

PEARSON

2005 interim results

25 July 2005

Financial highlights

£m	H1 2005	H1 2004	<i>change underlying</i>
Sales	1,613	1,481	+10%
Operating profit – continuing	33	7	
Profit/(loss) before tax	(9)	(16)	
Adjusted eps	(1.9)p	(2.8)p	
Free cash flow	(265)	(262)	
Dividend per share	10.0p	9.7p	3%

Faster growth

Our markets are improving

Our strategy is working

PEARSON

Financial performance

2005 financial priorities

- Faster earnings growth
 - Accelerating organic sales
 - Continuing cost action
- Continued cash and working capital management
- Improved return on invested capital
- Stronger balance sheet

Sales

£m	H1 2005	H1 2004	<i>change underlying</i>
<i>School</i>	518	444	+19%
<i>Higher Education</i>	192	186	+5%
<i>Professional</i>	243	220	+12%
Pearson Education	953	850	+14%
<i>FT Publishing</i>	164	160	+2%
<i>IDC</i>	143	130	+8%
FT Group	307	290	+5%
Penguin	353	341	+5%
Total sales	1,613	1,481	+10%

Operating profit

£m	H1 2005	H1 2004	<i>change underlying</i>
<i>School</i>	15	3	--
<i>Higher Education</i>	(45)	(42)	(12)%
<i>Professional</i>	8	6	+33%
Pearson Education	(22)	(33)	+30%
<i>FT Publishing</i>	6	2	--
<i>IDC</i>	36	29	+23%
FT Group	42	31	+34%
Penguin	13	9	+22%
Total – continuing	33	7	--
Discontinued – Recoletos	(3)	17	
Total	30	24	

IFRS:

Adjustments to statutory earnings per share

Exclude:

- IAS39 (accounting for financial instruments)
- Significant non-recurring items

Adjusted earnings per share

£m	H1 2005	H1 2004
Adjusted operating profit (total)	30	24
Finance costs – Pensions	(4)	(3)
Finance costs – Traditional	(35)	(37)
Adjusted profit/(loss) before tax	(9)	(16)
Taxation	3	5
Adjusted profit/(loss) after tax	(6)	(11)
Minorities	(9)	(11)
Adjusted loss	(15)	(22)
Adjusted loss per share	(1.9)p	(2.8)p

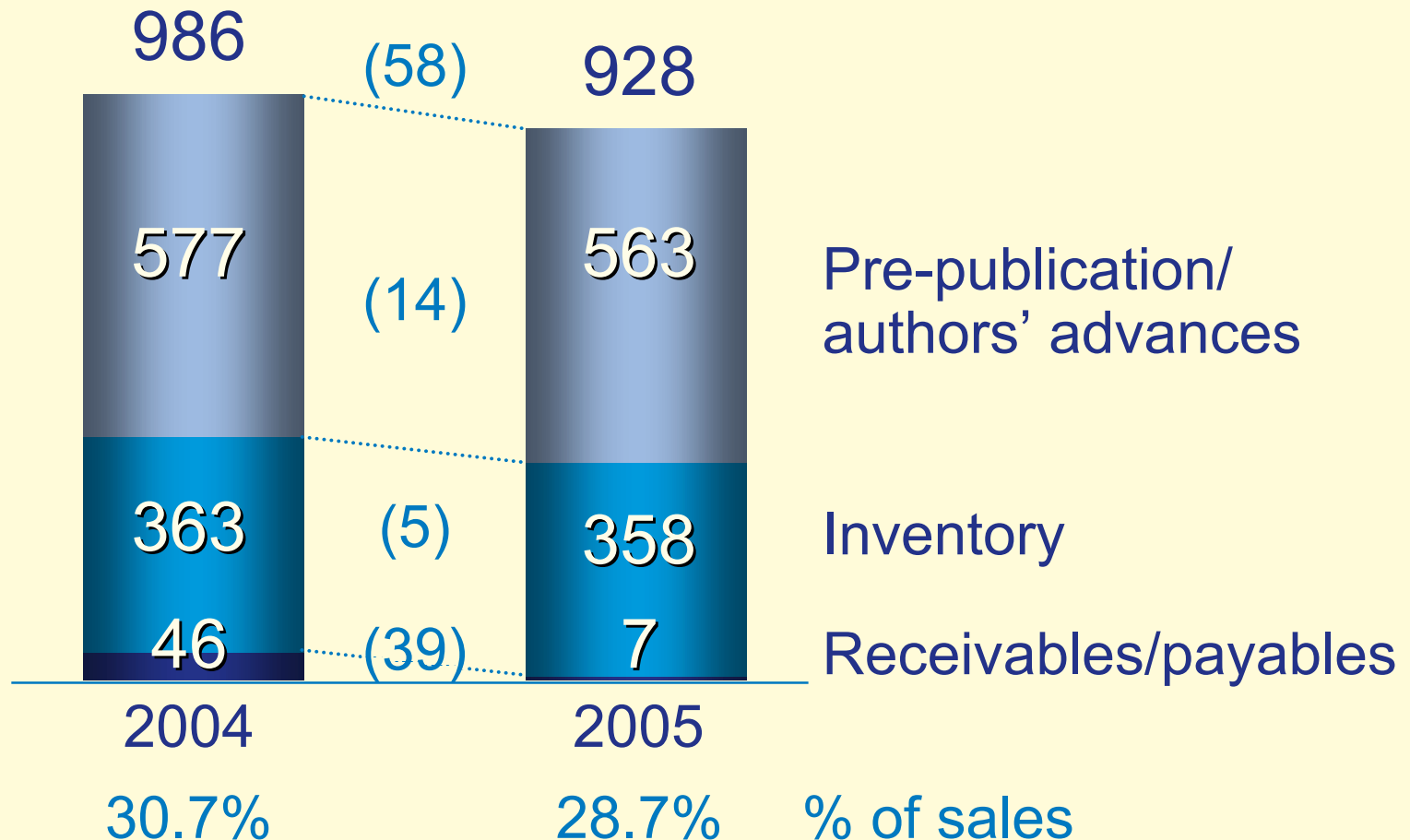
P&L - statutory

£m	H1 2005	H1 2004
Operating profit	73	9
Finance costs – traditional	(35)	(39)
Finance costs – pension	(4)	(3)
Finance costs – IAS39	14	-
Profit before tax	48	(33)
Taxation	(2)	11
Profit / (loss) (continuing operations)	46	(22)
Discontinued operations	300	13
Profit / (loss) for the period	346	(9)
EPS (total)	42.3p	(2.5p)

Free cash flow

£m	H1 2005	H1 2004	VAR
Operating profit	30	24	6
Working capital	(230)	(221)	(9)
Net tangible fixed assets	(40)	(51)	11
Depreciation and amortisation	54	52	2
Other movements	(10)	1	(11)
Operating cash flow	(196)	(195)	(1)
Operating tax paid	(23)	(25)	2
Operating finance charges	(34)	(36)	2
Operating free cashflow	(253)	(256)	3
Non operating / integration	(12)	(6)	(6)
Total free cashflow	(265)	(262)	(3)

Average annual working capital Pearson Education and Penguin, £m



Balance sheet

£m	H1 2005	H1 2004
Goodwill & Intangible assets	3,506	3,517
Tangible fixed assets	359	385
Operating working capital	1,015	1,020
Other net assets / (liabilities)	(55)	30
Net assets	4,825	4,952
Shareholders' funds	3,106	2,717
Provisions	485	509
Minorities	163	202
Deferred tax	(227)	(223)
Net debt	1,298	1,747
Capital employed	4,825	4,952

2005 financial progress

- Faster earnings growth
- Continued cash and working capital management
- Improved return on invested capital
- Stronger balance sheet

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Business performance

Faster growth

Our markets are improving

Our strategy is working





We can do better
PwC's Samuel Orlitzky on rebuilding trust in auditors. **PROFESSOR** page 18

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£1.5bn boost for sea freight

UK's largest shipping firm has secured a £1.5bn boost for sea freight.

Ex-Tyco chief 'a victim of excesses'

London Gateway port plan set for approval.

P&O

Shipping giant P&O has secured a £1.5bn boost for sea freight.

Greenpeace says US sold

Greenpeace says US sold...

UK rail unions lose

UK rail unions lose...

China economy gains

China economy gains...

Sea to the OECD

Sea to the OECD...

Air quality plan curtailed

Air quality plan curtailed...

Government

Government...

MPs minutes raise rate cut prospects

MPs minutes raise rate cut prospects...

Merkel pushes for economic reforms

Merkel pushes for economic reforms...

Ernest Jones

The Economist's North Specialist...

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FINANCIAL TIMES

Thursday Jan 8 2004. All times are London time.

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NASDAQ	2077.66	0.09%
FTSE	4515.4	0.05%
CAC 40	3612.78	1.38%
DAX	4065.88	1.54%
Nikkei	13200.60	0.95%
HSE	10757.82	-0.52%

Min. delay: 16 mins

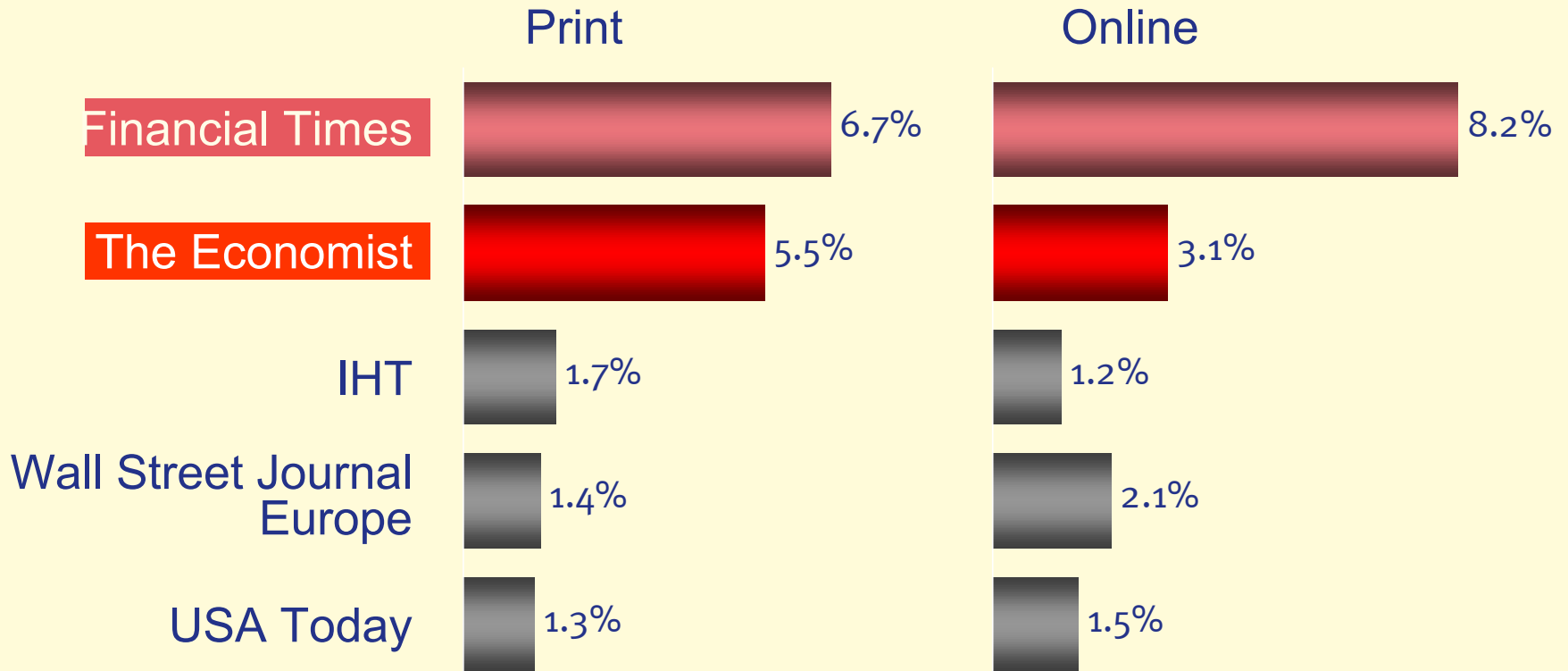
Private Equity

Life assurance

AGL looks to China for growth

Good news: readership

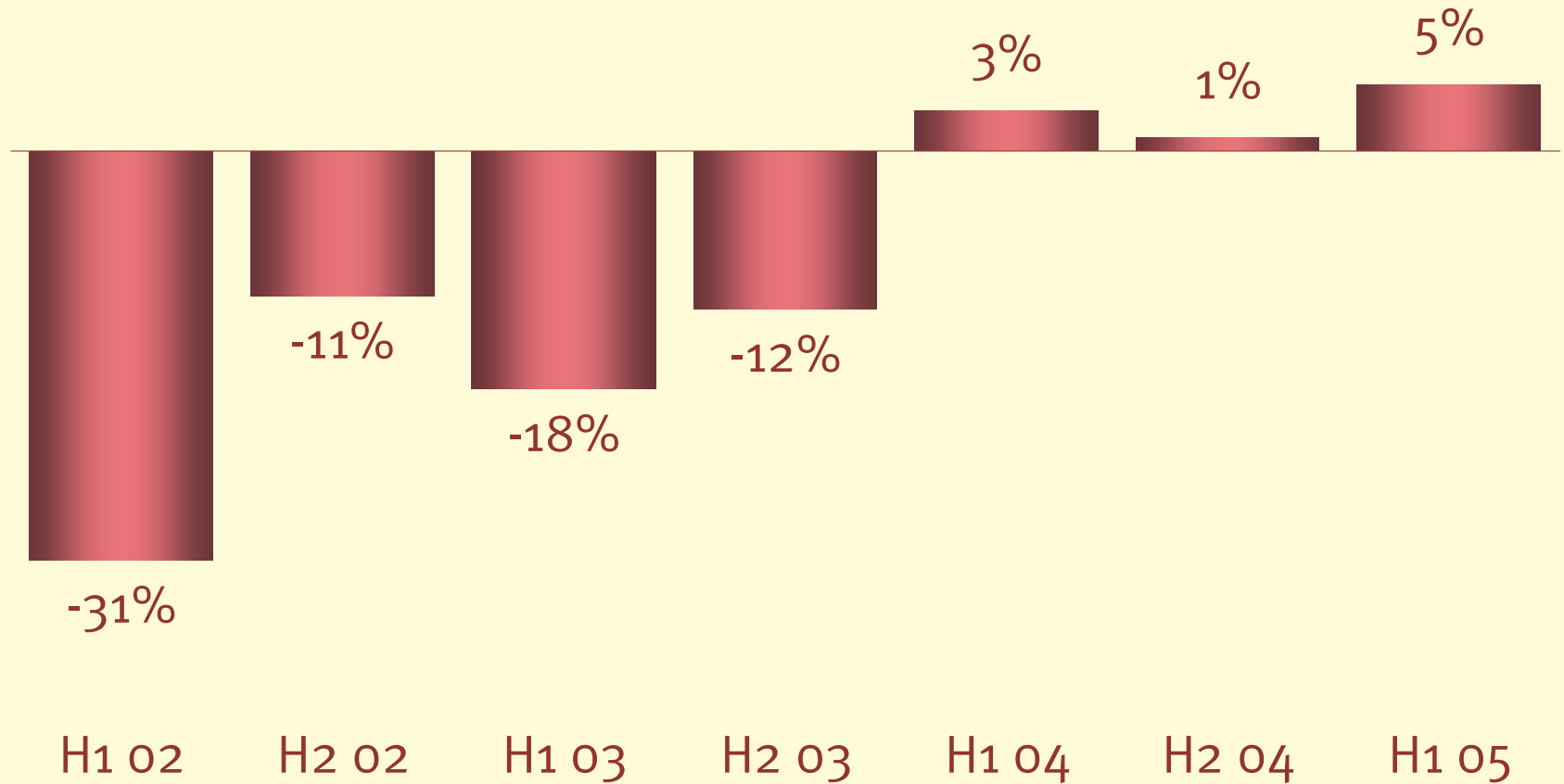
Regular readers in Europe



Source: Europe 2005
Universe: 10.157m Sample: 11,002

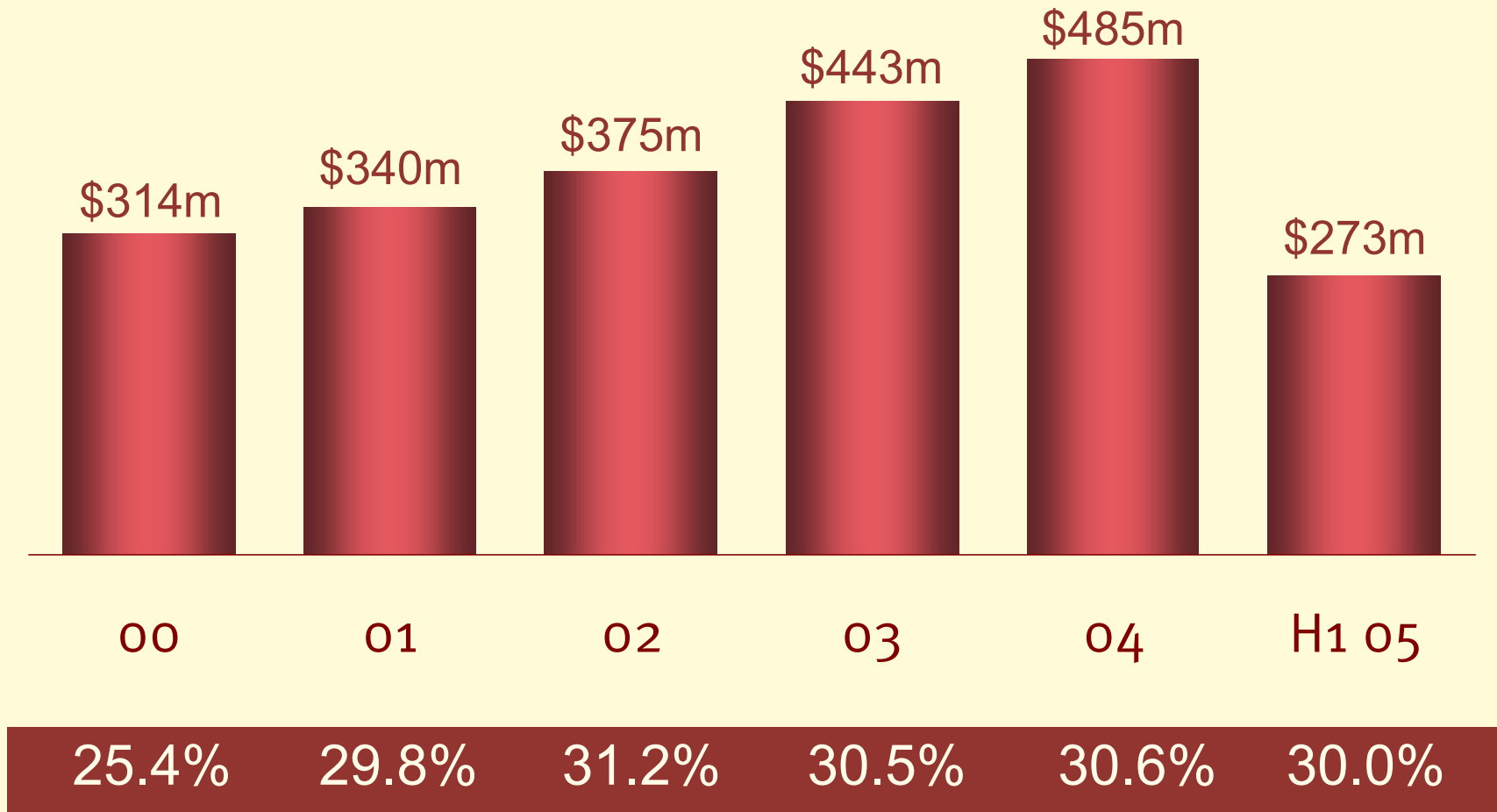
Good news: advertising

FT year-on-year ad revenues



Good financial data

IDC revenues & margins

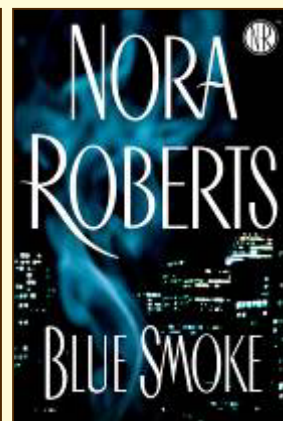
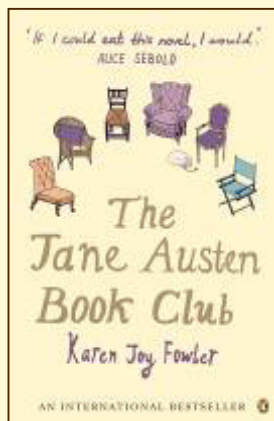
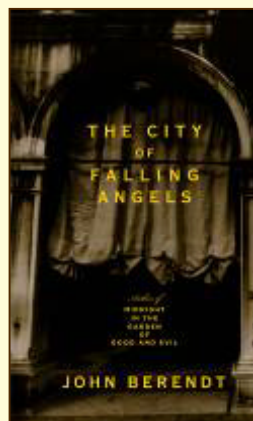
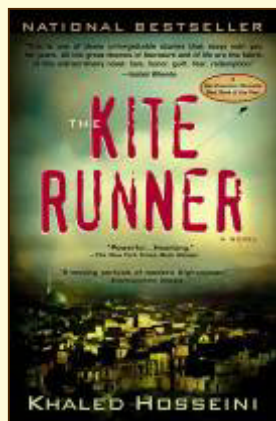
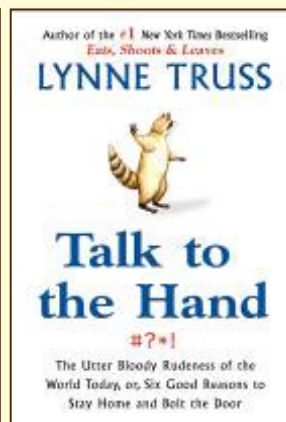
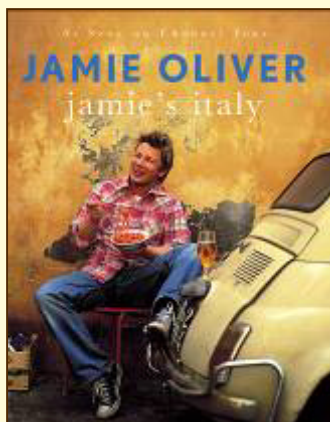
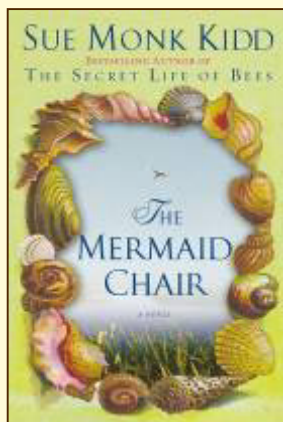


as reported under US GAAP

Outlook

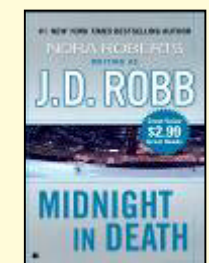
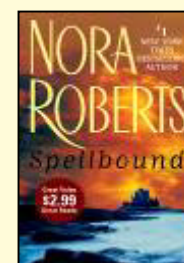
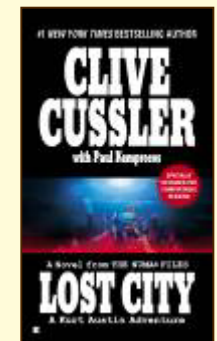
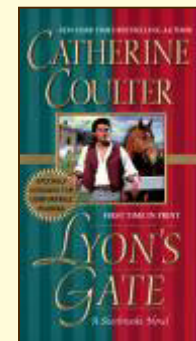
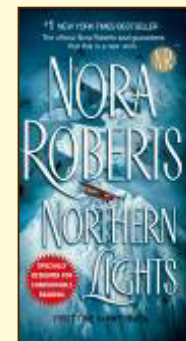
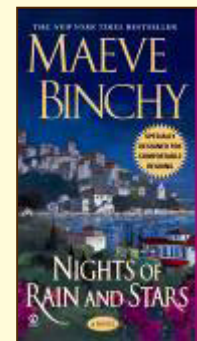
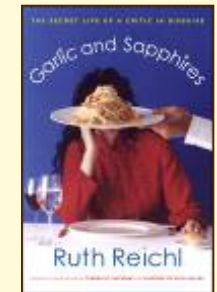
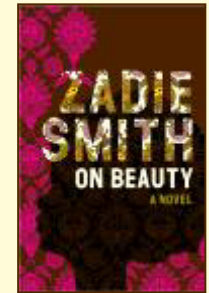
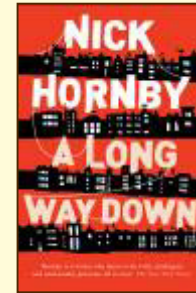
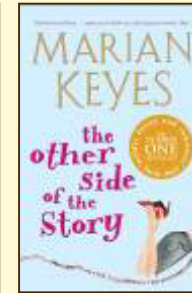
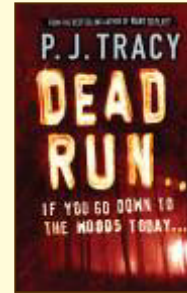


- Financial data
 - Industry returned to growth in 04
 - IDC growing faster than industry
- Business news and analysis
 - Good growth in readership
 - FT ad growth well ahead of peers

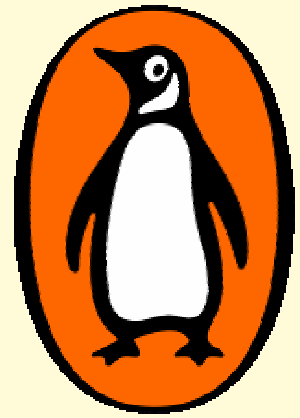


Novel ideas

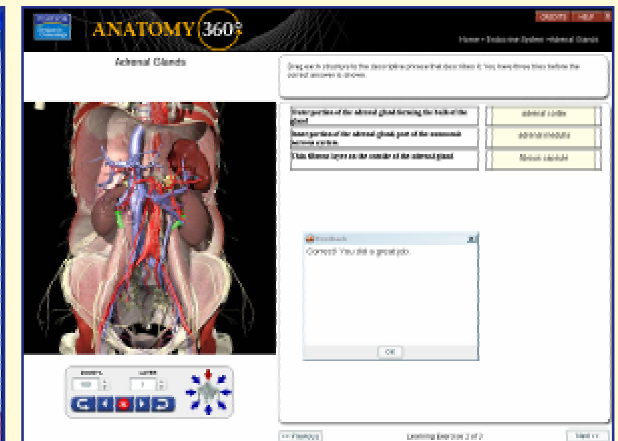
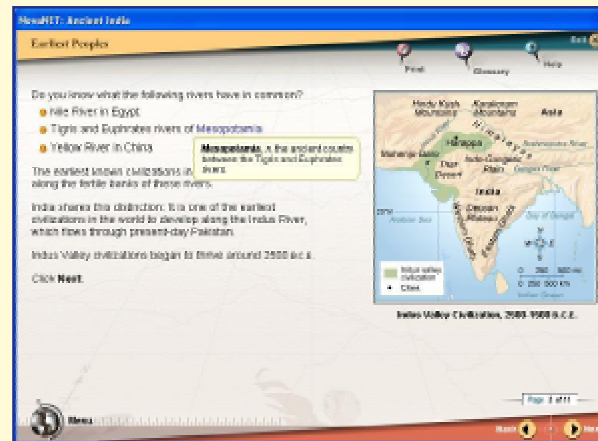
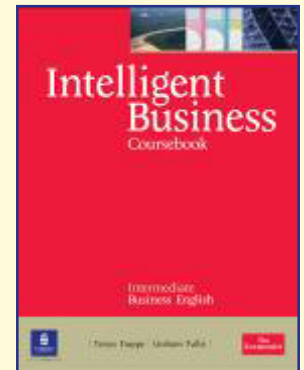
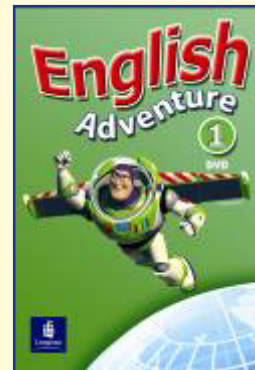
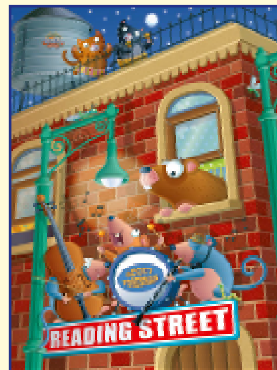
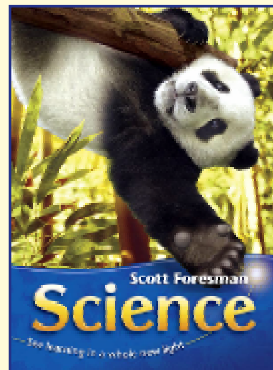
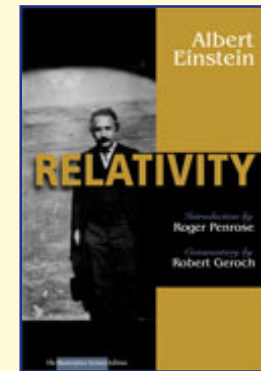
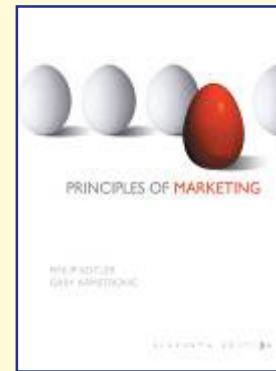
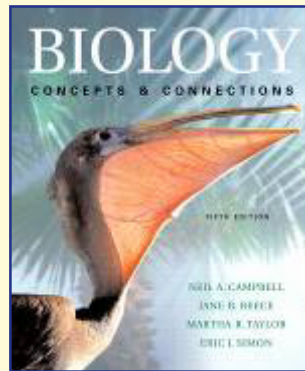
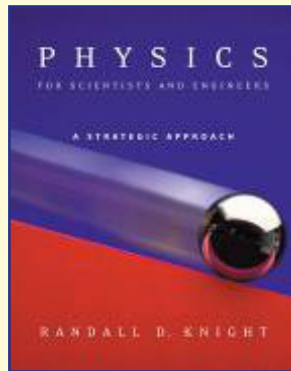
- Growth in UK commercial fiction
- Successful new imprints
- Mass market innovation



Outlook



- Healthy UK market
- Growing US market; weak mass market category
- Better growth in target segments



School strength in breadth

- New programmes gaining share
 - 30%+ share of participating new adoptions
 - Good start in open territories and supplementary
- Scoring in testing
 - NCLB-related contracts for 23 states
 - Investment in UK modernisation
- Benefits of scale in international
 - Success of global ELT programmes
 - Technology advantage in School publishing

Leadership in Higher Education

- Rapid growth in career colleges
- Clear lead in technology
- Unique custom model growing 20%+
- Applying capabilities outside the US

Solid professional execution

- 10-year US Department of Education contract
- 1.2m UK driving theory tests delivered
- 40,000 securities professionals certified
- GMAT examination for 250,000 students in 96 countries

Outlook



- Professional
 - Rapid growth in services
 - Technology publishing stabilising
- Higher Education
 - Strong demand, steady growth
- School
 - Healthy policy and funding environment
 - Double digit growth in 05

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Appendices

Appendix

Half year reconciliation of UK GAAP to IFRS

£m	June 2005		June 2004	
	Adjusted operating profit	Adjusted earnings	Adjusted operating profit	Adjusted earnings
UK GAAP	42	(10)	39	(14)
Share based payments	(4)	(2)	(4)	(3)
Employee benefits	6	2	6	3
Leases *	(5)	(3)	(8)	(6)
Capitalised software	(1)	(1)	(1)	(1)
Other intangible assets	(3)	(1)	(2)	(1)
MML deconsolidation	(4)	-	(5)	-
Other	(1)	-	(1)	-
Total IFRS adjustments	(12)	(5)	(15)	(8)
IFRS	30	(15)	24	(22)

* The IFRS adjustment related to leases has reduced by £3m, but this is offset by an increase in related lease costs in both adjusted operating profit and adjusted earnings under UK GAAP.

Appendix

\$ sensitivity

\$:£	2005	2004
HY average rate	1.87	1.82
HY end rate	1.79	1.83
FY average rate	--	1.83
Year end rate	--	1.92

EPS 5¢ change in average rate = +/- 1p

ROIC 8¢ weakening in average rate = (0.2)%

 8¢ weakening in year end rate = 0.2 %

Appendix

Strong in new adoptions

Subject	Total opportunity	Market share (where we compete)	Position
Health	\$200m	--	--
Music/ art/other	\$200m	40%+	#1
Social Studies	\$200m	24%	#3
Science	\$100m	40%	#1
Maths	\$100m	28%	#1
Reading/ literature	\$100m	25%	#2
Total competed for	\$650m	30%+	#1
Total – all adoptions	\$900m	22%	

Pearson estimates