Morning everybody. Thank you very much as usual for coming out to hear about our half year results. As you know, we've made some senior management changes over the last few months and so our new CFO, Robin Freestone, is here. It's his debut day - be easy on him. His predecessor Rona Fairhead is also here but she's here in her new capacity as CEO of the FT Group. So she'll be here to answer your questions. And as usual we've got John Makinson, Steve Dowling and Will Ethridge here to answer your questions. And our Chairman, Glen Moreno is there on the side because he likes to pace around during the presentation. So we're glad to have him here too.

We are always obliged to remind you at this interim announcement that we make the lion's share of our sales and most of our profits in the second half. But this set of results should definitely build confidence. Our sales are up 8%, as you see and as you've already seen this morning, 16% including acquisitions. Our operating profit is up more than 50% organically and more than double in headline terms. Although this year we are usually in loss because we're still investing we have produced a profit of 1.1p at the adjusted EPS line and we've also further improved our cash performance with the outflow, GBP15m lower than at this time last year.

On the basis of those strong numbers our Board has decided to raise our interim dividend 5%. That's our highest first-half hike since 2001 and it does carry on with our tradition of raising our dividend above inflation now for many, many years.

Behind these themes there are three -- behind these numbers there are three themes that we've consistently stressed. First Pearson is in a position to produce strong and reliable organic growth. The fact that so far this year we're sustaining the trading momentum that we had last year is evidence of that. Secondly we are in good long-term markets and we expect to grow faster than those markets because we've consistently taken the lead in innovation and we've carried on investing steadily to keep that lead. Our market share gains in all our businesses are evidence that investment is paying off. And thirdly we expect our profit growth to run well ahead of our sales growth because we're making significant margin improvements across the company. So that combination of organic growth, rising market shares and rising margins will mean strong financial performance and a reliable business this year and a reliable business in the longer term.
Robin is going to give you the financial details about the first half and then I'll produce a few details about the prospects for the full year so I'll turn over to Robin.

Robin Freestone
Chief Financial Officer

Thanks very much Marjorie. Good morning everyone. These are my first set of results. I'm delighted to be here. I have had a chance to meet one or two of you. If I don't rectify that today I'll try and say hello to all of you but if not then I look forward to seeing you over the next couple of weeks and months.

We're reporting today a strong first half performance which sets us firmly on track to achieve the financial goals we set out at the start of this year. As you've seen from our outlook statements, we are maintaining our guidance for 2006. That is strong underlying earnings growth, good cash generation and a further significant improvement in our return on invested capital.

I'll come back shortly to how we're moving forward on these goals and I want to highlight our plans to improve margins which will play an important part in this agenda. First though let's go to the numbers. As I go through I'm going to quote the underlying growth rates as our usual organic measure which excludes both the impact of businesses bought and sold and of exchange. Starting with sales, which are up 8% on an organic basis, the Education business is up 11% at the half year stage. We're seeing continuing good momentum across our School business which is up 10%. Higher Education is up 3% with 4% growth in the US and Professional had a strong half, up 20%, with good growth in testing and exceptionally strong sales in our Government Solutions Medicare contract in the United States.

For the year as a whole we continue to expect growth of 3-5% for education. That is because our first half growth rate in school benefited from earlier purchasing in our major adoption wins this year compared to 2005. You'll recall that Texas, which was about a-third of our total adoption expenditure last year, ships almost entirely in the second half.

In the second half of 2006 Professional revenues relating to that Medicare contract I mentioned are expected to be at a more normal level compared to the exceptionally strong second half of 2005.

The FT Group is up 6% with a continued recovery of our business newspapers combined with a consistent growth of IDC. Advertising at the FT is up 11%.

And Penguin is up 2% with a good publishing performance in the first half.

Now this chart bridges our 8% organic growth to our headline growth of 16%. The slight strengthening of the dollar from 1.87 to 1.79 against sterling gave us an exchange benefit of GBP54m. Our acquisitions added GBP75m of sales, almost half of those in our School segment. And most important of all, of the GBP265m of sales growth more than half was organic. This is the benefit of selling innovative products into fast-growing markets.
Moving to operating profit, as you know our first half numbers are a very small part of our full year and that can produce very large percentage movements. Operating profit is up 57% in organic terms and has more than doubled on a headline basis. Again we are showing good progress in all our businesses. In Education we moved from a GBP21m loss last year to breakeven despite the normal seasonal loss in Higher Education. We've invested in new titles this year ahead of the forecast growth in this business's important second half. The FT Group is up 23% with the biggest factor, the Financial Times newspaper's swing from a loss of GBP2m to a profit of GBP5m. And Penguin has made a strong margin improvement. First half profits are up 38% reflecting lower restructuring costs and the early benefit of our margin improvement program.

Most of the impact of acquisitions at profit level was in our School business. This includes the first half 2006 benefits of AGS acquired at the end of July 2005. We're expecting a lower profit contribution from acquired businesses in the second half of this year. As you know, we've spent all integration costs related to these kinds of acquisitions and the bulk of our integration activity will fall in the second half. That spend, together with the impact of these acquisitions on our interest charge, will result in our 2006 acquisitions being earnings neutral this year as expected. Again organic growth is the biggest driver of our profit improvement adding GBP26m in the first half.

Looking at adjusted earnings per share, our improved first half operating performance has resulted in an EPS of 1.1p against a loss of 1.8p last year. Our total interest charge is marginally higher at GBP42m against GBP39m last year with an improvement in the pensions finance charge offset by a higher traditional interest charge. For the full year we're now expecting our total interest charge to be a little higher than last year's GBP84m because of two factors. The impact of acquisitions on our debt level and secondly the effects of higher interest rate rises on our floating rate debt. Higher net operating profits from acquisitions will offset this interest increase.

Turning to the statutory profit and loss account, you'll remember the 2005 numbers included significant profits on the disposals of our investment in CBS MarketWatch, GBP40m, and Recoletos, GBP300m. Without similar one-off impacts in the first half 2006 our statutory EPS is 0.9p.

On the cash flow statement our half year numbers always reflect heavy cash outflows ahead of our big selling seasons in Education and Penguin. The working capital outflow in the first half this year was marginally greater than last year, reflecting higher absolute investment in pre-publication expenditure. More details about our pre-publication spend are in your appendices. Our cash discipline has remained strong with total free cash flow GBP15m ahead of this stage last year. For the full year we continue to expect cash conversion well above our 80% threshold, even after last year's 113% cash conversion rate.

A significant influence on our balance sheet remains the dollar spot rate at the end of June. This year it was 1.85 against 1.79 in June 2005. This movement helped reduce our capital employed by around GBP100m. The reduction in provisions resulted from a further fall in our UK defined benefit pension liability from GBP320m at June 2005 to just GBP179m at the end of June this year. Our net debt level has increased to GBP1.6b. This is an increase of only GBP300m on the mid point last year, despite acquisitions made in the past 12 months totalling almost GBP500m.

So those are the numbers. Let me come back now to our key financial measures - earnings, cash and returns, and look at the progress we're making on those. On earnings and ROIC, Marjorie has
already touched on the market growth and share gains we're achieving. Many parts of Pearson have also made strong margin improvement in recent years and further progress is going to be key to achieving our financial goals. Our attitude is that margin expansion, much like working capital efficiency, is a process of continuous attention and improvement. I want to highlight several areas where we see further potential.

First, we have a number of software and testing businesses in School and in Professional where we've been investing in recent years. We sustained that investment even in the tough years and we're now seeing the benefits of strong top line growth and margin uplift. Second, our cyclical businesses within the Financial Times Group are very highly geared to sales recovery. At the Financial Times newspaper for example the drop-through to profit from our advertising growth remains very high at more than 80%. Third, we are making our pre-publication and production processes more efficient through the use of technology and we see margin potential as our curriculum products shift to digital platforms. This trend is now very real and Marjorie will describe it further. Fourth, our bolt-on acquisitions will deliver margin gains through high synergies in school systems -- information systems for example -- where we've almost doubled the scale of our business and in professional testing where we've added the second market-leading business in Promissor. And last, several years ago Pearson began to centralise services in areas like purchasing, warehousing, distribution technology and so on. These moves are ongoing and generated approximately $50m of cash savings last year alone. This drive for efficiency is not a one-off project but a programme of continuous improvement.

Turning to working capital discipline which is an important contributor to ROIC improvement and where Pearson has made excellent progress over the past few years. We reduced the average working capital to sales ratio by a further 1.4 percentage points during the first half. Despite strong sales total working capital was just GBP25m higher than at June last year, primarily reflecting the impact of acquisitions which added GBP18m. We continue to invest 7-8% of annual Education sales in pre-publication to ensure the ongoing supply of innovative market-leading education programs. This remains the largest element of our working capital and as a proportion of the total it's increasing. We continue to drive down the traditional elements of working capital assisted by the move to digital products and subscription models in Education which command lower working capital levels.

During the first half of 2006 we completed a number of bolt-on acquisitions in education and the FT Group. Due to the level and speed of synergies derivable from these and the ways in which they enhance our existing businesses we continue to see this as an excellent use of cash. You'll recall that the preliminary results presentation in February this year we showed you how we delivered a 14% post-cash tax return on acquisitions undertaken from 2002 to 2005. That ROIC was, as usual, after expensing all integration costs. The acquisitions we've announced this year will create significant value and we expect them to begin enhancing our EPS and ROIC in 2007.

So to come back to where I started, we are making excellent progress on our financial priorities which remain to maintain strong underlying earnings growth with solid growth in sales and a real drive to improve our margins; to continue to deliver strong cash flows and drive down our working capital as a percentage of sales whilst maintaining investment in new products; to make further significant improvements in our return on invested capital so that it is sustainably above our weighted average cost of capital; and to ensure that we allocate capital in a manner which maintains our debt ratings and which quickly contributes to shareholder value.
Thank you. I'll now hand back to Marjorie.

Marjorie Scardino
Chief Executive Officer

Thanks Robin. As I go through each of the businesses today I want to try to reinforce for you what I mentioned at the start and what Robin has highlighted as well and that is our focus on growth, on market share and on margins. We are making substantial progress on all three of those fronts and that really substantiates our confidence in the future.

So let's start with School where sales in School were up 10% and profits up 46%. We talked many, many times about the breadth of this business, its leadership, not just in publishing but also in testing and in technology and in markets around the world. That breadth, plus our ability to connect those crucial parts, really gives us a lot more growth possibilities than our peers have. So this year for example when the new adoption opportunity is down about a-third our School business can still grow in the 3-5% range and keep its margins growing.

In curriculum content we've taken the largest share of the new adoption market, winning 33% of what we competed for and 30% of the total market. Our normal schedule of market shares is in the back of those booklets you've gotten. In testing we are leading the industry in winning new US state contracts. Last year we told you that 1.4b of long term contracts came up for bid in the US and we took more than half of those. This year the opportunity is much smaller than that but we expect to have more market share at the end of the year than we did going into it, not only because of those wins last year but because we've won about 40% of what we competed for in the first half of this year.

In School technology our freestanding software learning programs are the strongest and the most in demand. We're getting more and more efficient at selling those and at delivering them and so they're growing as well and their margins are improving. In technology we've also accelerated our software services business through the acquisitions you saw of PowerSchool and Chancery which take our market share in that crucial area of the student information system from about 20% to 37%. Our student information platforms now cover almost half of all the schoolchildren in America.

As you know, the technology enabled integration of these three areas, content, assessment and student information, has long been our vision for the School business. Our aim has been to be able to customise learning for each child. We are the only school company that has the parts to do that and the only school company that's making it a reality. And this year there are signs that that revolution that we've envisioned is coming to pass. This time last year we talked to you about our new digital elementary social studies program for California. This was something no publisher had tried before. On a digital platform we made a complete program a teacher can use in whole or in part, on paper or on screen, to create a lesson for the entire class to learn from or to assign work to an individual child. To build this we took content from our Basal Publishing, video from our asset library, our own assessment tools, an instructional technology platform that we had built for our school software business. We created the program in about half the time it would have taken us to
make a book program and for about half the cost. We knew this was a risk but it really has paid off. This program is the number one program in elementary social studies in California with about a 41% market share by value so far. And in reach it will reach half of the children in California. Half of California's elementary children will be learning social studies in this much more vivid way. This is a breakthrough. It does give students a vivid, exciting, personalised lesson. It gives teachers help in constructing that lesson. And for our business we can use this model much more with other states and other subjects. So we are the only School company again that could have created this. We're really proud of its success and proud of what it gives us as an opportunity going forward.

Of course that kind of investment in technology-driven innovation has set up our higher education business for several years now and we're keeping up that kind of investment. We've invested in new books and programs this year for instance, the kind that can lead their fields for many, many years, like Campbell in biology or Kotler in marketing, which some of you may have used to study. 2006 is shaping up as a record year for our first editions with major new programs in economics, in algebra, in accounting, in psychology, in composition and writing. These titles will contribute to our growth this year for sure but possibly more important several of them will become major franchises for us in the very long term.

Over the past six years we've also invested in building a significant custom publishing business. While this custom textbook business continues to grow we're also finding a lot of new customisation opportunities such as working with faculties and professors to create entire programs and the materials and the technology to deliver those programs. A very exciting customisation opportunity.

In college, as in school, we're also using technology to connect content and assessment as a strategy that's yielding extraordinary results for everybody. For students our online math program we talked about called MyMathLab, I believe we demonstrated that for you in March. MyMathLab has almost doubled pass rate and now our online physics program has shown its power too. It's produced a 50% better result on final exams than traditional teaching methods can. Student registrations for these programs are up about 30% this year over last year.

For institutions these programs can reduce the cost of the course by as much as 50% as they did for the University of Alabama using MyMathLab. And for us this means market share. In math our share has increased from 40% to 46% and in physics from 27% to 42%. Those are huge market shares, all thanks to this approach.

The higher ed business is always a business about which we have least to say at this time of year. Last year it made three-quarters of its sales in the second half. But the advantages that I've just talked about do make us confident that this business which has moved faster than its industry for the past seven years will grow in the 3-5% range that we predicted it would for this year.

An increasingly important part of our post-school education focus is now also on professionals. That business segment contains several parts. I know it's kind of a confusing area for some of you. All those parts are moving at different rates. But let me take you through a little bit of it. The professional testing business is moving out of investment phase, beginning to get the full sales benefit of the big contracts we've won in recent years. The latest of those, the GMAT, the business school admissions test, launched in January and it's going very, very well by the way. In addition
to organic growth this business has grown further this year in vocational testing and certification with our acquisition of Promissor. Promissor specialises in teaching US professionals regulated by the state. Insurance brokers, estate agents. This is a good market, there are strong operating synergies in technology, in infrastructure, in test centre networks, and you'll see us continuing to build on this business.

Another part of the professional area is our government solutions business which Robin mentioned. This business continues to have a good base of ongoing contracts and it also has a very promising pipeline of new long term contract opportunities. We lead the industry in converting those bids into business and so its growth possibilities continue to be very vigorous.

And the last part of our professional division is technology publishing. Though this has been a terrible market for the last five years we do have a strong franchise and a commanding market lead in this business. So we're continuing to reshape it to fit the new opportunities. We're making more and more of its publishing digital and its operations more and more efficient. The proof that that's working is that even though sales are lower profits are up for this business in the first half and therefore obviously margins are up.

Now moving to the FT Group where we're producing further strong profit growth this year. That has come, as Robin said, mainly from the continued recovery of our business newspapers, the FT in particular, which has moved from a loss of 2m to a profit of 5m this first half, and from IDC which is up 8% in the first half. Improvement in both these businesses stems from three features we've been talking about now for a few years. First our international strategy is working. The FT is unique in providing advertisers a global audience of senior decision-makers in business, finance and politics. That's why our advertising is up 11% for the first half, well ahead of the general newspaper industry and well ahead of our direct competitors. Worldwide ad pages which account for about half of the FT's advertising are growing faster than the average by -- growing about 20%. Likewise IDC is benefiting from its global reach. In the first half we had organic growth in the US but we also had it in Europe and Asia, further enhanced by IS Teledata which was acquired last year.

Second in the FT Group too we're taking advantage of digital opportunities. In IDC we've done a lot of that, we've consolidated data centres, speeding up the movement of data, developing new ways to feed it to customers. At the FT we are transforming the newsroom as you may have read into the most integrated newsroom in the world across print and online operations. And at the same time we're launching improvements in ft.com including faster search, better design, more ad positions, a revamped classified service. Unique users of the site are now at an all-time high of 5.5m as a result of that.

And thirdly we're continuing doing what we've done for a number of years and that's making our operations more efficient, adding to the more than GBP160m of costs we've taken out of that business. This is a continuous unending process, as Robin said, in every one of our businesses. We think this is a part of just doing good business. It will give us room to carry on investing in the FT and we will carry on investing through the P&L in content and technology and new services.

Those approaches of constantly making the business more efficient and steadily investing through the P&L are going to continue to be central to the FT Group's future. We've taken the view for a while now that unique relevant content remains absolutely necessary but it's not sufficient in the
digital age. We have to combine it with applications that make it an essential part of our customers' everyday lives. And we have to use technology to create a deeper relationship with our customers whether they're in interest groups or as individuals. The way we put it in every part of Pearson is that a content publishing company has to become a content plus services company. And this is already our strategy in education and certainly it's working.

Most parts of the FT Group are adopting this strategy but the very best application right now as we stand is in IDC. There we add unique data, a unique analysis to raw data, we are embedded in our customers' daily workflow, we see high renewal rates and high margins and as a consequence we've kept on growing in that business, even when the market didn't grow.

So in her new role Rona is going to focus on both areas, continued operating improvements including more synergies across the Group, and building more streams of services revenue with those kinds of attractive characteristics that both IDC and our education business already enjoy.

Finally, moving to Penguin. Last year we set out for you our plans for restoring Penguin's industry-leading margins and we said that's what we're focused on, profitability. Here you see some early signs of that work. Sales up 2%, profits up 38%. A crucial part of Penguin's plan was to continue its efficiency drives and it really has done that. Renegotiating contracts for paper printing and shipping for example, making other changes in collaboration with the education business. As always of course in Penguin the heart of the plan has got to be great [frontless] publishing. And that at Penguin continues to excel. In the first half we had more bestsellers than ever on both sides of the Atlantic, a host of literary prizes including a Pulitzer, two Whitbreads and two Oranges. That sounds like a bar order but it's not. It really is some very important literary prizes. At the same time our mass market books in the US are achieving significantly higher sales thanks to the premium paperback format changes we talked to you about. That innovative move will account for about one-fifth of our mass market sales in the US this year.

And Penguin's also doing a lot more innovating in other ways too. First innovation in the back list. This is the 60th anniversary of the Penguin Classics this year and they're going to celebrate by publishing classics in lots of formats and lots of price points, something for everybody.

Our newly dressed, keenly priced, slightly funky red classics have put Jane Austen in UK supermarkets for the first time I'm sure in her literary life. At the very low end of price we're offering some GBP2 classics this year, starting next year actually. And at the premium priced end designers like Paul Smith are designing some new high-end classics that will be GBP100 and well worth it so I know all of you will want a set of those. So far this year all of this has made UK sales of classics up 50% and US sales of classics up 25%.

Also you'll see innovation from Penguin in digital products and digital ways of reaching readers. Sales direct from Penguin's own internet bookstores, though still very small, are growing very fast again this year, close to 100%. About half of those sales are for traditional books, it's true. But the other half is shared equally by audio books and by e-book downloads, including things like a download of a part of a DK travel guide that is customised exactly to your journey.

Finally we're focusing more than ever in India, both as a growth market and as an editorial and production centre. We're expanding our local language publishing programmes which you'll remember we started a couple of years ago. We're transferring pre-production processes there.
desktop publishing for the Rough Guides will move to Delhi over the next year. And we're designing and creating titles in India for a worldwide market. So about a-fifth of all DK's adult titles will be produced in India from next year.

So for Penguin trading well in the first half and taking all of those actions to strengthen the business we continue to expect steady progress back to industry-leading margins and cash performance.

So that's the story of our first half. Those are some of the reasons we're feeling upbeat about Pearson's prospects. I do hope those strong results and some of the plans for the future we've talked about do help to prove that we've built a company you can count on to produce strong growth, to gain market share and to improve margins year after year after year.

So, thank you for listening and we'll all be happy to try to answer your questions now.