press release

31 July 2006

PEARSON 2006 INTERIM RESULTS

- **Good start to the year.** Sales up 8%; adjusted operating profit up 57% to £73m.
- **Sustained organic growth and market share gains.** Pearson Education sales up 11% with leading position in US School new adoption market and 4% growth in US Higher Education; FT Group sales up 6% with FT advertising revenues up 11%; Penguin sales up 2%.
- **Strong profit growth in all businesses.** Pearson Education, traditionally loss-making in the first half, breaks even (loss of £21m in 2005). FT Group profits up 23% to £55m and Penguin profits up 38% to £18m.
- **Full-year outlook maintained.** Pearson's profits are always heavily weighted to the second half of the year. With this first-half performance, we continue to expect strong earnings growth and cash generation and a further significant rise in our return on invested capital in 2006.

Marjorie Scardino, chief executive, said: "These results provide further evidence of the quality and potential of our business. All parts of Pearson are making strong progress, and our steady investment in new content and services is paying off with sustained organic growth, market share gains and margin improvement. We remain confident that 2006 will be another good year for Pearson both in competitive and financial terms."

£ millions	**Half year 2006**	Half year 2005	Headline growth	Underlying growth	Full year 2005
Business performance					
Sales	**1,878**	1,613	16%	8%	4,096
Adjusted operating profit	**73**	33	--	57%	506
Adjusted profit/ (loss) before tax	**31**	(6)	--	--	422
Adjusted earnings/ (loss)	**9**	(14)	--	--	272
Adjusted earnings/ (loss) per share	**1.1p**	(1.8)p	--	--	34.1p
Operating cash flow	**(183)**	(196)	7%	--	570
Free cash flow	**(250)**	(265)	6%	--	431
Net debt	**1,611**	1,298	(24)%	--	996
Statutory results					
Operating profit	**65**	73	(11)%	--	536
Profit before tax	**25**	48	(48)%	--	466
Basic earnings	**7**	337	--	--	624
Basic earnings per share	**0.9p**	42.3p	--	--	78.2p
Dividend per share	**10.5p**	10.0p	5%	--	27.0p

Note: Statutory operating profit for 2005 included a £40m profit on the sale of our investment in CBSMarketWatch. Statutory basic earnings for 2005 included CBSMarketWatch and a £302m profit on the sale of Recoletos.

Throughout this statement, we refer to business performance measures for total operations and growth rates on an underlying basis unless otherwise stated. 'Underlying' means growth excluding currency impact and businesses acquired or sold. The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes to the accounts 2, 5, 7, 12 and 14. Profit measures within business performance are presented on an adjusted basis to exclude: i) other net gains and losses arising in connection with the sale of subsidiaries, investments and associates; ii) amortisation of acquired intangible assets; and iii) short-term fluctuations in the market value of financial instruments (under IAS39) and other currency movements (under IAS21).

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

2006 OUTLOOK

Due to the seasonal bias of our book publishing businesses, Pearson makes most of its sales and almost all of its profits in the second half.

However, based on our trading performance in the first half, we remain confident that 2006 will be another good year for Pearson as we continue to increase margins and grow faster than our markets. We expect to achieve strong underlying earnings growth, good cash generation and a further significant improvement in return on invested capital. Our outlook for the full year remains:

- *Pearson Education* (65% of 2005 sales; 68% of operating profit) expected to achieve underlying sales growth in the 3-5% range, with similar rates of growth in each of its three worldwide businesses (School, Higher Education and Professional). School and Professional, which achieved very strong growth in the first half, will face tougher comparables in the second half of the year. We expect margins to improve in School and Professional and to be stable in Higher Education.

- *Penguin* (20% of 2005 sales; 12% of operating profit) expected to grow at a similar rate to 2005 with margins improving steadily as we benefit from efficiency gains.

- *Financial Times Group* (15% of 2005 sales; 20% of operating profit) expected to achieve a further significant profit improvement. The *Financial Times* continues to show good momentum, with circulation up 5% and advertising revenues up 11% in the first half. IDC expects another good year, benefiting from similar business conditions to 2005, steady organic growth and the contribution of recent acquisitions.

Acquisitions. In the first half we invested a total of £273m in a series of acquisitions in education and the FT Group. For the full year, we expect these acquisitions to have a broadly neutral effect on adjusted earnings per share as a result of integration spend in the second half and the interest charge on our higher level of net debt. We expect these acquisitions to enhance Pearson's adjusted earnings per share and return on invested capital in 2007, their first full year under our ownership.

Interest and tax. We expect our interest charge to be a little higher than in 2005, as a result of our higher level of net debt. We expect our effective tax rate to be in the 32-34% range.

Cash. We expect another good cash performance, well ahead of our 80% target conversion threshold.

Exchange rates. Pearson generates around two-thirds of its sales in the US and each five cent change in the average £:$ exchange rate for the full year (which in 2005 was £1:$1.81) would have a translation impact of approximately 1p on adjusted earnings per share. The average rate during the first half of 2006 was £1:$1.79 and the closing rate at the end of June was £1:$1.85.

For more information:

Luke Swanson / Simon Mays-Smith/ Deborah Lincoln + 44 (0) 20 7010 2310

Pearson's results presentation for investors and analysts will be webcast live today from 09.00 (BST) and available for replay from 12.00 (BST) via www.pearson.com. We are holding a conference call for US investors today at 15.00 (BST) / 10.00 (EDT). To participate please dial in on +1 718 354 1175 (inside the US) or +44 208 974 7900 (outside the US), participant code c348483. Video interviews with Marjorie Scardino and Robin Freestone are also available at www.pearson.com. High resolution photographs are available for the media at www.newscast.co.uk.

OVERVIEW

Pearson's sales increased 8% in the first half of the year and adjusted operating profits increased by 57% to £73m. Adjusted earnings per share improved to 1.1p, from a loss of (1.8)p in 2005.

Operating cash flow improved by £13m to £(183)m and our average working capital to sales ratio improved to 27.3% (from 28.7% in the first half of 2005).

Our statutory results show a reduction in operating profit to £65m (£73m in 2005, including a £40m profit on the sale of our stake in CBSMarketWatch). Statutory earnings for the period were £7m, compared with £337m in the first half of 2005 which included a £302m profit on the sale of Recoletos, our Spanish media group. Excluding those one-off gains on disposals, our statutory profit was £12m higher than in 2005.

Our net borrowings, which peak at the half-year stage, increased to £1,611m (£1,298m in 2005), largely as a result of a series of bolt-on acquisitions in education (including Promissor, PBM, National Evaluation Systems, PowerSchool and Chancery) and financial information (Quote.com). Our total investment in all acquisitions in the first half was £273m.

The board has declared an interim dividend of 10.5p per share, a 5% increase on 2005, reflecting this strong financial performance and its confidence in the outlook for the full year.

£ millions	Half year 2006	Half year 2005	Headline growth	Underlying growth	Full year 2005
Sales					
School	**625**	518	21%	10%	1,295
Higher Education	**206**	192	7%	3%	779
Professional	**316**	243	30%	20%	589
Pearson Education	***1,147***	*953*	*20%*	*11%*	*2,663*
FT Publishing	**179**	164	9%	9%	332
IDC	**165**	143	15%	3%	297
FT Group	***344***	*307*	*12%*	*6%*	*629*
Penguin	**387**	353	10%	2%	804
Total continuing	***1,878***	*1,613*	*16%*	*8%*	*4,096*
Adjusted operating profit					
School	**36**	16	--	46%	147
Higher Education	**(53)**	(45)	(18)%	(13)%	156
Professional	**17**	8	--	60%	45
Pearson Education	***0***	*(21)*	--	--	*348*
FT Publishing	**13**	6	--	--	21
IDC	**42**	38	11%	8%	80
FT Group	***55***	*44*	*25%*	*23%*	*101*
Penguin	**18**	13	38%	38%	60
Total continuing	***73***	*36*	--	*57%*	*509*
Discontinued (Recoletos)	**--**	(3)			(3)
Total	***73***	*33*	--	***57%***	***506***

SCHOOL

£ millions	First half 2006	First half 2005	Headline growth	Underlying growth	Full year 2005
Sales	625	518	21%	10%	1,295
Adjusted operating profit	36	16	--	46%	147

Further share gains in the US

- Market-leading performance in US school publishing. Strong first-half sales growth, benefiting from earlier phasing of our major state adoption wins compared with 2005.
- Pearson takes an estimated 30% market share of total new adoptions (and 33% where we competed), and makes a strong start in open territories. Pearson takes the #1 or #2 market share of new adoptions in reading, maths, science and social studies.
- #1 position in Elementary Social Studies in California with an innovative new digital programme. It has so far taken a 41% share, reaching more than 1.5m students.
- Testing business, benefiting from excellent record of contract wins in 2005, continues to gain share with new long-term contracts in Illinois, Maryland, Mississippi and New York. Rapid growth in online assessment, with pilots underway in nine states and 1.4 million secure online tests delivered in the first half.
- Curriculum software continues to show good growth with increasing adoption of technology in schools and new version releases for some of our major programmes including Waterford and NovaNet.

Good growth in International, with strong performance in Canada, Europe and Latin America

- International English Language Teaching business outperforms market, capitalising on growing demand for English language proficiency and local adaptations of new and established global programmes. *English Adventure*, developed with Disney for the ELT primary market, gains share with new versions for Asia and Latin America building on the success already achieved in Europe.
- UK school businesses benefit from technology leadership. In school testing, we have marked a total of 8 million GCSE, AS and A-Level scripts onscreen, and we are piloting a programme to provide students and their parents – in addition to schools - with online access to question-level examination performance data. Our new science qualification, textbook, e-learning and teacher support programmes, designed for major changes in science curriculum in 2006, are gaining significant market share.

Bolt-on acquisitions adding breadth, scale and value

- School testing business gains scale and enters a new growth market through the acquisition of National Evaluation Systems, America's leading provider of certification tests for the teaching profession.
- School technology business transformed through the acquisitions of Chancery and PowerSchool, the #2 and #3 providers of student information systems to US schools. Pearson now has an installed base of 29,200 schools serving 25 million students – close to half of all school students in America.

- Pearson gains a leading position in the Italian school publishing market through the acquisition of Paravia Bruno Mondadori.

Healthy outlook 2007-2009

- US school new adoption market expected to grow strongly from 2007- 2009 (estimated at $660m in 2006; $800m in '07; $900m in '08; $1bn in '09).

- US state tax receipts – the major source of school funding – remain healthy. According to the Rockefeller Institute, state tax receipts grew by 6.8% in Q1 2006 with all three major categories (personal income tax, sales tax and corporate income tax) showing solid growth.

- Increasing technology adoption by US schools and shift of No Child Left Behind policies from implementation to remediation creates favourable environment for Pearson's mix of curriculum, assessment and technology services.

HIGHER EDUCATION

£ millions	**First half 2006**	First half 2005	Headline Growth	Underlying growth	Full year 2005
Sales	**206**	192	7%	3%	779
Adjusted operating profit	**(53)**	(45)	(18)%	(13)%	156

Investments generate higher first half losses . . .

- Pearson's Higher Education business is traditionally loss-making in the first half, as it invests ahead of two major selling seasons in the US: July/ August (ahead of the first college semester) and December (ahead of the second semester).

- Worldwide Higher Education sales growth of 3%; good growth in the US (up 4%).

- First half losses increase to £53m (£45m in 2005) as Pearson invests in new content and online services.

. . . and sustainable competitive advantage

- Pearson's US Higher Education business, the market leader, has grown ahead of the industry for seven straight years.

- Strong performance from major schedule of 1st editions with major new titles in Economics, Algebra, Accounting, Psychology and Written Composition.

- Rapid growth from online homework and assessment services including MyMathLab and Mastering Physics. More than 900,000 US college students register for Pearson's online learning programme in the first half, an increase of 29%. Evaluation studies show significant learning gains for students and efficiency improvements for institutions.

- New online homework and assessment programmes in economics, psychology and developmental writing to be launched in the second half.

- Continued strong growth from custom publishing as Pearson extends leadership in print custom publishing to custom media and full service curriculum solutions.
- Further innovation in product models and student channels. Pearson is piloting downloadable audio study guides; digital textbooks; purchasing-by-the-chapter; and an online store for all our higher education materials.
- International Higher Education business continuing to invest in global and local authors, publishing in new languages, online learning tools and custom publishing, and new markets in Asia and the Middle East.

PROFESSIONAL

£ millions	**First half 2006**	First half 2005	Headline growth	Underlying growth	Full year 2005
Sales	**316**	243	30%	20%	589
Adjusted operating profit	**17**	8	--	60%	45

Note: At the beginning of 2006 we transferred Brady Games, our video games imprint, out of Professional and into Penguin. This move reduces Professional sales by £6m in the first half. There is no operating profit impact.

Professional Testing

- Substantial revenue and profit growth, as major contracts continue to build and business emerges from investment phase.
- Successful execution on major new contracts. Graduate Management Admissions Test now being administered through Pearson's network of more than 4,000 test centres in 145 countries, the world's largest.
- Promissor, acquired in January 2006, performing well. Acquisition brings additional scale in professional testing and enables Pearson to enter new US state and federal regulatory markets.

Government Solutions

- Exceptional revenue growth in the first half, benefiting from phasing of US Department of Health Medicaid contract (which is expected to reverse in the second half).
- New contract wins with the US Defense Information Systems Agency and governments of Argentina and Mexico; strong pipeline of new long-term business opportunities in the second half.

Technology Publishing

- Worldwide technology publishing business maintaining market share despite weak industry conditions.
- Further cost actions: continued reduction in publishing list and overheads; consumer technology business transferred to Penguin to gain additional scale in distribution.

FINANCIAL TIMES GROUP

£ millions	Half year 2006	Half year 2005	Headline growth	Underlying growth	Full year 2005
Sales					
FT Publishing	**179**	164	9%	9%	332
IDC	**165**	143	15%	3%	297
Total	***344***	*307*	12%	6%	629
Adjusted operating profit					
FT Publishing	**13**	6	--	--	21
IDC	**42**	38	11%	8%	80
Total	***55***	*44*	25%	23%	101

FT Publishing

- *Financial Times* sales up 10% to £119m and profit improved to £5m (loss of £2m in first half of 2005).
- FT advertising revenues up 11%, continuing steady acceleration in advertising revenue growth. 20%+ growth in financial, luxury goods and online advertising; more than 80% of advertising revenue improvement converted to profit in the first half.
- FT's average circulation 447,000 for the first six months, up 5%; 86,000 FT.com subscribers in June, up 11% (on the same period last year).
- Deeper integration of the FT's print and online editorial processes under way. Reinforcement of print and online teams through senior appointments and reorganisation.
- Circulation up 2% at *Les Echos* to 120,000, *FT Deutschland* level at 102,000; *The Economist* up 9% up to 1,096,000 (for the July-December ABC period).
- Strong performance of the portfolio of finance titles, websites and events at FT Business, with sales up 15% and improved margins in institutional finance titles.

Interactive Data Corporation

- Underlying sales growth of 3% with increased business with existing customers and 95%+ renewal rate within its Institutional Services segment.
- Demand for fixed income evaluations and related reference data drives new sales for FT Interactive Data, which grew over 6% excluding the impact of foreign exchange.
- Steady international expansion; working with some of largest clients to pursue enterprise-wide opportunities that involve offering multiple Interactive Data businesses.
- IS. Teledata integration progressing well; re-branded Interactive Data Managed Solutions in July 2006.
- e-Signal, which provides real time financial market data to financial professionals and active traders, continues to expand its direct subscriber base and online advertising across its family of financial websites, which together rank among the top 10 financial destinations. Quote.com integration progressing well.

- CMS BondEdge introduction of fixed income analytical data feed service well received by customers.

- IDC reported second-quarter and first-half 2006 results on 27 July 2006, available at www.interactivedatacorp.com .

PENGUIN

£ millions	**First half 2006**	First half 2005	Headline Growth	Underlying growth	Full year 2005
Sales	387	353	10%	2%	804
Adjusted operating profit	18	13	38%	38%	60

Note: At the beginning of 2006 we transferred Brady Games, our video games imprint, out of our Professional segment and into Penguin. This move increases Penguin sales by £6m in the first half. There is no operating profit impact.

- Continued margin improvement, with sales up 2% and profits up 38%.

- Record bestseller performance with 85 titles on New York Times bestseller lists and 43 top ten bestsellers in UK. Brand name author bestsellers and newly created bestsellers including titles by Patricia Cornwell, Clive Cussler, Nathaniel Philbrick, Anthony Horowitz, Tyler Perry, Kim Edwards, Jeremy Clarkson, Jane Green and Marina Lewycka.

- Major literary awards. Penguin authors win a Pulitzer Prize for the second year in a row – this year the Pulitzer Prize for Fiction (Geraldine Brooks for *March*), two Orange Prizes (Zadie Smith for *On Beauty* and debut writer Naomi Alderman for *Disobedience*), and two Whitbread Prizes (Ali Smith for *Accidental* and Hilary Spurling for *Matisse: the Master).*

- Strong second half publishing list, including bestselling authors Thomas Pynchon, Nora Roberts, Clive Cussler, Carly Fiorina, John Dean, Jamie Oliver, Jeremy Clarkson, Sue Townsend, Eoin Colfer and Kylie Minogue.

- Successful innovation with new formats. Penguin authors published in new "Premium Paperback" format achieve higher sales than with their previous traditional mass market titles.

- Strong backlist performance with innovative publishing and marketing. New editions and lines introduced for the 60th Anniversary of the Penguin Classics, including Red Classics and Penguin Epics in the UK, and Penguin Graphic Classics, and a successful partnership with the National Basketball Association in the US.

- Further efficiency gains. Continued programme to capitalise on combined scale of Penguin and Pearson Education in book publishing, with shared warehousing, distribution, purchasing and information technology.

- Investment in new digital channels and formats, including Penguin online bookstores, e-books, digital audio and podcasts, to reach new audiences.

- Continued investment in India, where Penguin has #1 market share, with expansion of local language publishing programme, and shift of some travel and illustrated reference pre-production processes to Delhi.

ENDS

Except for the historical information contained herein, the matters discussed in this press release include forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. These risks and uncertainties include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in the company's publicly-filed documents, including the company's Annual Report on form 20-F. The company undertakes no obligation to update publicly any forward looking statement, whether as a result of new information, future events or otherwise.

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

Condensed consolidated income statement

For the six months to 30 June 2006

all figures in £ millions	note	**2006 half year**	2005 half year	2005 full year
Continuing operations				
Sales	2	**1,878**	1,613	4,096
Cost of goods sold		**(933)**	(812)	(2,022)
Gross profit		**945**	801	2,074
Operating expenses		**(890)**	(776)	(1,592)
Other net gains and losses	3	**-**	40	40
Share of results of joint ventures and associates		**10**	8	14
Operating profit	2	**65**	73	536
Finance costs	4	**(70)**	(69)	(132)
Finance income	4	**30**	44	62
Profit before tax	5	**25**	48	466
Income tax	6	**(8)**	(2)	(124)
Profit for the period from continuing operations		**17**	46	342
Discontinued operations				
Profit for the period from discontinued operations	8	**-**	300	302
Profit for the period		**17**	346	644
Attributable to:				
Equity holders of the Company		**7**	337	624
Minority interest		**10**	9	20
Earnings per share from continuing and discontinued operations				
Basic	7	**0.9p**	42.3p	78.2p
Diluted	7	**0.9p**	42.2p	78.1p
Earnings per share from continuing operations				
Basic	7	**0.9p**	4.6p	40.4p
Diluted	7	**0.9p**	4.6p	40.3p

The results are presented under IFRS (see note 1). The figures for the six months to 30 June 2006 and 30 June 2005 have not been audited or reviewed.

Condensed consolidated statement of recognised income and expense

for the six months to 30 June 2006

all figures in £ millions	note	**2006 half year**	2005 half year	2005 full year
Net exchange differences on translation of foreign operations		**(228)**	191	327
Actuarial gains / (losses) on defined benefit pension and post retirement medical schemes		**96**	(31)	26
Taxation on items taken directly to equity		**-**	-	12
Net income / (expense) recognised directly in equity		**(132)**	160	365
Profit for the financial period		**17**	346	644
Total recognised income and expense for the financial period		**(115)**	506	1,009
Attributable to:				
Equity holders of the Company	13	**(125)**	497	989
Minority interest		**10**	9	20
Effect of transition adjustment on adoption of IAS 39				
Attributable to:				
Equity holders of the Company		**-**	(12)	(12)

Condensed consolidated balance sheet
as at 30 June 2006

all figures in £ millions	note	2006 half year	2005 half year	2005 full year
Non-current assets				
Property, plant and equipment		**363**	359	384
Intangible assets	11	**3,869**	3,506	3,854
Investments in joint ventures and associates		**33**	42	36
Deferred income tax assets		**391**	404	385
Financial assets - Derivative financial instruments		**39**	63	79
Other financial assets		**18**	17	18
Other receivables		**120**	100	108
		4,833	4,491	4,864
Current assets				
Intangible assets – pre-publication		**442**	402	426
Inventories		**462**	401	373
Trade and other receivables		**976**	1,003	1,031
Financial assets – Derivative financial instruments		**31**	49	4
Cash and cash equivalents (excluding overdrafts)		**649**	810	902
		2,560	2,665	2,736
Total assets		**7,393**	7,156	7,600
Non-current liabilities				
Financial liabilities – Borrowings		**(1,703)**	(1,832)	(1,703)
Financial liabilities – Derivative financial instruments		**(37)**	(5)	(22)
Deferred income tax liabilities		**(202)**	(148)	(204)
Retirement benefit obligations		**(270)**	(436)	(389)
Provisions for other liabilities and charges		**(14)**	(35)	(31)
Other liabilities		**(110)**	(139)	(151)
		(2,336)	(2,595)	(2,500)
Current liabilities				
Trade and other liabilities		**(866)**	(779)	(974)
Financial liabilities – Borrowings		**(590)**	(368)	(256)
Financial liabilities – Derivative financial instruments		**-**	(15)	-
Current income tax liabilities		**(110)**	(88)	(104)
Provisions for other liabilities and charges		**(27)**	(17)	(33)
		(1,593)	(1,267)	(1,367)
Total liabilities		**(3,929)**	(3,862)	(3,867)
Net assets		**3,464**	3,294	3,733
Share capital		**202**	201	201
Share premium		**2,479**	2,475	2,477
Reserves		**610**	472	886
Total equity attributable to equity holders of the Company		**3,291**	3,148	3,564
Minority interest		**173**	146	169
Total equity	13	**3,464**	3,294	3,733

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

Condensed consolidated cash flow statement

for the six months to 30 June 2006

all figures in £ millions	note	**2006 half year**	2005 half year	2005 full year
Cash flows from operating activities				
Cash (used in) / generated from operations	14	**(44)**	(62)	875
Interest paid		**(53)**	(55)	(101)
Tax paid		**(26)**	(23)	(65)
Net cash (used in) / generated from operating activities		**(123)**	(140)	709
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired		**(273)**	(28)	(246)
Acquisition of joint ventures and associates		**(4)**	(4)	(7)
Purchase of property, plant and equipment (PPE)		**(33)**	(40)	(76)
Proceeds from sale of PPE		**1**	1	3
Purchase of intangible assets		**(8)**	(3)	(24)
Investment in pre-publication		**(112)**	(93)	(222)
Purchase of other financial assets		**-**	-	(2)
Disposal of subsidiary, net of cash disposed		**6**	367	376
Disposal of joint ventures and associates		**-**	54	54
Interest received		**13**	10	29
Dividends received from joint ventures and associates		**14**	1	14
Net cash (used in) / generated from investing activities		**(396)**	265	(101)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**3**	2	4
Purchase of treasury shares		**(27)**	(11)	(21)
Proceeds from borrowings		**477**	203	-
Repayment of borrowings		**(11)**	(10)	(79)
Finance lease principal payments		**(2)**	(1)	(3)
Dividends paid to Company's shareholders		**(136)**	(125)	(205)
Dividends paid to minority interests		**-**	-	(17)
Net cash generated from / (used in) financing activities		**304**	58	(321)
Effects of exchange rate changes on cash and cash equivalents		**(21)**	23	13
Net (decrease) / increase in cash and cash equivalents		**(236)**	206	300
Cash and cash equivalents at the beginning of the period		**844**	544	544
Cash and cash equivalents at the end of the period		**608**	750	844

For the purposes of the cash flow statement, cash and cash equivalents are included net of overdrafts repayable on demand. These overdrafts are excluded from the definition of cash and cash equivalents disclosed on the balance sheet.

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

Notes to the condensed consolidated financial statements

for the six months to 30 June 2006

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the Listing Rules of the Financial Services Authority and in accordance with EU-adopted International Financial Reporting Standards (IFRS) and IFRIC interpretations.

The condensed consolidated financial statements have also been prepared in accordance with the accounting policies set out in the 2005 Annual Report and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value.

The preparation of condensed consolidated financial statements requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements have been set out in the 2005 Annual Report.

The 2005 Annual Report refers to new standards effective from 1 January 2006. None of these standards have had a material impact in these financial statements.

2. Segment information

The Group is organised into five primary business segments: School, Higher Education, Penguin, Financial Times Publishing and Interactive Data Corporation (IDC). Our remaining business group, Professional, brings together a number of education publishing, testing and services businesses and does not meet the criteria for classification as a 'segment' under IFRS.

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Higher Education	**(53)**	(45)	156
Professional	**17**	8	45
Pearson Education	**-**	(21)	348
FT Publishing	**13**	6	21
IDC	**42**	38	80
FT Group	**55**	44	101
Penguin	**18**	13	60
Adjusted operating profit – continuing operations	**73**	36	509
Adjusted operating profit – discontinued operations	**-**	(3)	(3)
Total adjusted operating profit	**73**	33	506
Adjusted operating profit – continuing operations	**73**	36	509
Amortisation of acquired intangibles	**(9)**	(3)	(11)
Other gains and losses	**-**	40	40
Other net finance costs of associates	**1**	-	(2)
Operating profit	**65**	73	536

In our adjusted operating profit, we have excluded amortisation of acquired intangibles, other gains and losses and other net finance costs of associates. The amortisation of acquired intangibles is not considered to be fully reflective of the underlying performance of the Group. Other gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations but which distort the performance for the year. Other net finance costs of associates are the equivalent of the Company's own net finance costs that are excluded in adjusted earnings (see note 4). Discontinued operations relate to the disposal of the Group's interest in Recoletos (see note 8).

Pearson plc 80 Strand London WC2R 0RL
Telephone +44 (0) 20 7010 2000 • Facsimile +44 (0) 20 7010 6060
www.pearson.com

3. Other net gains and losses

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Profit on sale of interest in MarketWatch	-	40	40
Total other net gains and losses	-	40	40

Other net gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations.

4. Net finance costs

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Net interest payable	(44)	(35)	(77)
Finance cost re employee benefits	2	(4)	(7)
Net foreign exchange gains	3	10	12
Other gains on financial instruments in a hedging relationship:			
- fair value hedges	-	1	-
- net investment hedges	(1)	2	3
Other gains / (losses) on financial instruments not in a hedging relationship:			
- amortisation of transitional adjustment on bonds	5	5	7
- derivatives	(5)	(4)	(8)
Net finance costs	(40)	(25)	(70)
Finance costs	(70)	(69)	(132)
Finance income	30	44	62
Net finance costs	(40)	(25)	(70)
Analysed as:			
Net interest payable	(44)	(35)	(77)
Finance cost re employee benefits	2	(4)	(7)
Net finance cost reflected in adjusted earnings	(42)	(39)	(84)
Other net finance income	2	14	14
Net finance costs	(40)	(25)	(70)

Fair value gains and losses on financial instruments are analysed between three elements: net interest payable, foreign exchange and other gains and losses. For the purposes of adjusted earnings we have excluded foreign exchange and other gains and losses as they represent short-term fluctuations in market value and are subject to significant volatility. These gains and losses may not be realised in due course as it is normally the intention to hold these instruments to maturity. The increased volatility has been introduced as a result of adopting IAS 39 'Financial Instruments: Recognition and Measurement' as at 1 January 2005.

5. Profit before tax

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Profit before tax	**25**	48	466
Add back: amortisation of acquired intangibles (see note 2)	**9**	3	11
Add back: other gains and losses (see note 2)	**-**	(40)	(40)
Add back: other net finance costs of associates (see note 2)	**(1)**	-	2
Add back: other finance income (see note 4)	**(2)**	(14)	(14)
Adjusted profit before tax - continuing operations	**31**	(3)	425
Adjusted profit before tax - discontinued operations	**-**	(3)	(3)
Total adjusted profit before tax	**31**	(6)	422

6. Taxation

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Income tax charge	**(8)**	(2)	(124)
Add back: tax benefit on amortisation of acquired intangibles	**(3)**	(1)	(4)
Add back: tax benefit on other gains and losses	**-**	-	(4)
Add back: tax charge on other finance income	**1**	4	3
Adjusted income tax charge - continuing operations	**(10)**	1	(129)
Adjusted income tax charge - discontinued operations	**-**	1	1
Total adjusted income tax charge	**(10)**	2	(128)
Tax rate reflected in adjusted earnings	**32.0%**	32.0%	30.3%

Included within the income tax charge is an amount of £1m (2005 half year: £nil, 2005 full year: £26m) relating to UK tax.

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company (earnings) by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to take account of all dilutive potential ordinary shares and adjusting the profit attributable if applicable to account for any tax consequences that might arise from conversion of those shares.

In order to show results from operating activities on a consistent basis, an adjusted earnings per share is presented which excludes certain items as set out below. The Company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Earnings	**7**	337	624
Adjustments to exclude profit for the year from discontinued operations:			
Profit for the period from discontinued operations	**-**	(300)	(302)
Earnings – continuing operations	**7**	37	322
Earnings	**7**	337	624
Adjustments:			
Amortisation of acquired intangibles	**9**	3	11
Other gains and losses	**-**	(40)	(40)
Other net finance costs of associates	**(1)**	-	2
Other finance income	**(2)**	(14)	(14)
Profit on sale of discontinued operations (see note 8)	**-**	(304)	(306)
Taxation on above items	**(2)**	5	(3)
Minority interest share of above items	**(2)**	(1)	(2)
Adjusted earnings / (loss)	**9**	(14)	272
Amortisation of acquired intangibles (net of taxation and minority interest)	**(5)**	(1)	(5)
Adjusted earnings / (loss) including amortisation of acquired intangibles	**4**	(15)	267
Weighted average number of shares (millions)	**798.4**	797.0	797.9
Effect of dilutive share options	**1.5**	1.0	1.1
Weighted average number of shares (millions) for diluted earnings	**799.9**	798.0	799.0
Earnings per share from continuing and discontinued operations			
Basic	**0.9p**	42.3p	78.2p
Diluted	**0.9p**	42.2p	78.1p
Earnings per share from continuing operations			
Basic	**0.9p**	4.6p	40.4p
Diluted	**0.9p**	4.6p	40.3p
Adjusted earnings / (loss) per share	**1.1p**	(1.8)p	34.1p
Adjusted earnings per share including amortisation of acquired intangibles	**0.5p**	(1.9)p	33.5p

8. Discontinued operations

Discontinued operations relate to the sale of Pearson's 79% interest in Recoletos Grupo de Communicación S.A. The transaction became unconditional on approval from the Spanish regulatory authorities in February 2005. The results of Recoletos were consolidated for the period to 28 February 2005 and are included in profit from discontinued operations shown in the table below.

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Sales	-	27	27
Operating loss	-	(3)	(3)
Net finance income	-	-	-
Loss before tax	-	(3)	(3)
Attributable tax benefit	-	1	1
Profit on disposal of discontinued operations	-	304	306
Attributable tax expense	-	(2)	(2)
Profit for the period from discontinued operations	-	300	302

9. Dividends

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Amounts recognised as distributions to equity holders in the period	**136**	125	205

The directors are proposing an interim dividend of 10.5p per equity share, payable on 22 September 2006 to shareholders on the register at the close of business on 25 August 2006. This dividend has not been included as a liability as at 30 June 2006. A 10.5p interim dividend represents a cash payment of £84m (2005: 10.0p or £80m).

10. Exchange rates

Pearson earns a significant proportion of its sales and profits in overseas currencies, the most important being the US dollar. The relevant rates are as follows:

	2006 half year	2005 half year	2005 full year
Average rate for profits	**1.79**	1.87	1.81
Period end rate	**1.85**	1.79	1.72

11. Intangibles

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Goodwill	**3,677**	3,385	3,654
Other intangibles	**192**	121	200
Total intangibles	**3,869**	3,506	3,854

Pearson has made a number of acquisitions in the six months to 30 June 2006 including Promissor, a computerised testing provider focused on the regulatory market in the US, National Evaluation Systems, the leading provider of customised state assessments for teacher certification in the US and Paravia Bruno Mondadori, one of Italy's leading educational publishers. Net consideration paid for all acquisitions in the six months to June 2006 was £273m and provisional goodwill recognised was £252m. Intangible asset allocation reviews are in progress for these acquisitions and should be finalised in the second half of 2006. In total the acquisitions made in the six months to 30 June 2006 contributed an additional £40m of sales and £8m of operating profit.

12. Net debt

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Non current assets			
Derivative financial instruments	**39**	63	79
Current assets			
Derivative financial instruments	**31**	49	4
Cash and cash equivalents	**649**	810	902
Non current liabilities			
Borrowings	**(1,703)**	(1,832)	(1,703)
Derivative financial instruments	**(37)**	(5)	(22)
Current liabilities			
Borrowings	**(590)**	(368)	(256)
Derivative financial instruments	**-**	(15)	-
Total net debt	**(1,611)**	(1,298)	(996)

13. Reconciliation of movements in equity

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Attributable to equity holders of the Company			
Total recognised income and expense for the period	**(125)**	497	989
Share-based payment charge	**12**	11	23
Shares issued	**3**	2	4
Cumulative translation adjustment disposed	**-**	(14)	(14)
Treasury shares purchased	**(27)**	(11)	(21)
Dividends to equity holders of the Company	**(136)**	(125)	(205)
Net movement for the period	**(273)**	360	776
Attributable to equity holders of the Company at the beginning of the period	**3,564**	2,800	2,800
Transition adjustment on adoption of IAS 39	**-**	(12)	(12)
Attributable to equity holders of the Company at the end of the period	**3,291**	3,148	3,564
Minority interests	**173**	146	169
Total equity	**3,464**	3,294	3,733

14. Cash flows

all figures in £ millions	**2006 half year**	2005 half year	2005 full year
Reconciliation of profit for the period to net cash generated from operations			
Profit for the period	**17**	346	644
Income tax	**8**	3	125
Depreciation and amortisation charges	**137**	119	301
Loss on sale of property, plant and equipment	**1**	-	-
Net finance costs	**40**	25	70
Profit on sale of subsidiaries and associates	**-**	(344)	(346)
Share of results of joint ventures and associates	**(10)**	(8)	(14)
Net foreign exchange gains from transactions	**1**	5	39
Share-based payments	**12**	11	23
Inventories	**(96)**	(70)	(17)
Trade and other receivables	**5**	(31)	(4)
Trade and other payables	**(141)**	(104)	71
Provisions	**(18)**	(14)	(17)
Net cash generated from operations	**(44)**	(62)	875
Dividends from joint ventures and associates	**14**	1	14
Net purchase of PPE including finance lease principal payments	**(34)**	(40)	(75)
Purchase of intangibles	**(8)**	(3)	(24)
Investment in pre-publication	**(112)**	(93)	(222)
Add back: Cash spent against integration and fair value provisions	**1**	1	2
Pearson operating cash flow	**(183)**	(196)	570
Operating tax paid	**(26)**	(23)	(65)
Operating finance charges paid	**(40)**	(34)	(65)
Operating free cash flow	**(249)**	(253)	440
Non operating finance charges paid	**-**	(11)	(7)
Integration and fair value spend	**(1)**	(1)	(2)
Total free cash flow	**(250)**	(265)	431
Dividends paid (including minorities)	**(136)**	(125)	(222)
Net movement of funds from operations	**(386)**	(390)	209

Included in net cash generated from operations is an amount of £nil (2005 half year: £(6)m, 2005 full year: £(6)m) relating to discontinued operations.

Operating cash flow, operating free cash flow and total free cash flow have been disclosed as they are part of Pearson's corporate and operating measures.