	7	-	-	-	-	-	-	(2)	3	-	-	-	(2)	2
Operating profit	232	(4)	264	(4)	(2)	-	(26)	10	(14)	(2)	(3)	-	-	(2)	(43)	406
Finance costs - net	(80)	(1)	-	-	-	-	(9)	-	-	-	(1)	-	-	1	(3)	(93)
Profit before income tax	152	(5)	264	(4)	(2)	-	(26)	1	(14)	(2)	(4)	-	-	(1)	(46)	313
Income tax expense	(75)	5	(22)	-	1	-	3	-	4	-	2	(2)	-	-	23	(61)
Profit for the year from continuing operations	77	-	242	(4)	(1)	-	(23)	1	(10)	(2)	(2)	(2)	-	(1)	(23)	252
Discontinued operations :																
Profit for the year from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23	23
Profit for the year	77	-	242	(4)	(1)	-	(23)	1	(10)	(2)	(2)	(2)	-	(1)	-	275
Less: Minority interest	(22)	-	(8)	1	-	-	3	-	-	-	2	1	-	-	-	(23)
Attributable to equity shareholders	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	252
Dividends	(192)	-	-	-	-	-	-	-	-	-	-	-	4	-	-	(188)
Profit/ (loss) retained	(137)	-	234	(3)	(1)	-	(20)	1	(10)	(2)	-	(1)	4	(1)	-	64

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Consolidated IFRS Income Statement for the Year ended 31 December 2004

All figures in £ millions	UK GAAP	Disclosure	Goodwill	Intangible	Intangible	Intangible	Share	Employee	Leases	Joint	Joint	Income	Dividends	Other	Discontinued	IFRS
		adjtmt from UK GAAP to IFRS format	amortn IFRS 3	assets acquired IFRS 3	assets - capitalised software IAS 38	assets - pre-pub expenditure IAS 38	based payments IFRS2	benefits IAS19	IAS 17	ventures / associates	ventures / associates MML IAS28/ 31	taxes IAS12	IAS10	IFRS 5		
Sales	3,919	-	-	-	-	-	-	-	-	-	(33)	-	-	-	(190)	3,696
Cost of goods sold	(1,866)	-	-	-	-	-	-	-	-	-	14	-	-	2	61	(1,789)
Gross profit	2,053	-	-	-	-	-	-	-	-	-	(19)	-	-	2	(129)	1,907
Operating expenses	(1,832)	-	224	(5)	(2)	-	(20)	11	(16)	-	12	-	-	3	105	(1,520)
Other gains/ losses - net	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9
Share of losses of JVs and associates	10	(2)	-	-	-	-	-	-	-	(2)	4	-	-	-	(2)	8
Operating profit	240	(2)	224	(5)	(2)	-	(20)	11	(16)	(2)	(3)	-	-	5	(26)	404
Finance costs - net	(69)	(1)	-	-	-	-	-	(5)	-	-	(1)	-	-	-	(3)	(79)
Profit before income tax	171	(3)	224	(5)	(2)	-	(20)	6	(16)	(2)	(4)	-	-	5	(29)	325
Income tax expense	(62)	3	(20)	-	1	-	4	-	4	-	2	(2)	-	-	7	(63)
Profit for the year from continuing operations	109	-	204	(5)	(1)	-	(16)	6	(12)	(2)	(2)	(2)	-	5	(22)	262
Discontinued operations :																
Profit for the year from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22	22
Profit for the year	109	-	204	(5)	(1)	-	(16)	6	(12)	(2)	(2)	(2)	-	5	-	284
Less: Minority interest	(21)	-	(8)	2	-	-	2	-	-	-	2	1	-	-	-	(22)
Attributable to equity shareholders	88	-	-	-	-	-	-	-	-	-	-	-	-	-	-	262
Dividends	(201)	-	-	-	-	-	-	-	-	-	-	-	6	-	-	(195)
Profit/ (loss) retained	(113)	-	196	(3)	(1)	-	(14)	6	(12)	(2)	-	(1)	6	5	-	67

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Consolidated IFRS Balance Sheet as at 31 December 2002

All figures in £ millions	UK GAAP	Disclosure	Goodwill	Intangible	Intangible	Intangible	Share	Employee	Leases	Joint	Joint	Income	Dividends	Other	Discontinued	IFRS
		adjtmnt from UK GAAP to IFRS format	amortn IFRS 3	assets acquired IFRS 3	assets - capitalised software IAS 38	assets - pre-pub expenditure IAS 38	based payments IFRS2	benefits IAS19	IAS 17	ventures / associates	ventures / associates MML IAS28/ 31	taxes IAS 12	IAS 10	IFRS 5		
ASSETS																
Non-current assets																
Property, plant and equipment	503	-	-	-	(67)	-	-	-	-	-	(1)	-	-	-	-	435
Intangible assets	3,610	-	-	-	71	-	-	-	-	-	-	-	-	-	-	3,681
Investments in JVs and associates	113	-	-	-	-	-	-	-	-	(10)	3	-	-	-	-	106
Deferred income tax assets	-	290	66	-	(1)	-	13	-	6	-	-	-	-	-	-	374
Other financial assets	22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22
Trade and other receivables	-	74	-	-	-	-	-	-	-	-	-	-	-	-	-	74
	4,248	364	66	-	3	-	13	-	6	(10)	2	-	-	-	-	4,692
Current assets																
Intangible assets - pre-publishing	-	-	-	-	-	380	-	-	-	-	-	-	-	-	-	380
Inventories	734	-	-	-	(378)	-	-	-	-	-	(2)	-	-	-	-	354
Trade and other receivables	1,057	(74)	-	-	(2)	-	-	-	-	-	(4)	-	-	(2)	-	975
Deferred taxation	174	(174)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	2	3	-	-	-	-	-	-	-	-	-	-	-	-	-	5
Cash and cash equivalents	575	(3)	-	-	-	-	-	-	-	-	(7)	-	-	-	-	565
	2,542	(248)	-	-	-	-	-	-	-	-	(13)	-	-	(2)	-	2,279
Non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2,542	(248)	-	-	-	-	-	-	-	-	(13)	-	-	(2)	-	2,279
Total assets	6,790	116	66	-	3	-	13	-	6	(10)	(11)	-	-	(2)	-	6,971
EQUITY																
Capital and reserves attributable to the Company's equity shareholders																
Share capital	200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	200
Share premium	2,465	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,465
Reserves	611	-	66	-	3	-	13	(259)	(12)	(10)	1	(3)	115	(2)	-	523
	3,276	-	66	-	3	-	13	(259)	(12)	(10)	1	(3)	115	(2)	-	3,188
Minority interest	192	-	-	-	-	-	-	-	-	-	(4)	-	-	-	-	188
Total equity	3,468	-	66	-	3	-	13	(259)	(12)	(10)	(3)	(3)	115	(2)	-	3,376
LIABILITIES																
Non-current liabilities																
Borrowings	1,734	2	-	-	-	-	-	-	-	-	-	-	-	-	-	1,736
Deferred income tax liabilities	-	116	-	-	-	-	-	-	-	-	-	3	-	-	-	119
Retirement benefit obligations	-	92	-	-	-	-	-	259	-	-	-	-	-	-	-	351
Provisions for other liabilities and charges	165	(126)	-	-	-	-	-	-	6	-	-	-	-	-	-	45
Other liabilities	60	(2)	-	-	-	-	-	-	12	-	-	-	-	-	-	70
	1,959	82	-	-	-	-	-	259	18	-	-	3	-	-	-	2,321
Current liabilities																
Trade and other payables	1,114	(58)	-	-	-	-	-	-	-	-	(6)	-	(115)	1	-	936
Borrowings	249	3	-	-	-	-	-	-	-	-	-	-	-	-	-	252
Current income tax liabilities	-	55	-	-	-	-	-	-	-	-	(2)	-	-	(1)	-	52
Provisions for other liabilities and charges	-	34	-	-	-	-	-	-	-	-	-	-	-	-	-	34
	1,363	34	-	-	-	-	-	-	-	-	(8)	-	(115)	-	-	1,274
Liabilities directly associated with non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	3,322	116	-	-	-	-	-	259	18	-	(8)	3	(115)	-	-	3,595
Total equity and liabilities	6,790	116	66	-	3	-	13	-	6	(10)	(11)	-	-	(2)	-	6,971

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Consolidated IFRS Balance Sheet as at 31 December 2003

All figures in £ millions	UK GAAP	Disclosure adjmt from UK GAAP to IFRS format	Goodwill	Intangible assets	Intangible assets - capitalised	Intangible assets - pre-pub	Share based payments	Employee benefits	Leases	Joint ventures / associates	Joint ventures / associates MML	Income taxes	Dividends	Other	Discontinued	IFRS
			amortn	acquired	assets - software	assets - expenditure										
			IFRS 3	IFRS 3	IAS 38	IAS 38	IFRS2	IAS19	IAS 17		IAS28/ 31	IAS 12	IAS 10		IFRS 5	
ASSETS																
Non-current assets																
Property, plant and equipment	468	-	-	-	(65)	-	-	-	-	-	(1)	-	-	-	-	402
Intangible assets	3,260	-	184	40	66	-	-	-	-	-	-	-	-	-	-	3,550
Investments in JVs and associates	64	-	6	-	-	-	-	-	-	(10)	4	-	-	-	-	64
Deferred income tax assets	-	280	38	-	(1)	-	15	-	10	-	-	-	-	-	-	342
Other financial assets	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21
Trade and other receivables	-	100	-	-	-	-	-	-	-	-	-	-	-	-	-	100
	3,813	380	228	40	-	-	15	-	10	(10)	3	-	-	-	-	4,479
Current assets																
Intangible assets - pre-publishing	-	-	-	-	-	362	-	-	-	-	-	-	-	-	-	362
Inventories	683	-	-	-	-	(359)	-	-	-	-	(5)	-	-	-	-	319
Trade and other receivables	1,132	(100)	-	-	-	(3)	-	-	-	-	(6)	-	-	(3)	-	1,020
Deferred taxation	145	(145)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	2	3	-	-	-	-	-	-	-	-	-	-	-	-	-	5
Cash and cash equivalents	561	(3)	-	-	-	-	-	-	-	-	(7)	-	-	-	-	551
	2,523	(245)	-	-	-	-	-	-	-	-	(18)	-	-	(3)	-	2,257
Non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	(18)	-	-	(3)	-	-
	2,523	(245)	-	-	-	-	-	-	-	-	(18)	-	-	(3)	-	2,257
Total assets	6,336	135	228	40	-	-	15	-	10	(10)	(15)	-	-	(3)	-	6,736
EQUITY																
Capital and reserves attributable to the Company's equity shareholders																
Share capital	201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	201
Share premium	2,469	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,469
Reserves	223	-	221	41	-	-	17	(284)	(22)	(10)	1	(4)	119	(3)	-	299
	2,893	-	221	41	-	-	17	(284)	(22)	(10)	1	(4)	119	(3)	-	2,969
Minority interest	195	-	7	(1)	-	-	(2)	-	-	-	(6)	(1)	-	-	-	192
Total equity	3,088	-	228	40	-	-	15	(284)	(22)	(10)	(5)	(5)	119	(3)	-	3,161
LIABILITIES																
Non-current liabilities																
Borrowings	1,347	2	-	-	-	-	-	-	-	-	-	-	-	-	-	1,349
Deferred income tax liabilities	-	135	-	-	-	-	-	-	-	-	-	5	-	-	-	140
Retirement benefit obligations	-	80	-	-	-	-	-	284	-	-	-	-	-	-	-	364
Provisions for other liabilities and charges	152	(98)	-	-	-	-	-	-	5	-	-	-	-	-	-	59
Other liabilities	45	(2)	-	-	-	-	-	-	27	-	-	-	-	-	-	70
	1,544	117	-	-	-	-	-	284	32	-	-	5	-	-	-	1,982
Current liabilities																
Trade and other payables	1,129	(58)	-	-	-	-	-	-	-	-	(9)	-	(119)	-	-	943
Borrowings	575	3	-	-	-	-	-	-	-	-	-	-	-	-	-	578
Current income tax liabilities	-	55	-	-	-	-	-	-	-	-	(1)	-	-	-	-	54
Provisions for other liabilities and charges	-	18	-	-	-	-	-	-	-	-	-	-	-	-	-	18
	1,704	18	-	-	-	-	-	-	-	-	(10)	-	(119)	-	-	1,593
Liabilities directly associated with non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	3,248	135	-	-	-	-	-	284	32	-	(10)	5	(119)	-	-	3,575
Total equity and liabilities	6,336	135	228	40	-	-	15	-	10	(10)	(15)	-	-	(3)	-	6,736

Pearson plc
Consolidated IFRS Balance Sheet as at 31 December 2004

All figures in £ millions	UK GAAP	Disclosure adjtmt from UK GAAP to IFRS format	Goodwill	Intangible assets	Intangible assets - capitalised software	Intangible assets - pre-pub expenditure	Share based payments	Employee benefits	Leases	Joint ventures / associates	Joint ventures / associates MML	Income taxes	Dividends	Other	Discontinued	IFRS
			amortn	acquired												
			IFRS 3	IFRS 3	IAS 38	IAS 38	IFRS2	IAS19	IAS 17		IAS28/ 31	IAS 12	IAS 10		IFRS 5	
ASSETS																
Non-current assets																
Property, plant and equipment	473	-	-	-	(70)	-	-	-	-	-	(1)	-	-	1	(48)	355
Intangible assets	2,890	-	371	48	70	-	-	-	-	-	-	-	-	-	(101)	3,278
Investments in JVs and associates	48	-	6	-	-	-	-	-	-	(8)	4	-	-	-	(3)	47
Deferred income tax assets	-	306	17	-	-	-	22	-	14	-	-	-	-	-	-	359
Other financial assets	17	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)	15
Trade and other receivables	-	102	-	-	-	-	-	-	-	-	-	-	-	-	-	102
	3,428	408	394	48	-	-	22	-	14	(8)	3	-	-	1	(154)	4,156
Current assets																
Intangible assets - pre-publishing	-	-	-	-	-	356	-	-	-	-	-	-	-	-	-	356
Inventories	676	-	-	-	-	(352)	-	-	-	-	(6)	-	-	-	(4)	314
Trade and other receivables	1,103	(102)	-	-	-	(4)	-	-	-	-	(4)	-	-	(2)	(59)	932
Deferred taxation	165	(165)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
Cash and cash equivalents	613	-	-	-	-	-	-	-	-	-	(11)	-	-	-	(141)	461
	2,558	(267)	-	-	-	-	-	-	-	-	(21)	-	-	(2)	(204)	2,064
Non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	358
	2,558	(267)	-	-	-	-	-	-	-	-	(21)	-	-	(2)	154	2,422
Total assets	5,986	141	394	48	-	-	22	-	14	(8)	(18)	-	-	(1)	-	6,578
EQUITY																
Capital and reserves attributable to the Company's equity shareholders																
Share capital	201	-	-	-	-	-	-	-	-	-	-	-	-	-	-	201
Share premium	2,473	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,473
Reserves	(71)	-	380	51	-	-	26	(338)	(33)	(8)	-	(6)	125	-	-	126
	2,603	-	380	51	-	-	26	(338)	(33)	(8)	-	(6)	125	-	-	2,800
Minority interest	213	-	14	(3)	-	-	(4)	-	-	-	(6)	(1)	-	1	-	214
Total equity	2,816	-	394	48	-	-	22	(338)	(33)	(8)	(6)	(7)	125	1	-	3,014
LIABILITIES																
Non-current liabilities																
Borrowings	1,712	2	-	-	-	-	-	-	-	-	-	-	-	-	-	1,714
Deferred income tax liabilities	-	141	-	-	-	-	-	-	-	-	-	7	-	-	(9)	139
Retirement benefit obligations	-	70	-	-	-	-	-	338	-	-	-	-	-	-	-	408
Provisions for other liabilities and charges	123	(84)	-	-	-	-	-	-	6	-	-	-	-	-	(2)	43
Other liabilities	60	(2)	-	-	-	-	-	-	41	-	-	-	-	-	-	99
	1,895	127	-	-	-	-	-	338	47	-	-	7	-	-	(11)	2,403
Current liabilities																
Trade and other payables	1,168	(93)	-	-	-	-	-	-	-	-	(10)	-	(125)	(2)	(70)	868
Borrowings	107	2	-	-	-	-	-	-	-	-	-	-	-	-	-	109
Current income tax liabilities	-	91	-	-	-	-	-	-	-	-	(2)	-	-	-	-	89
Provisions for other liabilities and charges	-	14	-	-	-	-	-	-	-	-	-	-	-	-	-	14
	1,275	14	-	-	-	-	-	-	-	-	(12)	-	(125)	(2)	(70)	1,080
Liabilities directly associated with non-current assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	81	81
Total liabilities	3,170	141	-	-	-	-	-	338	47	-	(12)	7	(125)	(2)	-	3,564
Total equity and liabilities	5,986	141	394	48	-	-	22	-	14	(8)	(18)	-	-	(1)	-	6,578

Pearson plc
Consolidated IFRS Cash Flow Statement
for the Years Ended 31 December 2003 and 2004

All figures in £ millions	For year ended 2003				For year ended 2004			
	UK GAAP	Short term deposits	Adjustments	IFRS	UK GAAP	Short term deposits	Adjustments	IFRS
Cash flows from operating activities								
Cash generated from operations	359	-	(1)	358	530	-	(6)	524
Interest paid	(87)	-	-	(87)	(98)	-	-	(98)
Income tax paid	(44)	-	-	(44)	(45)	-	-	(45)
Net cash generated from operating activities	228	-	(1)	227	387	-	(6)	381
Cash flows from investing activities								
Acquisition of subsidiary, net of cash acquired	(60)	-	-	(60)	(35)	-	-	(35)
Acquisition of joint ventures and associates	(5)	-	-	(5)	(10)	-	-	(10)
Purchase of property, plant and equipment (PPE)	(105)	-	-	(105)	(125)	-	-	(125)
Proceeds from sale of PPE	8	-	-	8	4	-	-	4
Purchase of intangible assets	-	-	-	-	-	-	-	-
Purchase of available-for-sale financial assets	(3)	-	-	(3)	(1)	-	-	(1)
Disposal of subsidiary net of cash disposed	(3)	-	-	(3)	1	-	-	1
Disposal of joint ventures and associates	57	-	-	57	24	-	-	24
Disposal of investments	-	-	-	-	17	-	-	17
Interest received	11	-	-	11	13	-	-	13
Dividends received from jvs and associates	9	-	1	10	10	-	2	12
Net cash used in investing activities	(91)	-	1	(90)	(102)	-	2	(100)
Cash flows from financing activities								
Proceeds from issue of ordinary shares	5	-	-	5	4	-	-	4
Purchase of treasury shares	(1)	-	-	(1)	(10)	-	-	(10)
Proceeds from borrowings	235	-	-	235	414	-	-	414
Liquid resources acquired	(85)	86	-	1	1	(6)	-	(5)
Other borrowings	(13)	-	-	(13)	59	-	-	59
Repayments of borrowings	(159)	-	-	(159)	(524)	-	-	(524)
Finance lease principal payments	(3)	-	-	(3)	(2)	-	-	(2)
Dividends paid to Company's shareholders	(188)	-	-	(188)	(195)	-	-	(195)
Dividends paid to minority interests	(19)	-	-	(19)	(2)	-	-	(2)
Net cash used in financing activities	(228)	86	-	(142)	(255)	(6)	-	(261)
Effects of exchange	37	8	-	45	(3)	(1)	-	(4)
Net (decrease)/increase in cash and bank overdrafts	(54)	94	-	40	27	(7)	(4)	16
Cash and bank overdrafts at beginning of year	340	155	(7)	488	286	249	(7)	528
Cash and bank overdrafts at end of year	286	249	(7)	528	313	242	(11)	544

Schedule 7

Pearson plc
Consolidated Statement of Recognised Income and Expense
for the Years Ended 31 December 2003 and 2004

All figures in £ millions	For year ended 2003			For year ended 2004		
	UK GAAP	Adjustment	IFRS	UK GAAP	Adjustment	IFRS
Exchange differences on translation of foreign operations	(254)	(35)	(289)	(181)	(25)	(206)
Actuarial gains / losses on defined benefit pension schemes	-	(25)	(25)	-	(58)	(58)
Taxation on items taken directly to equity	-	-	-	5	4	9
Net income recognised directly in equity	(254)	(60)	(314)	(176)	(79)	(255)
Profit for the financial year	55	197	252	88	174	262
Total recognised income and expense for the financial year	(199)	137	(62)	(88)	95	7