Good morning, everybody. Thank you all very much for coming to the presentation of our 2005 results. We’re glad to see you here. As usual, Rona and I are going to talk about the results, but we also have Steve Dowling, Will Ethridge, Olivier Fleurot, John Makinson and others of our executives here to answer your questions.

And I’d like to introduce to you our new Chairman, Glen Moreno, who is here for his very first results. He’s taken a seat on the side, but he’s that that [overly tall] guy there. We’re very glad to have him.

Two years ago in this room, though I think there was more light in the room at the time, we said that 2005 would be a very good year for Pearson, a year when we would demonstrate the quality and the potential of all the businesses we’ve built. And I’m happy to say that we’ve kept that promise. And we have a really excellent set of results to talk to you about today.

Some of the headlines you see here. Sales up 9%, margins have risen in each and every business, moving the whole Company up to 12.4%. And our operating profit and adjusted EPS are each up more than 20%.

There are a lot of notable points behind those headlines. But the most important points we think are that these results illustrate that our strategy is working, it’s making the Company more predictable and more valuable. And we think these results underpin a healthy few years ahead for Pearson. So just give me a minute to talk about the proof of that. What do we see in these results that do that underpinning?

First of all, in almost every part of the Company we’re growing faster than the competition and we’re gaining share. In the US school publishing business the market was up 10.5% in ’05. Our [basal] and supplemental business was up 12.4%. Our total school business was up 16%. In the US college, the industry was up 5%; we were up 6%.

In business newspapers, the FT’s advertising revenues were up 9%. Our closest international rival, who will remain nameless, reported its ads down 4% for 2005. In financial information, the market data industry was up 4%. IDC, our market data company, was up 7% organic and 10% in total. The only exception to this is Penguin’s revenue, which grew more slowly than the market thanks to a deliberate strategy that we’ve talked about here before of shifting our focus from the top line to margins, into cash.

The second reason we think our strategy is really proving itself today is that we are getting more and more efficient in our operations. We’re moving our margins up; they’re now at a five-year high with plenty of room to grow. We’ve improved our working capital efficiency by five points, with
more room to progress there too. That gives us higher returns at the same time as we’re increasing our organic investment around the Company.

And of course the most important test of whether our strategy is working is whether we’re making the Company more valuable for our shareholders. And the indicators that we think are important are the ones you see here - adjusted EPS up 24%, free cash flow up 52%, return on invested capital ahead by a percentage point to 7.2% in constant currency. And we’re proposing a 6% dividend increase to 27p. This marks our fourteenth straight year of raising our dividend above the inflation rate. And that brings our return to shareholders through this annual dividend over the past eight years to about £1.5b, which is about a quarter of the value of the Company right now.

I’ll have more to say later but Rona, I think, is going to take you through the financial performance. I’ll come back then and talk about the businesses one by one.

Rona Fairhead
Chief Financial Officer

Thank you, Marjorie. Good morning. A year ago we set out four financial priorities for 2005 - significant earnings growth, strong cash generation, further ROIC improvement and balance sheet strength - to give us the flexibility to continue to invest, both organically and through our bolt-on acquisitions. We achieved all four.

So let me take you through the numbers which we are presenting for the first time under IFRS.

Sales grew 9% as a whole for Pearson. This is our fastest rate of growth since 2000. We performed strongly across our markets and, as Marjorie said, gained share in almost all of our businesses. School and Professional grew well into double digits, both benefiting from their contract wins and, in the case of School, from an improved adoption opportunity and funding environment.

The consistent strength of our Higher Education business and IDC was clear again in 2004, continuing the performance over the past five or more years. FT Publishing grew 4%, with the FT Newspaper sales up 6% on a 9% growth in advertising. Penguin had a relatively flat sales performance, as we planned.

Profits were up 22% on an underlying basis. All our Education businesses posted double-digit gains. In School and Higher Education we achieved further efficiency gains as we continue to consolidate our back offices and our central purchasing, and as we aligned our International Publishing businesses more with their US counterparts.

School profits were also helped by the uplift in profitability from its lower margin businesses. The School Software business that moved into profitability and our International Testing business, these both began to move out of their initial investment phases.

In Professional profits grew in line with sales, as we were in the start-up phase of some major new contracts, especially in our Government Solutions business. In FT Publishing we saw further cost savings and a substantial drop through of advertising revenues to profit. As you know, we expect more than 80% of additional ad dollars to flow through to the bottom line. In fact, in 2005 we achieved 90%. The result is that FT’s profits, just for the FT Newspaper, were up £14m on sales up £13m. And for FT Publishing as a whole, profits were up £17m on sales up £14m.

IDC increased its profits by a further 13%, with margins improving by two percentage points. And Penguin’s profits recovered by £8m, helped by the absence of some of the one-off costs that we
incurred in 2004, some cost savings and a transaction currency benefit in DK because of the year-end dollar rate. These more than offset the £4m restructuring charge we took in 2005. The result was that we improved margins across all our businesses and for Pearson as a whole. And this is a trend that we expect to continue for the next few years.

These results translated into an earnings per share of 34.1p, up 24% from 2004. Our adjusted EPS is stated under IFRS before the non-operating gain on disposals, the IAS 39 charge for derivatives and the IFRS 3 charge for amortisation of intangible assets, in line with developing industry practice. You’ll find each of these disclosed separately in our announcement.

Our total operating profit was £506m. We told you at the half year that our interest charge would be a shade below the 2004 charge. The actual charge was a little higher at £84m, against £76m, or £79m for the continuing operations, which I think will be the number you recognise. Just let me walk through those changes.

Under IFRS our interest includes two elements - interest on net debt and the pension finance charge. The largest element is interest on net debt. This was £74m last year on a continuing basis, which included, as we explained at the time, a credit of £9m. In 2005 the charge was £77m, as the benefit from our disposal proceeds and our strong cash performance was largest offset by the impact of the higher interest rates on our largely dollar-denominated debt. And as you all know, in the second half of the year US interest rates rose a further percentage point.

The pensions charge increased from £5m to £7m as we reduced the discount rate assumptions on our liabilities.

Yet in terms of impact on EPS, although the interest charge was a little higher than planned, our tax rate was a little better at 30.3%, compared to our guidance of 31% to 33%. For this year, we’re expecting a similar interest charge [in] 2005, as our lower debt will be offset by the full-year impact of those higher interest rates. And we expect our tax rate to be in the 32% to 34% range.

On a statutory basis we weren’t bad either. Basic earnings per share were up 138%. Clearly, it was the impact of Recoletos, which is the £302m you’ll see here in the discontinued line, which was the major factor behind that increase. Statutory EPS for continuing businesses, ie stripping that out, was 40.4p. We’ve provided a reconciliation in the back of your packs to our adjusted numbers.

Moving on to cash, we have said for several years that we would concentrate on generating more cash from our business and, as you see, that attention is paying off. In 2005 our operating cash flow improved by more than £150m, and we achieved an outstanding 113% conversion rate. This conversion rate was boosted by around 20% by a number of timing or non-recurring factors, such as foreign exchange gains, timing improvements in cash collection and some supplier negotiations. However, the underlying conversion rate was very strong and significantly above our 80% threshold.

We managed our capital expenditure tightly, as you see, in line with depreciation, and we continued to manage our working capital efficiently. As Marjorie showed you, our average working capital sales for Education and Penguin, our Book businesses which are the users of working capital, reduced for the fourth year in a row. Our day sales outstanding improved a further two days, our inventory turns improved by 20% and, as importantly, this excellent conversion rate was not a result of cutting investment.

In fact, as you see here, both at the year end and as an average through the year, we increased our level in what we would call our investment, which is the fuchsia, I think, colour on the chart here, pre-publications and our authors’ advances. The consistency of the investment that we have made and we’ve told you that we’ve been continuing to make over the last few years means that, even
though we expect the absolute level of investment spend to increase again in 2006, we expect our margins to continue to improve.

Moving to free cash flow, here, we continue to benefit from our low cash tax. In 2005 it was 13%. In finance charges, you see the benefit of that one-off credit I talked about in the finance costs in 2004 which, actually, we received the cash for in 2005. And finally, as you’ll see at the bottom, in terms of acquisition integration costs, they were [deminimus]. Our free cash flow per share has therefore increased from 35.7p in 2004 to 54p in 2005, which is a rise of more than 50%.

Our strong performance, and the disposal of Recoletos, has strengthened our balance sheet as we planned. Our total net debt at the end of 2004 was £1.2b. This fell to just below £1b in 2005. As you’ll see, the year end dollar which, as you know was strong at $1.72 versus $1.92 at the end of ’04, increased the reported closing position by over £120m.

Disposals generated more than £400m and free cash flow, at £431m, was almost twice the level of our dividend. We made a number of bolt-on acquisitions, including AGS in Education, for $270m, and IS Teledata in IDC for $50m.

So we are clearly strengthening the balance sheet significantly. And I’d like to say a word about our approach to capital allocation.

We commit, as you know, to our equity holders to maximise the value of Pearson over the long term and to our debt holders to remain within our bank covenants, which we are comfortably, and to maintain bond ratings of BBB+ BAA1. This is optimal for us, because it strikes the balance between prudence and financing cost. Our solid investment grade also supports a number of our key public service contracts and underpins the efficiency of our pension fund.

As you will all know, the rating agencies have changed their key target ratios over the last few years, moving away from the traditional measures that you’ll recognise, like interest cover and like gearing, towards measures that are more focused on free cash flow and which define debt more broadly.

The adjusted net debt on the chart at the bottom includes, for example, capitalisation of lease obligations and the IAS 19 pension fund deficits. We’ve included for you the details of all that in your appendices.

The ratios that you see for Pearson on 2005 are our interpretation of the definitions that the rating agencies give. And the published Moody’s and S&P targets for these ratios are around 15% and 30% respectively for our current rating level. And, of course, the rating agencies, in addition to just the bold numbers, also consider the performance as well as the potential of the business, which gives flexibility around those numbers. So, clearly, we take these ratios into account before allocating capital. When we do, we do the following.

Firstly, we seek to invest in our existing business organically or through bolt-on acquisitions, provided we can generate returns well above our cost of capital. You’ve seen the results of that organic investment in our strong performance in 2005 and our expectations for continued improvement in 2006. As for investment through acquisitions, we have some very clear hurdle rates and we expect them all to generate a positive return within their first full two years as part of Pearson.

In the past four years we’ve investment around £700m in bolt-on acquisitions, and here they are listed in the slide in front of you. These have helped us build the competitive strength that we have in our existing businesses and taken us into faster growing adjacent markets. And, importantly, their return is running well ahead of our cost of capital and their acquisition plans.
We believe that this good performance we show, underpinned by organic investment and value-enhancing bolt-ons, are the fundamental building blocks to increasing Pearson’s value. And in addition we return our cash to shareholders with a good dividend above the rate of inflation, one which has grown, in fact, for 14 straight years. We are one of the very few media companies not to have cut our dividend in the recent past. We believe that a steady, growing dividend is the best way to ensure good capital discipline, and is attractive to shareholders because of its predictability.

Now turning to ROIC, as you know, this is also one of our key performance measures. Our aim is to grow our ROIC to, and then above, our cost of capital, which we believe is between 7.5% and 8%. We made further progress in 2005, increasing headline ROIC to 6.7%. The result is 7.2% if we use the same exchange rates as 2004. And, as importantly, we expect further improvement this year.

So 2005 was a good year, and we expect to build on that momentum in 2006. Our financial priorities will be to maintain strong earnings growth, with solid growth in sales and continued improvement in margins, to continue to manage our cash flows and our working capital, to make further significant improvements in our ROIC and to ensure that we allocate capital in a manner which maintains our ratings and maximises our value.

Thank you, and now I’ll hand you back to Marjorie.

Marjorie Scardino
Chief Executive

Thanks, Rona.

Those goals that Rona just put up are not the goals of the Finance Department in Pearson - they are everybody’s goals in Pearson. But we know that we won’t attain those goals if we don’t have a coherent business strategy. And as I said at the start, those results that Rona just talked about, we think are proof that the strategy we’ve been employing is just that - a good business strategy.

To remind you what that strategy is, it really is simple. It has three ingredients, first, growth markets. We’re looking for solid, long-term markets, markets that are connected by their focus on intellectual property and on learning and on information. We saw, for example, a while ago a secular trend towards increased spending in formal education and life-long learning, and we focused on markets that are about education in all its forms as a result of that.

Of course, being in good markets is a dynamic process. We’ve entered new ones in the UK, like UK Testing, and Special Needs Education in the US. We’ve left others, like Television Production and Spanish Consumer Media. We will continue to make those kinds of difficult choices.

The second aspect of our strategy is gaining leadership positions. We aim for those number one positions in our markets. To stay in the lead in our businesses we have to outdo our competitors because of our brands, because of our scale, because of our products, because of our ability to innovate. We have those characteristics now in most of our markets.

One of our competitive advantages, we think, has been our early moves to add applications and services to our intellectual property, for instance, to make it more unique and more useful to customers. Inside Pearson we call this our Content + strategy; things like adding assessment to a school programme to help a teacher diagnose a learning problem, or adding technology to a college textbook to help a student practice new concepts, or using the Web to make business content more
relevant and more personal. Those are the kinds of things we think have given us a big competitive advantage.

And the third leg of our strategy is we expect that the combination of those markets and of leadership positions will produce high performance in the Company. But to get that we have also to be efficient in our operations. So we’ve been relentless over the last four years about cost savings and cost sharing, about using capital carefully, and that attitude has really become part of the fabric of this Company and is reflected in our rising margins and our rising returns.

Those things really underlie our strategy and our performance and our outlook for each one of our businesses, so let me talk to you about those businesses one by one for a few minutes, first, the US School business and the International School business.

In this business we’ve been working steadily on the strategy that we first talked to you about five years ago in a gathering just like this. We said then that we aim to build leading positions in key segments of the US School markets - textbooks, testing and technology mostly. And, importantly, we aim to integrate all of those parts of the School business so that we could begin to help schools teach each child, not just a class.

We believed then, and we still believe today, that the central challenge of US schools is increasing student achievement. And we believe that over time our customers would, if not move away from traditional textbooks, at least begin to ask, not for a book, but for a solution to a particular problem that they could deal with in a customised way for each student. We also believed at that time that breadth and diversity would make our business stronger in US schools and would allow us to export our skills and our scale internationally and to adjacent markets, and that is just what’s happened.

You can see it in our results for 2005. We expected this to be a good year. It has been a record year for our School business. Sales rose 16%, profits 29%. We obviously can’t say that enough - we’ve told you three times already. Our margins were up a point and a half, as we predicted they would be. Every single part of this business grew ahead of its market.

US School Publishing, we grew more than 12%, about two points faster than the industry, even though we competed for only 70% of the total adoption dollars. We took a 33% share of adoptions where we did participate, leading the industry in reading, in maths, in music, in science. Our open territory sales were strong too - 4% ahead of the industry growth of 3%. And our US software sales were up almost 10%, with good growth in curriculum products and in our administrative products.

Our Testing businesses in the US and the UK had a stellar year - each one of them was up more than 20%. In the US last year about half the total State testing market by value went up for bid, and in those bids we won more than half of all of them, taking £700m in new contracts that have a life of three to five years over the contract. That was a fantastic achievement and will help our Testing business be [ensured] for the future.

In International Schools we also grew in the high single digits, boosted by strong English language teaching sales and great performances in some quite big markets for us, like Canada and like South Africa.

With those strong performances, well above our peers, our outlook is that our School business will continue to grow in 2006 and beyond. For this year the expectation is supported by two main assumptions. In Publishing, we’re expecting the US basal and supplemental market to be broadly level with 2005. As you know, the adoption opportunity is much lower - somewhere around £620m. But we think we can offset that with a good residual back-list sale from our strong ’05 performance, as well as a higher participation rate in next year’s adoptions. We’re going to be participating in about 95% of all of them.
In all the other parts of our School business - Testing, Student Information, [Information] Software - we're expecting our sales to grow in the mid to high single digits. Our pipeline of contracts in Testing and Technology pretty much give us visibility on that. So all of that is the basis for our guidance that our US School sales will be up somewhere in the 3% to 5% range this year, and our margins will continue to grow.

We see growth in the School business beyond 2006 as well, and just a little bit about that. As you see here, the adoption cycle as it stands now really looks strong through the end of this decade, and that’s because the biggest States - Texas, Florida and California - are going to be buying the biggest subject areas, reading and math, in that period. But, as you know, new adoptions aren’t everything. They account for less than 10% of our total School sales in any given year, so our breadth is really going to matter. Once again, the range of our businesses that we have in addition to Publishing is going to be important - that’s going to speed our growth - as are the dynamics of the School market.

The long-term outlook for the US School spending market is healthy. The US Department of Education forecasts that enrolments are going to grow about 1% a year over the next decade but spending is going to grow much faster than that, at about 2% in real terms, from just under $9,000 a student today to about $13,000 in 10 years. That produces an annual nominal growth rate for that market of over 5%; that’s total of school spending in America.

On average, we think the market for our School business is going to grow a little faster than that because we put ourselves in a position to go after a lot more pockets of spending. Textbooks and teaching materials are only 1% of total school spending. But slowly, slowly in America the political focus is really channelling funding more toward areas that have been neglected, but that really are important to student achievement and learning as well, areas like teacher development, school reform, student information, more assessment within school programmes and more technology.

Those are all the services that we’ve been building our integrated skills company to provide and now we’re in a great position to capitalise on that.

Our strategy for Higher Education has followed a similar attack to our strategy for schools. We have the largest market share in the US, and each year we add to that a little bit by outperforming our peers. We’re also the largest in Higher Education internationally, and we benefited greatly this year from aligning that business more closely with the US business, giving it the advantages of scales and capabilities that we have that competing local publishers just really can’t offer. And that has raised the Higher Ed margins outside the US more towards the very high standard in the US. I doubt they’ll ever get to that very high standard, but it has certainly lifted them.

The most important part of our strategy in Higher Ed has been to be the innovator, to take market share by adding new value to the content programmes that we have through assessment, through technology, through customisation and, generally, it’s a combination of all three. More than two thirds of our sales now have some technology component in them. That has allowed us to increase prices because we’re increasing value for customers.

So, just as a for instance, what you see on the screen is something we have called MyMathLab. It supports all of our math programmes across our College business. Math is one of the biggest first year subjects in US colleges - about 5m students took it last year. It’s also one of the biggest problems in Higher Ed in America, because about 2m of those 5m students had to take a remedial programme just to get up to the level of college math.

MyMathLab gives you online practice. It’s a homework resource - thousands and thousands of math problems for students to work on. What a student does is, as he works through a particular math skill, the software automatically grades his answers, automatically provides him feedback, automatically isolates the concepts he struggles with. In the education jargon this is called adaptive
learning. What adaptive learning means is keep on practicing the concept until you’ve got it and then, and only then, move on basically.

We’ve had this kind of learning in our School software for a while. We started using it in Higher Ed three years ago and we’ve had some very, very startling results. Just to show you what those results are, these are student pass rates in math in four colleges around the US that were very early adopters of MyMathLab. Using MyMathLab they increased their pass rates enormously, somewhere between 20% and 120%. That kind of learning efficacy really does provide growth for a product, as you can imagine. So the unit sales of MyMathLab have tripled over the last three years. Students really are using the programme. Usage increased 60% this year, with 11m homework assignments submitted online. That’s a sign that this really is central to the math course they’re taking.

To put that in context, with MyMathLab we’re reaching one in 10 American college math students with this relatively new product. So it’s gaining ground rapidly. We’re rolling it out very aggressively to new disciplines like economics and physics and English composition. This is indicative of the kind of approach we’re taking to moving college toward using technology in the same diagnosis and customised programme approach that we take in our School business.

Innovations like that definitely, on top of great publishing and sales, make our 2005 a record for Higher Education too. Our total sales were up 5%, profits up 19%, with margins improving two percentages points to 20% last year, thanks to faster growth in the United States and the salutary effect of that growth, and the salutary effect of aligning our US business with our International business, which really helped their cost and their skills.

This chart really illustrates that our scale and innovation strategy has given us an enduring advantage in Higher Ed. Despite being the market leader by a good distance, in ’05 we grew for the seventh straight year ahead of the market. And you can see the compounding effect of that as we pull away from everybody else.

Looking ahead for Higher Education, we think good growth is going to continue in the industry, both in the US and internationally. In our business in 2006 we certainly expect to grow ahead of the market again. We think that’ll be in the 3% to 5% range, and we expect to sustain steady growth into the future beyond 2006.

I’m not going to cover as much, as I would love to, all the parts of our Education group this morning, but I do want to emphasise three points that cut across all the Education operations and I think substantiate our long-term prospects that we’re talking about.

First, as Rona said, we’ve invested steadily, and we’ve invested first in innovation and in product development. Over the past five years our pre-publication, or planned spend, which is the education companies’ version of R&D, the cash we’ve been spending on developing new education programmes and capitalising on the balance sheet has been pretty consistent at around 7% to 8% of our sales. And because we’ve kept investing, haven’t stopped, kept investing through the lean years and the good years, we expect our pre-pub spend to stay relatively level as a percent of sales over the next three years.

That’s a reasonable assumption also, given what we’ve been able to produce out of that investment a formidable publishing line-up that we’ve already built. In School you see this year, on that top line, some major new basal programmes for the three largest adoption subjects - reading and science and social studies - including some very, very adventurous instructional technology programmes.

In Higher Ed we continue to produce market-leading technology and move Content onto platforms other than books. In addition, we will produce our largest ever set of first editions this year; the first step to creating long-term franchises. So those first editions will be great, but they are all about
creating something for the future. And in English language teaching, the bottom row, we’ve focused our investment behind four major global programmes in elementary, secondary, adult and business English language teaching.

The second common theme for all these Education businesses is that we’ve been investing steadily in the breadth of our business across the whole piece. Testing, I think, is a good example of that. We took the view several years ago that increasing government and consumer investment in school education around the world would have to be accompanied by ways of measuring student performance, which is the only return on investment measurement in the Education business; how human beings perform as a result. That turned out to be completely correct. Our School Testing business has grown, as I’ve outlined, very, very nicely.

In Professional Testing that is also true, which has turned out to be an excellent addition to our Education range. Professional Testing grew 40% in 2005, which is why we recently added to its capacity to test and certify adult professionals. The growth of these Testing businesses really speaks for itself.

Sales for total Testing were up last year more than 30%, with all the market share gains and contract wins we’ve made over the last few years, and told you about, kicking in. This is a secular growth market and we’ve invested in and built a position of market leadership, and that is going to help Pearson’s overall growth in the future.

The third area of investment that cuts across all our businesses is our investment in international expansion, building on the Content, assessment and technology we have in the US. We talked to you last year about that International Education business as a long-term growth area. This business is already growing in the mid teens, with the Publishing businesses tending to grow in the mid to high single digits, Testing growing a bit faster than that. And as they grow and gain scale, the margins are improving too.

So overall our integrated, market leading Education business is in good shape to carry on growing in sales, in profitability, in cash and in returns over the next few years.

Moving on to Penguin, our goals have been reliable sales growth in industry-leading margins through a strategy in Penguin which combined leading positions in English language markets around the world, the best brands and back list in the industry, consistently front list publishing machine, the most efficient operations in the industry benefiting, by the way, from being part of the world’s largest book company, and innovation of a long-established business model to give it better economics, much more direct relationships with its customers.

That strategy is a long-term strategy, but the downturn we experienced in 2004 and the industry’s ongoing challenges prompted us to accelerate our plans to achieve that strategy, and so we have. We’ve stressed that 2005 would be a transitional year. The full benefits of the programme of major change will take time, but we have made some progress.

In 2005 Penguin’s profits and margins began to recover. Its cash performance was strong, at the same time as it was dealing with the issues that made 2004 a tough year. The new UK warehouse is really rolling now - supported Penguin through a hugely successful Christmas. We led the industry in format innovation in the fairly fickle mass market that we experienced, so we started innovating in the top and bottom of that market. Our first seven higher priced premium paperbacks that we moved out of the mass market into the trade market made us sales of more than $20m. And our six, $2.99, 100 page short books sold about 500,000 each.

We also worked hard to reduce our cost base. We restructured functions, we combined central teams, we outsourced projects; we generally got more streamlined in Penguin last year. That
progress, we think, gives us a very solid platform for tackling some of those long-term business model issues, and here’s our agenda for doing that.

The first item is a constant in the Penguin agenda - outstanding aggressive publishing. Just a few highlights for 2005; our authors won a Pulitzer Prize, a National Book Award, the Whitbread Book of the Year Award and the Business Book of the Year Award. We’ve been shifting our Content investments toward new authors, and you see some of our most successful new authors on the screen there. We’ll publish some 250 first-time writers this year. That’s the largest crop we’ve ever had in any one year.

We’re also turning our authors into global brands. Two of our biggest UK writers you will recognise, Nick Hornby and Zadie Smith, both achieved best seller status in the US for the first time this year. And we’re continuing to refresh the back list with new formats to mark Penguin’s seventieth birthday, that you see here, and brand new editions of the Penguin classics in the US this year.

We’ve also combined all our travel publishing to take advantage of scale, and we are now taking share in all our major travel markets. And we’re growing in emerging markets. This past year we set up Penguin China and we began local language publishing in India, as a for instance.

The second item on the agenda is the change of that business model. This agenda item touches every single part of our supply chain. Authors’ advances first of all. We’ve reduced our total cash spend on advances in 2005, even as we made that biggest ever investment in new authors. Production cost, an important part of that supply chain as well. We’ve our origination spend in Illustrated Publishing 20%, much of that through process improvements. We lowered production time across Penguin, which is real money, and will show through in further working capital improvements. We negotiated all our major printing contracts in the US and the UK over the last 12 months.

The third item on Penguin supply chain agenda, though, is returns. New programmes in the US and the UK are now underway to manage ever-more tightly, and slightly differently, our orders and supply. In the US our returns were 5% lower last year, and that produces a cash saving of more than $20m.

The final opportunity for Penguin’s agenda is the digital opportunity, as you see here. This is still relatively small but it really opens doors for us to faster growth and greater efficiency and a real change in how we publish and what we know about our customers.

Our e-book sales were up more than 20% in ’05, audio books up 30%. Podcasting in Penguin, particularly of authors, really is beginning to take off. We’re seeing rapid growth in online sales channels, where the Penguin brand gives us a huge advantage. Sales through online book stores were up more than 25% and direct sales through our own website were up 50%. This growth is important to our wider strategic goals of effecting efficient supply chain and direct relationships with our customers, and we’re going to continue to press them.

On that basis the progress in 2005, we think, sets Penguin up to move forward in 2006. As we’ve said many times, consumer publishing is not a fast growing industry in most years, but it is not standing still. Penguin can show similar rates of sales growth as in 2005, but can increase its profits in cash ahead of that rate of growth. Making these kinds of efficiency gains and basic changes in the way its doing business is going to steadily boost Penguin back up to first-class margin level. And its performance will be there while sustaining, still, its incredibly valuable brand and its reputation for great publishing.

Finally, we’ve had a very clear strategy for the FT group for quite a while. That strategy has been, basically, to take a UK business newspaper and make it the world’s business newspaper, to take a
once-in-the-morning read and make it a through-the-day business tool, to attract premium advertising by bringing together a worldwide audience of people who actually run the world, and constructing a powerful, resilient financial information business that can prosper through business cycles.

We haven’t talked about those larger goals very much because we have been obsessed with returning our newspapers in the Group to profit. But as we’ve done that, the strengths of that strategy are becoming pretty clear to us. In 2005, the FT group increased profits by more than a third. A large part of that progress was due to our financial data business, IDC, so let me start there.

IDC increased its sales by 7% underlying when bigger players were struggling to grow at all. At the same time it moved its strategy along, spreading its breadth of services into newly-regulated areas and brand new markets. Our strategy for IDC is to develop geographically and into contiguous services markets, for example, other financial instruments besides equities and bonds, and to offer more services to existing customers who already have our valuation services embedded in their workloads, so adding real time information, adding data management, things like that. In times of complexity and great financial regulation like we’re all enjoying right now, IDC is in its element, and its results, I think, certainly show that.

Equally important to the Financial Times Group’s progress has been the Financial Times itself. It returned to profit in 2005 as its circulation stabilised. Advertising revenues grew at a rising rate through the year. Part of the reason for that is that the FT’s editorial strategy is working. We’ve made some changes in the Paper, we’ve brought in new talent, we’ve shifted more focus to the journalistic heart of the FT, which is business and finance, and the FT has been an innovator too.

We integrated our print and online operations three or four years ago. Other publishers, one notable one last week, are just now announcing that that’s what they’re going to do. Unfortunately for them they’re going to find out they have to have the right systems to do that - ours is already in place and functioning very well.

The response to all these moves is very encouraging, with circulation holding its own last year and it’s up 4% in the year to date. The commercial strategy of the FT is working too. The FT has significantly outdone its main international competitor in ad sales for, as you see here, six straight quarters. And our investments in the FT strategy were responsible for its very strong in advertising, partly. Luxury goods advertisers, that is, advertisers going after the personal spending of our very special net worth audience, increased revenues by 22%, both in our How to Spend It magazine and in some of our supplements in the Paper.

Online advertising, with its interactivity and its accountability, was up almost 30%. And consistent with our strategy, worldwide advertising, that is, ads booked in all four editions of the Newspaper was up more than 20%. And, in fact, 70% of all our advertising consists of ads booked in more than one edition of the Paper, that is, covering more than one region. As our global readership grows that global advertising is growing faster because this is the kind of business audience that only the FT, and maybe the Economist, can provide.

With that momentum in advertising and editorial, we’re confident that the FT’s recovery is going to continue this year. For the past three years we’ve said that actual ad revenues are the indicator of health. In 2006 so far, FT’s ad revenues are up 12% over this time last year. Obviously it’s very early and our comparisons are going to get tougher as the year goes on, so you can’t take that to the bank yet. But as we’ve said before, and as Rona mentioned, 80% of all of our additional ad revenue will drop to the bottom line, and we did a bit more than that this year, so you should keep that in mind.
And keep in mind too that an important part of the FT strategy also includes generating more revenue from circulation, more from online Content sales, so those moves are going to have a positive effect on the Paper’s fortunes over time as well.

So that’s our story for today. We’ve got a clear strategy for Pearson and it’s consistent with the strategy for each of our businesses, and that produced strong results for ’05 and excellent momentum for 2006, and excellent momentum for the years beyond. It puts us on the path to achieve consistent growth in sales and profits and returns, very strong cash production and overall to build an enduring business that continues to increase in value, and that is exactly what we expect to do with it.

So thank you very much. As usual, we’ll all be happy to answer your questions. I think it would be very nice if we had a little more light in here to do that.

Guy, you want to go first?

**Q&A Session**

**Guy**

Three unrelated ones, if I may. Rona, could you just talk me through the interest charge again, please, for ’05 and how we should be thinking about it for ’06? In particular, how much is IFRS type items in there and how we should think about cash for ’06? Also with reference to the fact I think you mentioned that 20% of the cash conversion was one-off items that would reverse in 2006 in the cash flow conversion.

Second question to Marjorie is I understand that there might be some trade or consumer book publishing companies that might be available in the coming months. And again, I understand that in the past you might have looked at bulking up Penguin to get scale economies. How should we think about how you’ll be approaching that business? Are you looking to bulk up to gain scale economies as you did in the past or not?

And then the final question is, I think it was during this year, but I noticed that you’re doing front of house for one of the South London local authorities, how they interact with their claimants. I’m sure it’s a great contract, but how far can we see Pearson stretching into areas that are not what, historically, Pearson has done?

**Marjorie Scardino**

Let me do the bulking up question because it’s getting to be summertime, actually, bulking up not a good idea. Our view is that most of that consolidation in the publishing industry will be driven by synergies for companies, and we get those synergies. We’re already the largest book publisher in the world and so we’re able to get all of those cost synergies that you might get out of such a thing. So, frankly, paying a premium price for somebody else’s cost synergies is not a very interesting idea. A lot of it is driven by getting some authors, and I think Penguin has real drawing power, so I think you would find us not all that enthusiastic.

You want to talk about the interest rates?
Rona Fairhead

Yes. The interest, if you look at it on an adjusted basis, as I said, it had those two elements. The element that’s the IFRS element is the pension finance charge. So if you look at what happened underlying on the interest on net debt, it rose from £74m to £77m. Clearly, when you look forward to 2006 you’ll have the full-year impact of those interest rates, although we’ll still obviously have the cash from the disposals that we made.

So we think that the interest on [debt] will grow a little at the current interest rates, if we just assume that those are held for the rest of the year. We expect the pension finance charge to be a little lower because we had the very strong asset performance in our fund in terms of 2005. And, therefore, overall we’re guiding that at the current interest rates then our interest charge for adjusted would be broadly the same as 2005. In terms of the statutory accounts that also includes the derivatives element and, there, we had a positive which is why the statutory interest charge is £70m.

Looking at cash conversion, as we said, there are a number of one-offs. Our threshold is 80% and I think we’ve guided it’ll be well above our 80% and I think what we’re targeting is in the 80% to 90% range.

Guy

So when you say that it’s helped by 20%, it should just be the 130% that you did minus 20% is the underlying?

Rona Fairhead

Yes.

Marjorie Scardino

You must have won the math prize at school!

Guy

I need your little machine up there.

Marjorie Scardino

Let me answer the [Suffolk] question. Our contract to manage the citizen services for Suffolk Borough is a Government Solutions contract and, actually, it’s not much of a stretch. It is outside America, true, but it is about running call centres and about being responsive to citizens which is the whole heart of the Government Solutions business.

So they are running the Suffolk call centre; they don’t necessarily run the walk-in centres. This is a contract that is very dear to David Bell’s heart because I think it was his sterling reputation as a complaining citizen in Suffolk Borough that got us the contract, but it’s quite a good thing. And it’s been going for a while now and they’re performing brilliantly.

Guy

(Inaudible) there’s a lot of that stuff around. Are you going to be chasing all of that sort of stuff or not?

Marjorie Scardino

We’re very selective and, Government Solutions, as you know, is a big growth rate Company but they’re very selective about what they bid on, so they will be careful. Paul?
Paul Sullivan - Merrill Lynch

Good morning, thank you. It’s Paul Sullivan from Merrill Lynch. Just on the Schools business, despite the revenue out-performance in Schools in 2005 the margin did seem to come broadly in line with expectations. Can you just give us a little bit more detail as to what’s going on within the mix there, and also the prospects for some of those sub-divisions in 2006?

And then, secondly, can you talk about the phasing of margin growth at Government Solutions and Professional Testing. Because usually revenues always seem to exceed expectations there, but margins always come in a little bit light, and yet you’ve got this target for 10% to 12% in Government and 15% in Testing. What is the timeframe for getting up to that level?

Marjorie Scardino

On the School margins, remember we told you that they would be up about one to two points and it’s up one and a half, so it’s pretty much what we predicted. But I’ll let Steve Dowling, who runs all the School business talk to you about the School mix and the margins within that.

Steve Dowling

As Marjorie said, we’ve forecast the basal margins to come up. And I think the other point to make is that the mix of our business, we’ve got the widest breadth in terms of the School business if you look at our competitors in the space. And, as Rona said I think in her comments, we’ve come up in our International Testing, we’ve come up in our Software businesses; we’ve raised those margins. So we’ve got a good mix of businesses going on there.

On the other hand, we’ve got some of the businesses, International School tends to be a little bit lower. To your second question, perhaps, we’re in the first year of the big NCLB run off into the first year of those contracts, you’ve got start-up costs, but those contracts tend to run three to five years. You grow [some] margins over time. You get scope increases. One of the great advantages of having these contracts is you get in and, as contracts change, and they pretty consistently do, you have an opportunity to build scope in those contracts and also increase your margins.

So that’s the cycle on the Testing and, as I said, I think we’ve pretty much done what we’ve said we would do on the broad School business, and I think we’ll continue to see margin improvement.

Paul Sullivan - Merrill Lynch

And do you think you’ll see margin improvement in textbooks in 2006, or would that be flat to down as (multiple speakers)?

Steve Dowling

No, I think we’ll continue to see some progress.

Marjorie Scardino

I think the one important thing to get you interested in is that we really have an integrated School business. Steve has reorganised his whole operation so that Testing and School and our student information systems and all our technology are really of a piece. And so we’re going to stop [this] aggregating it because it makes very little sense. And, in fact, that’s why we’re winning in the US School business, because we have that integrated business.

Do you want to add anything, Rona, to that question?

On the phasing of margin growth for Government Solutions and Professional Testing, this is pretty much the same issue. And that is, as you know, when those contracts come in you’ve got some
investment to make, you’ve got some bedding down. We’ll see a much flatter top line for those businesses this year than we did last year. Last year was the first full year for the Driving Standards Authority contract, for a big [Medicade] contract we had in the US and so, as time rolls on, those margins are always in the beginning and then they ramp up.

Remember, though, in Professional Testing and, particularly, in Government Solutions these are 10 year contracts. They are not three year contracts, so you’ve got to look for that ramp up to be a little bit slower than it might be in the Texas Testing contract.

Mark? See, I’m trying to tell you all that it pays to sit up front. If you were sitting up front you’d get called on.

Mark Braley - Deutsche Bank

Thank you, it’s Mark Braley at Deutsche. Just to continue on Professional, I just wonder if you can help us with the sales growth, going from, I think, 15% underlying this year down to 3% to 5%. Have there been any major contract wins in ’05 that we get the full benefit of the annualisation of in ’06? And to what extent is Books within Professional still a drag on the growth there?

The second one is on FT margins. You’re at a 1% margin. I think Dow Jones, in their statement last week, effectively gave a Dow Jones journal print plus journal online margin at about 5% on a comparable basis to yours. Marjorie, you’ve said in the past that you think, mid-cycle, the FT should be making a 15% margin. How far away is the middle of the cycle, I guess, is the question?

Marjorie Scardino

Well, let me talk about Professional business first, and then Olivier can talk to you about his FT margin.

In the Professional business we did have stupendous growth but, as I said, it’ll be a relatively flat top line. We have, for instance, on an annualised basis this year for the first time the [GMAT] contract, the business school admissions test. That fired up 3 January. The volumes of test takers, which is a real driver of that business, are good and so you will see the benefit of that.

We’ll carry on with the DSA contract. We’ll carry on with all of the other Professional Testing contracts we’ve got; the US nurses, all of those medical contracts. And, as you know, we recently added Primissor to our Professional Testing business, Primissor being a US company that give State certification test. This takes us into a great contiguous market. It takes the number two and the number three player in this market, puts us together. It gives us a breadth of testing centres and some ability to have some cost synergies. So we’re looking now at margin ramp up for that business much more than growth.

Mark Braley - Deutsche Bank

Sorry, on Books within Professional, is that still a drag on growth (multiple speakers)?

Marjorie Scardino

PDG? Technology book publishing is not a growing business right now. Will Ethridge runs this and we have just restructured it in order to make it a lot more digital. It’s still kept its margin, I have to say, through the whole downturn. And maybe Will would like to say a word about it.

Will Ethridge

Yes, it’s obviously not a great market in terms of Print. It’s been a good market for us in terms of Digital, growing over 20%. So we just did a restructuring. Our Print business has been able to
maintain margins in the mid to high single digits. I think with the restructuring they’ll go up a bit and then we’re moving more of our investment to the Digital.

So there’s still demand for information technology, it’s just moving more to digital. We’re the lead there with our Safari Books online project. So we’re just in a period of transition but I think it’ll get better going forward.

Marjorie Scardino
Olivier’s FT margins.

Olivier Fleurot
Good morning. As you can imagine, Marjorie is not satisfied with the 2005 margin. And to be fair, when you compare Dow Jones with the FT or the Wall Street Journal, you should look at the trends, and the trend is definitely up at the FT and I think it’s down at the Wall Street Journal in terms of margin.

We made, and I made, staff presentations a few weeks ago saying that the margin throughout the cycle should be 15%, so it’s clearly our goal. If you look at the traditional business cycle in our segment of the market, we are at the beginning of a positive phase.

Marjorie Scardino
I think also a couple of things you should know. We’ll be able to push our ad rates up this year and, as circulation grows, that’s always helpful. And because we have this global presence we will be able to charge more for that worldwide package than anybody else could, so we’re moving that along. I think we have a good outlook. Remember the gearing of this business, so, as we sell more ads we have more profitability.

Polo Tang - UBS
Hi, it’s Polo Tang from UBS. I just had a couple of questions. First one is just on the new metrics by S&P and also Moody’s. Just under the new metrics, how much headroom do you have on the balance sheet?

And also I think you’ve made it pretty clear that you’re focusing on investments, whether it’s bolt-on or organic, and also handing out cash via a regular dividend. So does that mean that something like a share buyback is completely off the cards?

And the second question is just on Penguin. When do you expect organic revenue growth in that business to recover? I know that you’ve said earlier that you’re not really interested in making bolt-on acquisitions in that business, just given the fact that growth is quite low in that asset at the moment relative to other divisions. Would you consider selling Penguin?.

Marjorie Scardino
Well, I said I wasn’t interested in being a big consolidator and buying these big ones; bolt-ons, a different matter. I’ll let Rona answer those.

Rona Fairhead
In terms of the headroom, there is headroom for us for bolt-on type acquisitions, and that’s been aligned with our strategy. And obviously the specific levels we discussed with S&P. And just remember, when you make an acquisition you also get the benefit if there’s good cash generation in
that business or there are a lot of cost synergies. Don’t just deduct the purchase price because it’s the purchase price taken off and then you add back the profit and the cash.

So there is headroom for bolt-on acquisitions but, as I said, what our focus is is driving the operating performance, it’s on investing, as you see, we’ve continued doing, and in those bolt-on acquisitions which we think will give the best value. And you see the returns we’re getting from our bolt-on strategy because we can take a lot of costs out, we can get a return very quickly and get some good synergies on the top line too.

And our attitude always is to try and deliver value for our shareholders. So our sense is that giving cash back in the dividend is, as I said, a predictable way. It’s a good level of dividend that we give. If we got to a situation where we had surplus cash and we had no organic investment that would give the returns above our cost of capital or not available bolt-ons if acquisitions just went to silly prices, and there was nothing available, then we would look at different ways to distribute cash. I think our first port of call would be to improve the existing dividend yet further. But I think at the moment we really are in building a business which is performing well and adding to its competitive position, and we think that’s the best [weight] for value in Pearson.

Marjorie Scardino

John, do you want to talk about Penguin’s organic growth?

John Makinson

Yes. The issue around revenue growth, as we know, is in the United States where we are moving away from a focus on best selling authors’ relatively high cost towards more organic development through the promotion of new authors. And Marjorie talked about the 250 new authors we’ve been publishing in Penguin through an emphasis on back list repackaging, which we’ve seen through the work we’ve been doing with the Penguin Classics, for example, in the United States, and through the development of new imprints such as the Penguin Press and Riverhead and so on, and that process is now fairly far along.

I would expect that, certainly this year and into next year, you will still see revenue growth in America fairly subdued. It depends a little bit, obviously, on what’s happening to revenue growth across the industry, and that by ’08 we would be looking to be back gaining share relative to the market.

John Clarke - Brewin Dolphin

John Clarke, Brewin Dolphin. The Schools business, could you just help me here? You’ve shown a graph of 5% to 5.5% compound annual growth in spending. Obviously, that is total spending. When it comes to Textbook spending, in higher adoption years you’re saying that ’06 is a slower growth and ’07 30% higher. Does that mean that in ’07 you’d expect to guide to significantly higher Schools sales growth? In other words, does the non-adoption market grow at a steady state pace of whatever it is, with the adoption adding the cycle on top, is the question I’ve got?

Marjorie Scardino

I can’t really give you a forecast for 2007. I think that would be a little bit nutty. But what we have said is, even though the adoptions are lower in 2006, we’ll participate in a higher proportion. And because of the breadth of our School business we’ll grow. And I would say that that premise will be the same in 2007.

Adoptions are about 10% of our School revenues now. Software sales, Testing, they will continue to grow. They are faster growing than the basic Textbook market, yes. But the point about our
business is we have worked out how to access different pools of funding in The States, so we’re not just dependent on that adoption funding. We can get all sorts of other kinds of money - teacher development money, technology money. That’s the beauty of our business, whatever the adoption scheme is.

Steve, would you add anything to that?

Steve Dowling

The only thing I’d say too, as Marjorie said earlier, the business is getting more integrated so the investment we’ve made in technology, for example. In platforms, we’ve been able to move into the basal side of the business. The California social studies programme that we’ve submitted for California adoption this year is based on an investment we’ve made over the last four or five years in the technology platform. So that actually has helped even out the spend and starts to really take advantage of the investments that we’ve made over the last four or five years in technology. I think that helps us too.

[Chris Clare] - Goldman Sachs

Thanks, it’s Chris Clare from Goldmans. I’ve just got three questions. First was just on the 2003 cost saving programme, the £20m. How much of that was delivered in ’05? How much still to come through in 2006?

Second was I believe on the Cantos this morning you made some comments about $1b worth of sales coming from more than one Pearson business. I wonder if you could just talk about where you see the sale synergies and cost synergies, and are they primarily within the different Education businesses or elsewhere?

And then, just lastly, you talked about Penguin getting the margins up to industry-leading levels, which I guess is around 11% or so. Is that something that we should wait until the US business returns to growth, so, 2008 timeframe or beyond for that?

Marjorie Scardino

You want to take the 2003 cost savings?

Rona Fairhead

Yes. The 2003 cost savings, that was the £20m of annual savings you were talking about, and that was part of an overall cost saving programme we had. And in terms of the £20m, most of it through, but it’s probably maybe 20%, 25% still to come because we still had some dual running costs in the UK on the distribution.

If you look overall, frankly, at the cost savings, you’ll remember last year we talked about 360m cost savings and we’ve improved that by another 50m to 60m. So the improvement in that £20m is wrapped up in that. So I think, as far as we’re concerned, we’re certainly on track for that £20m, but it’s part of a much, much bigger cost focus throughout the Company.

Marjorie Scardino

Penguin (inaudible) margins?
John Makinson
I think 11% is probably a good figure as a sort of mid point for a range of industry-leading margins, and maybe 10% to 12% would be the range. And I would expect that by 2008, as you say, once we’re through that process we will be into that range.

Marjorie Scardino
On the $1b amount, that really referred to our top line growth product sales. That referred to the kinds of books which the FT and the Higher Education business makes together. That refers to the School programmes that Dorling Kindersley helps us design. That refers to all of the different ways we look at using our assets. Penguin will be an invaluable asset to our School business in our literature programme where we got 50 Penguin authors to write special parts for our literature book. It’s an invaluable asset in our Higher Ed business, in that the Penguin imprint is on a lot of literature programmes, which is much more alluring to college students who think that that’s a lot sexier than Prentice Hall, I’m sorry to say.

Any of you want to add anything else to that?
In our Testing business, obviously, we are being able to transfer our ability to do assessment and testing around the world. Our Higher Ed business has aligned itself in America more closely with the International business, and that International business will include Penguin and, in some cases, the FT. So in Asia, for instance, we have a head of Pearson that goes over all our businesses and they do a lot of products together.

We have a new dictionary of financial terms done by the FT and our Education business in mandarin, for instance. So just a zillion little things, but that’s gotten to quite a big number.

Sammi Kassab - Exane BNP Paribas
It’s Sammi Kassab at Exane BNP Paribas. Two questions, if I may, on the Higher Education business. The first one, can you comment on the trends in book returns in the High Ed business and whether you expect, or will have, to increase the provision rate here in ’06, like was announced by one of your competitors?

And secondly, how do you see the 20% margin? Do you still see scope for further improvement or should we expect the margins to remain stable going forward, around 20%?

Thank you.

Marjorie Scardino
Would you like to comment, Rona, on the book returns provision rate

Rona Fairhead
Well, I can. The returns did go up slightly at the year end, but that’s already been taken care of and it’s in our numbers.

Marjorie Scardino
That’s nothing.
Would you like to talk about the 20% margin?
Will Ethridge

We like our margins, of course. I think we’re in a transition period. Our margins are quite a bit higher than our competitors’. Each year we look at the mix of the efficiencies we’re getting in our regular traditional business and the investment needs to make sure that we are taking advantage of the opportunities going forward. So we look at that each year.

And I think basically the best way to think about it is our traditional business is getting more efficient. We’re gaining efficiencies between the US International, which is allowing us to invest in the future, and also allowing us to grow the margins when we see that mix between the future and the short term, and we look at that each year.

Marjorie Scardino

I think also you have to remember that it is an international higher ed business, and last year our US business just grew much fast. And our International business, though it grew very briskly, was a little bit lower than we had expected so that partly creates that margin mix because the US business is a higher margin business.

Meg?

Meg Geldens - Man Securities

Thanks. Meg Geldens from Man Securities. Can you tell us a bit more about the margin improvement you expect in Schools in 2006 because you’re not giving us [this] aggregated information any more? Can you tell us will the margin improvement be similar to 2005 or not quite as good because it’s a slower Textbook year?

And also can you comment on long term? I think [McGraw Hill] talked about a 20% margin as a long-term goal. Can you comment on what your goal might be there?

And my second question is do you and [Birtlesman] have a timeframe to get the German FT to profitability?

Marjorie Scardino

Yes, we do indeed.

Meg Geldens - Man Securities

And can you share that with us?

Marjorie Scardino

No. The German FT is doing fantastically well in advertising, in circulation growth and in sales. I don’t know if Olivier wants to just take this golden opportunity to say anything about it or not. Do you?

Olivier Fleurot

Well, yes, I can take that golden opportunity. We are gaining market share in Germany. I think the quality of the Newspaper itself is recognised by everybody as being very good. The market itself is still not that great, so we’re a bit behind our ’98 plans, to say the least. But I think it will be very soon we can break even.

Marjorie Scardino

It’s not a very big number at this point.
On the School margins, Steve may want to comment but, basically, our School margin is all about our business mix, as you know. Publishing is a higher margin, Testing is slightly lower, our Student Information is just beginning to grow and our Technology is beginning to grow too but will be a slightly lower margin. So it’s all about that mix. We do intend to carry on moving it up and it’ll be roughly the same kind of movement we had this year, but that’s not a prediction. And, as I say, we’ve got this integrated model so we will carry on with that mix because of the integrated model.

Anything else? I think that’s it.

Colin?

Colin Tennant - Lehman Brothers

Thanks, Colin Tennant at Lehman. A couple of questions, first of all, just on the tax charge and the cash tax charge which is obviously still quite low. I just wondered if you could update us on where we are on that. Is it going to trend up towards the P&L cash tax or is that still some way off?

And the other thing is on portfolio, your organisation. You’ve talked about the disposal of Recoletos earlier and that you would continue to make the tough decisions. I just wondered if we should be thinking small stuff here or could there be something as dramatic as the Recoletos disposal.

Marjorie Scardino

On disposals, we are continually, as I’ve said, I think, ad nauseum, continually looking at all the businesses to make sure that we’re making the most of the assets for shareholders. And so we have a regular programme of looking at it. Our new Chairman certainly applauds that programme and we’ll definitely carry it on and move it along.

But whatever we do, whatever we’re doing with an asset we are not going to talk about it publicly first. If you’re a seller, that puts down the price. If you’re a buyer, that puts up the price. It would be a crazy thing to do in any case. And you should not infer any action from that. But we are going to do what we think is right and then we’ll announce it as we should, so I hope you don’t mind.

But on the cash tax?

Rona Fairhead

On the cash tax I think we guide that our cash tax we expect to stay 15% or below for the next three, four, five years. We still have significant NOLs. We obviously do a re-evaluation at the year end and I still think we’re pretty happy with that guidance that we’re giving, that it’ll be around 15% or less going forward.

Marjorie Scardino

A couple more? Yes.

Ray Godanchi

Morning, it’s [Ray Godanci] from Citigroup. A couple of general questions, firstly, on the Schools. And you’ve talked about the advantage of being integrated. To what extent does winning a Testing contract put you in a better position to win future adoptions, or is that the tail wagging the dog rather than the other way around?

And then the second question is you mentioned just then, Marjorie, that your new Chairman will be also monitoring all the disposals. I wonder whether it wouldn’t be impolite if I could ask him to say
a few words about what he’s found since he’s arrive and what changes he think may need to be done, or whether none need to be done at all?

**Marjorie Scardino**

I think it would be very polite for you to ask him, if he would like to.

**Ray Godanchi**

I’ll just pass the microphone back then.

**Marjorie Scardino**

You can just pass him the microphone.

**Glen Moreno**

(Inaudible) I think --

**Marjorie Scardino**

I don’t think they can hear you. I can’t quite hear you up here.

**Glen Moreno**

Let me endorse Marjorie’s point that on the broader issue of our strategic portfolio, I really do believe that discussion belongs in the boardroom and not in public. But it’s very important to make it clear that the Board’s discussions and its decisions are going to be driven by our commitment to long-term shareholder value, as they are in any good company. That’s the standard we will use in evaluating all our businesses, and we have a lot of businesses.

I’ve always believed that you need to constantly look to the future to see where new market opportunities are, where you’re going to grow quickly, where you’re not going to grow quickly. And since we don’t want to come to you for a large equity raising, obviously, as we have in the past, if we have businesses that don’t look to us to be promising in the long run, that’s a source of capital for new investment. But those are just broad principles. The important point is it will be driven by shareholder value.

As far as what I’ve learned at Pearson since I’ve got here, I’ve spent a lot of time learning - I’ve been working very hard - and I’m not quite too sure where this concept of part-time non-executive Chairman comes from because it’s been a very busy experience. We’re spread around the world and I’ve tried to visit a lot of our people and understand our businesses. I’m impressed by a number of things. First of all, our people are really very good.

That should be obvious, but we tend to forget that Content businesses are like your businesses - they’re people businesses. If you can’t attract and maintain the best people, you don’t have the brand, you don’t have the content. So I’ve been very impressed with that.

I’ve been impressed with the discipline that I’ve seen on some of the issues you’ve been talking about. There clearly is a strong understanding at the top and in our key business managers that we have to be terribly disciplined and the returns we look for. And one of the most interesting things to me is if you look at the returns on our so-called bolt-on acquisitions over the last few years, is that the return averages something like 14% after integration costs. Now that’s double our average and our historical level. So it means we are investing incremental capital wisely, as far as I can tell, and that’s a very encouraging thing.
Marjorie Scardino
Steve, do you want to talk about the virtues of integrated School business?

Steve Dowling
Sure. Specifically on the Testing question, there are two ways to look at it. In some States, actually Texas for example, has a statutory regulation that you have to keep a wall between the instructional side and the testing side. So in some places you need to be careful with it.

But I think if you look broadly at a skill set and competencies and integration, for example take Texas very specifically, this year when we won the contract, in that contract $280m, there was a reasonable chunk of that contract that was actually formative assessment. So it’s a kind of assessment not just taking a snapshot at the end of the year about how a student is doing, but it’s taking periodic snapshots through the year. And you can take that information and use it to improve student performance. That’s a competency we had developed elsewhere in the organisation. So you do get some benefits like that.

I also think that what’s going to happen is formative assessment will become a more significant part of what goes on in Testing. The reason you test is, one, it is a snapshot, but the reason you’re trying to test is to try to improve students’ performance. It’s not to be punishing them; it’s to help improve. And so formative assessment will become more important and, again, as an integrated part of our strategy, moving from assessing, diagnosing how children are doing and then being to offer the curriculum that goes with that, it’s very tightly linked with our Testing.

Marjorie Scardino
I think we’ve got time for just a couple more questions and then we need to go. Yes.

Paul Gooden
Thanks, it’s Paul Gooden from ABN Amro. Just one more question on your US School Testing business. No Child Left Behind gave you a big benefit in ’05, and in 2006 there are some benefits also as some subjects move to mandatory testing. As we move into 2007, is that a business that we should think about materially slowing as that benefit disappears? Or, again, notwithstanding the secular growth story, it just seems you’ve had a bit of a boost the last two years and is that business going to slow down?

And secondly, on the margins in US School Testing, how should we think about those developing? I think you mentioned earlier the average length is around three years. Does the margin improve materially as you move from years one, two and three?

Marjorie Scardino
Just remember that those Testing contracts are for a term of years, so some of them will be three years. Most of them are five years. Most of them have a renewal possibility with them. And so you’ll see that over time, which gives us great visibility in our business because we’ve got some high proportion of our revenues already clocked by the start of it.

But would you like to talk about the margin?

Will Ethridge
Yes. Well, just two things on the cycle too. You’ve always got the opportunity to win new business because you do have these contracts. In ’06 you’ve probably got New Jersey, Pennsylvania, Ohio, South Carolina, a couple of other States coming up. Some places we’re the
incumbent, some places we’re not, so there is a chance to do there. You have 20 States that aren’t compliant in science yet. We just found out on Thursday that we won the Maryland State science exam so that’s brand new business, $29m contract. I think it’s a three year contract to develop the science tests for Maryland. So you’ve got a lot of States that’ll be coming on in terms of that sort of thing.

The second thing is we had good growth this year, in ’05, because we started processing all the SAT writing. The college entrance exam in the United States introduced a writing component and, as a third leg to that test, because of our technology we were able to get that. We score that on a distributed fashion with 14,000 scorers all working from their homes, and so that was a bump up. So there are some opportunities in adjacent areas in Testing, again, based on the reputation in Technology.

Over time you’ve always got some ins and outs. You have new contracts starting. You have contracts that are maturing in their second and third year. I think what we’ve said is that our long-term average and goal in Testing is about a 15% margin and I don’t see any reason to move from that.

Marjorie Scardino

Any others? Patrick? You always like to get the last question, don’t you Patrick?

[Patrick Wellington]

Sheer chance! Marjorie, three questions. The Higher Education guidance potentially a bit tentative at 3% to 5%. You normally beat the market. There are higher numbers than that around. So do you want to comment on that?

Secondly, the Group margin is 12.4%, I think, the Pearson high. Not the same mix of business was 16.5%. On the other hand, your revenue growth is 9%. So do you just want to talk a bit about the dynamic between revenue growth and margin? Is your margin always going to lag, if you like, other professional publishers because your revenue growth is going to be higher? Are you going to switch over at some point? Do you have a medium-term margin target?

And thirdly, on the dividend, your earnings were up 24%, your dividend is up 6%. Should we be looking at inflation as our guide to dividend growth? Should we be looking at earnings? What should we be sticking in there for dividend growth in the medium term?

Marjorie Scardino

Ok, Rona, would you like to speak about the dividend?

Rona Fairhead

On dividend I think it’s what we said. It’s 14 straight years of growth. I think 6% is good growth. You know what the yield is; it’s a decent yield. And our policy, as you know, is to grow it at least ahead of inflation and we’ve done that consistently for 14 years. I don’t think we’ll step away from that, but I think it’s the consistency and the predictability of it that we’ll continue to pursue.

Marjorie Scardino

Higher Ed margins -- Higher Ed predictions, sorry.
Will Ethridge

We look at our growth rates over a three to four year period and we’ve been pretty consistent saying that the ’03 to ’07 period would be a period of transition, and we would see over the cycle 3% to 5%. You have some good news in terms of the Digital opportunities. You have some short-term pressures in terms of pricing. Let me be clear, though, that we expect to outperform during that period. Then starting the later period as more of the new trends come to bear we see the guidance going up. Again, that’s pretty far off but we do see the long-term trends in terms of demographics, in terms of our leadership in Technology playing to our strengths.

We’re obviously very pleased that this year a lot of the trends played out well. But you also have inventory, bookstore behaviour issues, cycle issues of whether publishers are bringing in more new editions versus back list. So we are very confident, as confident as you can be, that we will continue to outperform and we feel very good about the long-term health of our business. And we’re investing in our business in order to make sure that we benefit from those opportunities.

Marjorie Scardino

I think as you know, Patrick, the prediction for what the growth rate is in High Ed is highly variable and I think we’ve mostly gotten it right over time, so we’re pretty good at predicting that, but it could change.

On Pearson margins, they are obviously made up of all of our businesses. And I think if you heard margin once in my presentation and Rona’s, you heard it a lot, and that’s because that’s a real focus for us. We see a real opportunity for margin improvement pretty much around the Group. That’s obviously going to lift Pearson. In our newer businesses we’re moving out of the investment phase. Obviously, the leverage is high in the FT so we’ll be seeing margin improvement there.

So overall we are very focused on being more profitable. We, nevertheless, expect revenue growth because we think we have some high growth businesses. We are really focused on innovation and we really feel we are about growth. So as that margin improvement comes in we also think we’re going to have top line improvement as well.

So thank you all very much. I hope that you take away, not only our good results from ’05, but our good prospects for this year and years to come. And if you don’t, I’ll see you out there when you’re having a cup of coffee and talk to you again.

Thank you very much.

[End]