Pearson
2006 Preliminary Results

26th February 2007

Presentation and Q&A session

Marjorie Scardino

Chief Executive Officer

So, morning everybody, thank you for coming out for our 2006 results announcement. I know you have about 100 media announcements this week. I certainly can feel your pain doing just one of them. I guess the way things are going at least you won't have to worry about rolling out of bed to hear many education companies in the future that's certainly for sure.

Our plan today is as usual, Robin and I are going to talk about the year and the prospects, and then our colleagues, most of whom are sitting here on the front row, are going to join us up here and try to answer your questions. So, if everybody is in the door let's get started.

We are really pleased to have another year of good numbers to talk to you about. In fact, these are record numbers. Here are the highlights. And I just want the pleasure of reading some of them to you. Sales are up 8% in total 4% underlying. Operating profit increased 17% in total, 15% underlying with margins up a point. Adjusted earnings per share rose 18% to 40.2p. Free cash flow was up to £433m. Our return on invested capital is up to 8%. And we are proposing a total dividend of 29.3p up 8.5%. That's our largest rise for 10 years. And it is a reflection of our confidence in our future performance.

The numbers are really due to two accomplishments. First, we have market leadership that's sustainable now. Our goal has been not only be number one in our markets, but to shape those markets, to change them. And we've been making the innovations. And we've been making the investments to do that. And both are playing off in that increasing market share, and in rising returns on our investments both in organic growth and in some bolt-on acquisitions. Our returns on capital, as I said, are now higher than our cost of capital and we intend to keep on pushing those returns up.

Secondly, our achievement is sustainable growth. Those investments in content and services and technology are all producing consistent above market sales, and consistently increasing margins. We expect that to carry on this year and onwards from there.

So, Robin is going to take you through the numbers, and then I'll come back and talk a little bit more about those two things.

Robin Freestone

Chief Financial Officer

Thanks very much Marjorie. Good morning everyone, apologies if I cough and splutter at you slightly this morning. What I am going to do is run through the numbers, then look at the progress we've made on our key financial goals. And then I'll finish clearly by looking at the outlook for 2007.

So 2006, our sales on an underlying basis were up 4% with all our businesses showing good growth. In School, where we finished 16% in 2005 we were up a further 6%. In US School Publishing we grew 3% in a year when the industry fell 6%. We were number one in new adoptions, with a 33% share where we competed.

In School Testing we were up again close to 10% after growing more than 20% in 2005. In Higher Education up 4%, the continued growth of our digital programs underpinned a solid performance for our traditional text books. In the US we grew ahead of the industry once again.

Our Professional business was up 3%. The best performance here was in Professional Testing up more than 30%. Government Solutions, sold earlier this month, was flat on 2005. And our Technology Publishing saw a modest decline as we shifted the business away from some of the lower margin titles.

At FT Publishing we grew 8% driven by a good performance of the FT Newspaper, where advertising revenues were up 9%. IDC reported 4% organic growth. And Penguin pushed their top line up 3%, with an excellent publishing performance in a pretty tough market.

That 4% organic growth added £178m to our sales in 2006, acquisitions added a further 5%, plus an unfavourable average dollar exchange rate reduced reported profits by 1% or £48m mainly through translation effects, giving headline sales growth of 8%.

We increased profits too in every business, turning that 4% increase in sales into a 15% underlying operating profit improvement. In School profit increased 17% to £184m. Profits were up across the board in Publishing, Testing, Technology and International.

In Higher Education we improved on the significant margin gain seen in 2005, and increased profit to £161m. In Professional, including Government Solutions for both years, profits rose 29%. Professional Testing made a significant profit contribution for the first time. And we increased returns in Technology Publishing despite that top line decline.

FT Publishing profits were up 52%, even as we continued to invest in content and implemented further efficiency measures. The FT Newspapers profits moved up to £11m from £2m last year. IDC increased profits by 9% to £89m with a strong second half performance. And Penguin improved by 22% to £66m, benefiting from the cost reduction program and changes in investment approach, which we highlighted to you last year.

That 15% or £73m organic growth was supplemented by profits arising from acquisitions, which, after integration costs, added £17m. The weaker dollar, at an average of $1.84 against $1.81 in 2005, reduced reported operating profits by £7m.

Looking below operating profit our interest charge increased £6m to £90m due to higher average net debt and higher interest rates, offset partially by a £4m credit from the Pensions Finance Charge. Our tax rate was 30.9% a little bit below our original guidance, as a result of favourable settlements during the second half of the year. Overall our adjusted EPS increased 18% to 40.2p.

On a statutory basis profit before tax increased by £20m from £446m to £466m despite increased intangible amortization charges. You'll recall the profit on the sale of MarketWatch at £40m flattered our 2005 statutory operating profit. Our tax rate on a statutory basis was particularly low this year at just 2%. This mainly reflected recognition of losses in the US, which we are now using against the profit on sale of Government Solutions. Our basis statutory EPS, on a continuing business basis, of 38.9p in 2005 increased to 54.1p in 2006.

Turning to cash, overall operating cash flow of £575m was £5m higher than 2005. Our conversion level was 97%, which was an excellent performance as it followed an exceptional cash conversion of 113%, you'll recall, in 2005. Cash again benefited from close control over working capital, which absorbed only £25m in 2006 despite £213m cash invested in new programs. In addition, we held our fixed capital expenditure of £92m below our depreciation charge of £100m.

Below operating cash flow our actual cash tax paid was just £59m or 10% of operating profit, the largest single element being tax paid by IDC. Total free cash flow up £2m to £433m was again at 54p per share.

Looking at our balance sheet our capitalised pre-publication costs representing our investment in new educational programs which will benefit future years is reflected in current intangible assets of £402m. This was down on 2005 year end only because of exchange.

On the other side of the balance sheet our formal net debt level increased marginally, reflecting those acquisitions. Our pensions liability included in provisions reduced £139m to £250m, and we will be making a cash injection of £100m to further reduce the deficit in our UK pension scheme.

So those are the main numbers. I want to just look now at our four key financial priorities in a little bit more detail. We focused, as you know, on margins as a key to increasing our earnings, which in turn is driving our ROIC. Over the past two years, Pearson's margin has increased from 10.8% to 13.4%.

As you can see here, every part of the Company has contributed to this, including our centralised operations teams, which manage purchasing, property, technology, warehousing and distribution across Pearson. Importantly, we expect to continue to achieve ongoing, steady margin improvement.

Working capital discipline is another important component of our ROIC improvement. Our progress reflects three factors, a highly focused approach to management of receivables, payables and inventories, the rapid growth of our service business, where we are often paid in advance, and our successful investment in digital products, which are quicker to create and which don't sit around in warehouses. As a result, from 2001 to 2006 we've reduced our working capital to sales ratio by 5.6 percentage points without any let up in pre-publication expenditure.

As a result of that progress on margins and working capital we have now increased our ROIC to 8%. That is above our weighted average cost of capital of 7.7%. The details of our ROIC calculation are in the back of your packs.

Moving onto our fourth goal, rigour in capital allocation, I want to say just a few words about our priorities here. Firstly organic investments, we've continued to invest close to 8% of education sales in new teaching programs and assessment platforms. We plan to maintain that level of investment going forward, because this drives our share gains and our strong returns.

Secondly, bold-on acquisitions. As you know we reinvested the proceeds from our sales of MarketWatch and Recoletos in a series of relatively small acquisitions with good growth potential, strong strategic fit and excellent scope for synergies. We always expensed the integration costs of these acquisitions as we see this as a normal cost of doing business. Our 2006 acquisitions were earnings neutral. That's after interest and tax. And they actually suppressed our ROIC by about 0.4 percentage points. We expect these acquisitions to make a positive contribution in 2007.

These investments bring excellent returns. We are generating a post-cash tax, post-integration cost ROIC of 12% on all acquisitions made in the past five years. That's substantially ahead of our cost of capital, even though half of those acquisitions or half of that acquisition spend fell in the past 12 months.

And third dividends, we've now grown our dividends ahead of inflation for 15 consecutive years. During the past five years alone we have returned £1b to shareholders in dividend payouts. This year we have proposed a 8.5% dividend increase, our largest in 10 years. Looking ahead, rather than just beating inflation we expect to raise our dividend more in line with earnings, whilst building our dividend cover towards two times earnings.

I also want to say a few words about our debt level. From a rating agency perspective i.e. including lease commitments and pension liabilities, our indebtedness at the end of 2006 was £2.3b. That remains compatible with our agency ratings, which are BBB plus and Baa1. We believe these are appropriate for our business because they mean we can continue to borrow at cost effectiveness rates of interest.

In the US our Education business has performance bond requirements build into some of their state contracts, which would be more difficult to fulfil off lesser ratings, and because we continue to see a healthy pipeline of new bolt-on acquisition opportunities, which are generating excellent returns.

I'm going to turn now to our guidance for 2007. I should remind you that our 2006 earnings were at an average dollar rate of $1.84. Every $0.05 weakening of the dollar for a year would reduce our EPS by about 01p. As always our guidance is on an underlying basis.

In School we expect sales to grow 4% to 6% and our margins to improve further. In Higher Education we expect to grow, once again, in the3% to 5% range with stable margins. Professional sales will be broadly level with 2006, though we see margins improving again. At FT Publishing we expect strong profit growth. Advertising trends are still tough to predict, but we expect to continue to move our margins up, achieving double digits in FT Publishing this year.

IDC has said that it expects headline sales to rise 6% to 9%, and net income to increase around 10% under US GAAP. At Penguin we remain committed to match industry leading margins, and expect good progress in this direction during 2007. And lastly we expect our tax rate to be lower than reported in previous years, so let me just take you through that.

Our guidance on tax rate for 2006 was 32% to 34% as I mentioned, and we came in a little lower than this due to settlements during the year. The tax rate of 30.9% was reported without recognising any benefit from amortisation of tax deductible goodwill arising on acquisitions. In the US such amortizations are spread for tax purposes over 15 years. As a result, we have deductions which amounted to over £20m of tax savings per year, the biggest relating to the Simon & Schuster acquisition back in 1998.

Now on moving to IFRS we continue to adopt a conservative approach to the treatment of this benefit, and didn’t recognise it in our underlying tax rate. Industry practice has now developed. And to be comparable with our peers, we will in future report adjusted earnings recognising the benefit of this deduction.

As a result, we now expect our 2007 tax rate to be in the 28% to 30% range, where it should remain until 2013. This recognition of tax deductible goodwill only affects our adjusted earnings. We've always taken account of this goodwill amortisation in our cash tax and statutory tax calculations.

Just on cash tax we now expect our net operating losses to maintain our historically low rate of cash tax well into 2009. After 2009 our cash tax could be expected to move up into the 28% to 30% range, remaining there until 2013.

So I think this approach aligns our tax rate for adjusted earnings in 2007 to that which we envisage becoming our effective rate of cash tax even after we've used up our bank of US net operating losses, as the majority of this goodwill deduction will continue to 2013.

So to summarise, these are our financial priorities for 2007. If they look pretty familiar to you that's because they are very similar to the ones we've now been showing you since 2004. Underlying earnings, growth through continued market share gains and higher margins. We expect to achieve this even before, even before the lower tax charge I just mentioned. Lower working capital of sales, but continued investment in pre-publication expenditure, and a further underlying increase in ROIC, as we push on now towards double digits, rigorous capital allocation to programs and acquisitions where we can generate the very highest returns.

Thank you. And I'll now hand back to Marjorie.

Marjorie Scardino

Chief Executive Officer

Thank you Robin. I'd like to focus now I think on the themes that I outlined at the beginning, our sustainable market leadership and growth. The measures of that are the financial progress that Robin has just been talking about and the platform we've built to continually outdistance our markets in innovation and in profitability. The kinds of investments we've made to achieve those positions have been pretty consistent across Pearson, because our businesses all have many characteristics and many markets in common.

We put our investments basically in these four areas, first content this is one of our greatest assets obviously, and we invest steadily in unique valuable publishing to keep replenishing that asset. Secondly, technology and services, we invested early and consistently in the shift from print to digital partly, obviously, to deliver our content in new ways, but more fundamentally because we didn’t believe that content alone was going to be enough. We really thought that we needed to become, what we now call, a content plus services company and that's what we believe we are.

Thirdly, we've invested in worldwide markets. Our brand and out content plus services model work around the world, technology makes it much easier to spread our assets around the world, so international growth is going to be a very big part of Pearson's future.

Fourth, efficiency, we've invested in becoming a tighter better margin company through savings in our businesses as well as through a very strong central operations structure. This is definitely a beneficial journey; it's definitely a journey without an end as well.

In those areas we've made our investments consistently, and I think conservatively through the P&L and the cash flow statement, and through the application and persistence of a lot of people in this company. These investments are the source of both our above market growth and our confidence in the future.

So let me just give you a few examples of that starting with the FT Group. Here we focused on the same areas I've just listed content, technology and services, international expansion, efficiency. So let's look first at the FT's content plus services businesses. They have several attractions, they have very high customer renewal rates they have reliable revenue streams, good cash, healthy margins.

The one you know best is the one you see here IDC, where the focus is on the high value that IDC can add to data. Regulation and complexity in financial markets are increasing the demand for IDC's online services evaluated prices, reference data, analytical tools. It couples that with a very strong service mentality and it continues to grow as a part of its customer's workload.

Our newer service business mergermarket is another good example of the combination of content plus services plus technology. Mergermarket provides early stage predictive intelligence when and where customers want it. You see on the screen some transactions that they have predicted long before they took place. This service is producing phenomenal growth. On a full year basis mergermarket sales were up 80%.

We are expanding it internationally, and that and a strong pipeline of new products is really going to propel its growth in margins further we believe. Those kind of services models [adds] ways of making content unique, so unique that it becomes embedded in the working lives of its customers, those are central to the FT Group's future.

That model really works for the FT Newspaper as well. Here the content side of the equation is obviously crucial, and so we've kept on investing in quality editorial. That's enabled us to create some of the new products you see here, that's the weekday how to spend it by the way, as well as investing in more services geared to businesses and more information customised for niche audiences. And that in turn is helping us increase the newspaper circulation, and increase the subscriber and user numbers on FT.com.

Over the past 10 years our total print circulation has grown by more than a third, and we've added 90,000 paying online subscribers. At the same time our print subscribers in the paper have increased from around 50,000 that's about 16% of the total, to almost 180,000, which is more like 40% of the total. And almost two thirds, of that number are individuals not businesses, people who pay for it and get it themselves. That's an important measure of the quality of circulation and an important predictor of cash potential.

Our investment in editorial is also crucial here to our performance in the key international reader surveys. Their findings are vital to us because advertisers base their buying decisions on what the survey's say about the quality of our audience. And what they said in 2006 is the FT is Europe's number one business newspaper for the 15th straight year, our business readership in Asia in up 26% over the past two years. And our readership among senior business decision makers in the US is up almost 50% last year alone.

That exceptionally -- international, exceptionally affluent and influence audience is really going to drive our advertising. In 2005 the FT's advertising revenues were up 9%. In '06 they were up 9% more. In corporate finance, luxury goods and online they were up 30% or more.

Our international and online positions are particularly important to that growth. In 2006 three quarters of the FT's print advertising ran in two or more editions of the paper, half of it ran in all four editions, and a third of it was for integrated FT.com, FT Newspaper campaigns.

And, of course, while we are investing in the FT Group we are also continuing to work on cost and operating efficiency, the benefit of all those changes show up in these numbers that you see here. Over the past three years we've improved the margins in FT Publishing from just above breakeven to 8.7%. And that's really just a start.

Our new team in FT and FT.com and the whole FT Publishing Group I think is the best team in publishing. They have a plan to improve profits and margins over the next three years while continuing to publish probing business analysis on paper and online. Their plan has four basic elements, and you see them there.

First, increase content and services sales, proving more editorial and business services and increasing the proportion of newspaper revenue that comes from readers is certainly going to build more stable revenue streams. Enhance online operations with ever better technology, more customised features for readers and for advertisers and special niche sites for certain markets. We are going to continue to increase usage, and continue to increase sales.

Developing internationally is going to be important to the FT in particular. This is the key to its uniqueness, and its going continue to be. Not only are the paper and FT.com growing around the world but sites like FT Chinese and services like conferences are all going to further diversify our sources of revenue. They are going to make money out of the FT brand as well as out of the FT content.

And finally they are aiming to integrate the businesses more. The FT's newspapers and magazines and web services are all increasingly integrated with each other and with Pearson, creating new products and new services and new efficiencies. FT Publishing will move into double digit margins this year. As Robin said, our goal is to make those margins sustainable through the cycle.

At Penguin our focus has really been on profitability and cash. That's meant investing in the transition to a higher yielding publishing model, spreading risk across a wider range of authors and genres. Last year some of our competitors and bookstore customers were finding the market quite tough. But even so we made really good progress on that particular agenda.

Always first on our list is to publish books of the very highest quality. And our authors last year won a Pulitzer, the Whitbread Book of the Year, both Orange Prizes and the Man Booker Prize.

Secondly, our changed approach to publishing paid off. We led the industry in finding and building new enduring fiction best sellers and authors. In 2006 nine first time authors took their place on the New York Times Best Seller list. We published three of those. We were the only major publisher to publish any.

Our goal is to build authors for the long term too. The three titles that you see listed here have spent a combined four years on the New York Times Best Seller list. They've generated much more than $100m worth of retail revenue. And we believe that those kinds of authors are going to carry on becoming second time authors.

Also in the US the premium paperback format that we talked to you about last year really raised our profitability, restored our US mass market business to good growth. And in the UK focusing on fiction we increased our share of that category by almost 20%.

Behind all that successful publishing Penguin chalked up more efficiencies, used less working capital and delivered a seamless supply chain performance. That shows up in the steady advance of these numbers. In 2006 margins moved ahead to 7.8%, underlying profits were 22% higher thanks to the usual solid US performance, and a terrific year in the UK for Penguin and for Dorling Kindersley,

And this progress can continue because of the same reason as we saw in the FT, we are investing in Penguins future in those same four areas that we focused on everywhere. First efficiency, we've moved much pre-production and design more to India. We've renegotiated our printing contracts, integrated warehousing and back office, most recently for Australia and New Zealand. We are beginning to reap rewards from those changes and many, many other changes around Penguin.

Secondly, the move from paper to digital is important to Penguin it changes how we produce improving our deep and large backlist, printing on demand. It changes how we package content, for instance, offering travel guides in chunks, offering subscriptions to novels chapter by chapter. It changes how we market, engaging people in online communities and experimenting with user generated content. And it changes how we sell, supporting online channels both retailers like Amazon and our own Penguin.com, our online sales are up about 30% in 2006.

Thirdly, international markets are going to be a big investment for Penguin. In India and South Africa our sales last year were up over 20%. In China our Penguin sales doubled. They are still small today, but we are investing in those markets because they are the proof that the worldwide market for books is anything but stagnant.

And fourth, again, content the best books. There we see very promising signs for 2007. First of all it should be a good paperback year as a lot of last years hard cover best sellers convert into that format. We will have new fiction from favourites like Patricia Cornwall, Zoe Heller, Jonathan Coe.

In addition we have second novels from two of our most successful new authors you saw on that list, Khaled Hosseini and Marina Lewycka, the History of Tractors in Ukrainian. We'll publish Al Gore's new book, The Assault on Reason, and we'll adapt his environmental manifesto, An Inconvenient Truth for the children' market, which we think is going to be quite exciting.

And perhaps most interesting of all to the people in this room we are going to be publishing Alan Greenspan's book The Age of Turbulence. I don't really know how Alan Greenspan got so well informed, but we do believe that he has written a book that's going to stimulate thought and debate in many fields. One of them is US education. He has personally chosen these excerpts from the book he has written for me to share with you, and so I shall do so.

He writes, "Although our fourth grade students on an international comparison scale were above average in both maths and science, by the time they reached their last year of high school they had fallen well below the international average. Too many of our students language had too low a level of skill upon graduation, adding to the supply of less skilled labour in the face of an apparently declining demand".

He goes on. "These education mismatches of skills, coupled with the forces of globalisation and innovation appear to explain much if not most of the failure of real [wages] to measurably rise during the past quarter century. The key policy levers to address the problem of increasing inner quality, as I see it", he says, "are thus primarily education and immigration. Markets are working in that direction, they need to quicken the process."

If Chairman Greenspan is right, and he usually is right, it's no wonder that it's an education where we see the largest growth opportunities and are making our biggest investments. Here again we've structured our strategy investing in those same four areas content, technology and services, international expansion, efficiency.

First, over the past five years we've increased our investment in educational content. That is crucial in education because this is an industry that requires and rewards long term commitment. You don't start at zero each year in the educational business. We are investing right now, for instance, in our programs for 2009 and 2010. That's required in order to be the winner.

While we've invested in the content we've also invested in technology, we've built digital business, believing that the education profession would become enthusiastic technology adopters. That is now happening, and much of it is happening with us. In California last year 1.5m elementary school students, about half of all the students in that State, were using our digital social studies program.

Last year we marked 100m test questions on screen, 1.4m school students took our State Tests online, and 4m professionals took their certification exams online in one of our testing centres. 30,000 schools in America serving 25m students are using our software to manage their timetables, attendance records and student performance data. Last year 20m students used one of our digital learning programs, and in higher education 4.5m students learned through one of our online courses in college.

In 2006 programmes like this generated some $1.1b of sales about 23% of our total education sales. In the content we've also added a growing stable of services businesses including a rapidly growing testing and assessment company.

There is a global trend toward accountability that those of you who follow education know well. That's the need for education systems and institutions to measure and to report their progress. This is the return on invested capital metric for schools, and it's very important. And our testing and assessment services in School and Professional are really at the heart of that trend.

We've executed very well against that opportunity. We've used our technical expertise, our operational skills and our technology leadership, and we have gained significant share in that service area. These businesses accounted for about $200m in sales when we bought NCS. In 2006 they had sales of more a $1b.

In fact we are gaining share in all areas across our US Education business though. In School we've been accelerating our lead. The US Publishing market has grown 4% over the past two years. Our comparable School Publishing business has grown 15%. Our total School business has grown more than 20% in that period.

In Higher Ed, as you know, we've outpaced the industry for eight consecutive years. Over the period since 1998 when we really began to focus on education, the average annual growth rate for the Higher Ed industry is around 4%, our growth rate is around 7%. That growth is because of these investments in content and technology and assessment and other services, and our ability to connect them to help the students and to help the teachers.

And, of course, while our education businesses have been growing them have been becoming more efficient. We've centralised and improved their operations, thoroughly integrated acquisitions, consolidated technology, rationalised international businesses with the rest of Pearson.

With that help we've increased our overall Education margins to 14% from 10% five years ago. And the combination of share gains and efficiency has provided record profits as you see here. Those enable us to continue this virtual circle of investment, share gain, scale and efficiency, and we'll do that.

Turning to 2007 for Education we think this will be another good year for our Education business. Our outlook benefits from several market trends. In the US the Education funding and policy environment is very supportive of our business. More than 90% of school funding is at the local level, as you know, based on local tax receipts. Those grew 4.6% in the third quarter of 2006. That's the 17th straight of quarterly growth. The National Conference of State Legislators said that State spending on Higher Ed will rise about 7% in '07, fiscal '07 for the US. And K12 spending will increase about 8% displacing Medicaid as the fastest growing spending category.

There will be a vigorous debate about education priorities when Congress considers the reauthorisation of the No Child Left Behind Bill later this year. But the goals of that legislation, higher standards and more accountability to produce better results are goals that both parties have already signed up to enthusiastically. So we predict that reception is going to be good. Outside America the political environment for education, the demand for knowledge and for skills has never ever been strong, and is as strong or stronger than it is in the United States.

Secondly, the US adoption cycle is high, as you know. We expect the opportunity to rise steadily from 716m to about 950m by 2009. And thirdly the shift from print to digital is underway. Education is a profession and its professionals appreciate the productivity gains that technology tools allow them to have as much as any other professionals do. We say that with a lot of confidence as we watch the momentum of our digital products and our service businesses.

Those trends are going to make for an exciting environment for us we are going to use to press home our advantages. We are accelerating our development of new product models. We are connecting our education business more closely. Building our position as the only company that can support personalised learning on a continuum from Kindergarten through professional life to make learning fit the person not fit in artificial grade level.

We will continue to prove the ethicacy of our education programs in learning [gains] to students and in productivity gains to institutions. We'll continue to build our international business. We have a big advantage in international. Our education sales outside America were $1.6b last year, three times the size of our nearest rival. Digital learning materials can cross borders much more easily than text books can. So that's a great boon for us. And last while we do that we will continue to push margins up with more efficiency gains.

So that's our performance in 2006. That's our outlook for this year, and a little beyond. 2006 is mostly a story of rapid organic progress. It was a year, however, when we made some important strategic moves. We sold our fast growing Government Solutions business because it was not consistent with our strategy, it didn’t have the characteristics that the rest of our businesses have. We made 10 mostly small acquisitions, some to build new capabilities in business information others to build our leadership in world education.

In 2007 and on we'll continue to make those kinds of moves to make the most, in fact to try to take unfair advantage, of a period of unprecedented technology and competitive opportunities. We'll still apply rigorous financial criteria to our belief that markets are dynamic, and strategies have to be brave.

We've done a lot over the last five years to become more able to strike the right balance between investment and efficiency and between delivering annual performance, and delivering a building that has long term sustainable growth. That work continues. But now we do it with some very strong advantages, strategy, scale, technology, competitive edge, momentum. And above all the imagination and the vigour of 29,000 people who work in Pearson, many, many of whom own shares in this company.

So thank you very much for listening. And now my colleagues are going to join me up here, and we'll see if we can answer your questions. You know them all I think. The first one is Steve Dowling, who is Head of our US School business. Will Ethridge Head of our College International Professional business, Rona Fairhead, Head of the FT Group, John Head of Penguin Group.

So, just to let you know we are in a very trendy place now and your microphones are in the arm of your chair. So Rogan you've got to pick it up, pick up the microphone, talk into the microphone. You push the button to turn it on and then turn it off after you finish.

Question and Answer Session

Rogan Angelini-Hurll, Citigroup

(Inaudible) is it working?

Marjorie Scardino

Is it working? No.

Rogan Angelini-Hurll

I don't know.

Marjorie Scardino

Yes, it is, you of little faith.

Rogan Angelini-Hurll

(Pick up one of my coughs and everything). It's Rogan Angelini-Hurll from Citigroup. I've got three questions two on the outlook and one on ROIC. On the outlook your Schools are -- that's broadly in line with what some of your competitors are [saying] for the market. Could you maybe tell us how your thinking plays out between what's been the historical market share gains, with the fact that (inaudible) is obviously participating more next year, but then how you see Harcourt giving that its currently being sold performing.

The second question on the outlook is on Professional. It looks like in '06 you had very strong; you said I think more than 30% growth in testing and a modest decline in technology. What's happening to suddenly make that division stay down to flat in '07?

And then finally on the ROIC you still use the 15% tax charge on the ROIC, when will you move back to -- what will be your tax, your cash tax rate of 28% to 30% in '09.

Marjorie Scardino

I think we'll start by letting Robin answer that ROIC number, which he can in his sleep, and then Steve will talk about School and I'll talk about Professional.

Robin Freestone

Well I think your right we are still using 15% even though the cash tax actually in 2006 was 10%. So we've maintained that 15% so the ROIC doesn’t move around with the cash tax actual payments, which can be somewhat volatile. I don't think we've set a date for when we'd move away from that. But clearly as we've all recognised over time the cash tax comes into line with the effective rate of tax, and that's why we've moved to the 28% to 30% range, because that's where we think its going to go after we've used up that bank of net operating losses. And we've said today net operating losses are going go well into 2009 now. So I don't think I am going to give you a date Rogan but you can see that at some point we will have to do that but not yet while we are still paying cash tax at 10%.

Marjorie Scardino

Steve.

Steve Dowling

Yes on the School side we've grown about 15% in our School business in the US in the last couple of years. The adoption cycle is up about $90m this year, but that alone is less than 1% if we take our share that we've taken over the last couple of years. So the rest of the share has got to come from either other states -- bigger share in state adoptions, open territory growth. In open territory we expect, in the non-state adoptions we expect to grow in the 3% to 5%, 4% to 6% range also.

We’ve had great growth in our testing in the last two years. Last year '05 we were 20% this year '06 or last year '06 we grew between 5% and 10%. And what's happening is you get the NCOB testing you had to start up in the earlier years of the reading and math, and then you had the start up of science in the last year, so there'll be some flattening I think in the testing this year.

California was renewed last year, Texas was reviewed the year before, so some of the big states have renewed. So I think the 4% to 6% is a good projection. We could do better. But I think if you look at sort of the characteristics in the market it’s a reasonable forecast for growth.

Marjorie Scardino

And just to remind you that 15% that Steve talks about was just the Publishing business, the overall School business grew more than 20%, so we've got a really tough comparable there to deal with. In the Professional area, remember Professional is made up of technology, publishing which is not growing at the top line quite the contrary in some years. But we are pushing its margin up. So that won't be an agent for growth. We lose Government Solutions out of that group. And our Testing business has grown so fast over the last couple of years that we think it ought to flatten out as it settles into some of its contracts like the GMAC which they started last year.

Okay, [Sammy].

Unidentified Audience Member, Exane BNP Paribas

Thank you very much. It's Sammy at Exane BNP Paribas, hope it works. I have two or three questions if I may please? The first one is coming back to the open territories we are seeing a disappointing performance in 2006 in terms of growth rate in the open territories. Some claim there is pent up demand and the growth will accelerate in 2007. Other claims there is a structural demographic shift from the open territories to the adoption states. What's your view on that? Do you think 3% to 5% is a sustainable number to expect going forward, or is it just a bounce back in '07?

And second --

Marjorie Scardino

Sammy let me repeat that. You are saying the other publishers said that they had a disappointing performance in open territories and they predicted 3% to 5% right, [Steve said that].

Unidentified Audience Member

Yes.

Marjorie Scardino

What's your second question?

Unidentified Audience Member

I believe you expect the rate card to increase at the Financial Times; can you give us some indication on --?

Marjorie Scardino

Would you like to take out an ad, because we can do that? Steve you want to answer to that?

Steve Dowling

Yes. There is certainly a trend, a movement into -- the adoption states in the US tend to be the Southern States right across Texas and then Arizona and up to California. So you certainly got a little bit into those states over time. You know, I haven’t looked at just recently, if you look over a

10 year cycle the spend in open territory versus state adoption is about the same over that longer period. So at least historically that's been the case.

We had a very strong year in open territory this year in '06. And I think it's for a couple of reasons. We did -- we were back into the reading market in a big way, we talked about Reading Street, which was the Scott Foresman elementary reading program. And that was the -- really we'd had two or three years where we'd had a hard slog of it in the reading market both as a result of a program that wasn't as competitive in 2001, and then in the Reading First cycle the first couple of years of that cycle we really did not do as well as we should have

So we came back last year with Reading Street. And reading is about 40% of the spend in schools in terms of materials, you got to teach kids to read. So we hit back a bit in that market last year and did well across open territory, led without question.

I think the other think is that we did really well in California, in the high school, and California high school is classified as open territory. So we did well both in the social studies adoption last year, which was California and then our residual back list where we've got strong holdings in literature and maths that are across the board in high school did well. So I think all of those things helped us in open territory vis-à-vis our competitors if you look at '06 performance.

I think if you look over the longer haul there might be some movement out of OT, out of open territory. But if you look at our success in the North East, the hugely populated North East down through Maryland, New York all those states, its -- we've done very well. Illinois we've done well, big state. Structurally Michigan and Ohio are struggling because I think auto industrial they are places that are struggling in terms of spend. But other than that we still see it as a robust market.

Marjorie Scardino

So, on your 3% to 5% question I think that's sort of assumed in our 4% to 6% prediction. Rona when are you going to raise the rate card?

Rona Fairhead

In terms of the rate card I think that's -- when Marjorie talks about the FT and its proposition being global that's allowed us increasingly to move up the rate card particularly on some of our global advertising because those are -- we are one of the few people that can get to such a very attractive audience on a global basis. So if you look at what's driving the yield improvement its both an ability to sell more, as Marjorie said on a global basis or at least in more than one territory, plus a move increasingly towards more colour advertising which is clearly helping us.

Marjorie Scardino

Polo?

Polo Tang, UBS

Polo Tang from UBS, I have a couple of different questions. The first one is just on the balance sheet you said that you wanted to maintain your current credit ratings. But could you just tell us how much headroom you've got [above] the balance sheet? And also in terms of acquisitions [if you're] interested for example, Thomson Prometric business, testing business is up for sale at the moment.

The second question is just on college. In terms of college could you just tell us what's happening with text book pricing, and also what you are seeing in terms of enrolment [for instance]?

And the final question is just on Penguin in terms of the margin development. How soon could we see margins recover back up to their historical level of about 10% or 11%? Thanks.

Marjorie Scardino

Okay. Robin would you like to talk about the balance sheet. Just on the Prometric question let me just take that. We've been pretty religious about never talking about whether we are going to buy ourselves something. I think that's a good policy, which you shouldn't infer anything from. So that's what we will say about that. We've got a great Professional Testing business right now that competes with that. Robin, balance sheet.

Robin Freestone

Yes, as you know, as I said we are committed to striving to maintain our ratings. That's an important thing that we are going to continue to do. We've got sufficient headroom to do acquisitions. You saw us do £363m worth of acquisitions in 2006. Slightly higher rate than we've done for a few years because some very good opportunities came along. And I think we've got sufficient headroom to do bolt-on acquisitions where we think they are going to provide the returns that we want them do. And, of course, as important we'll continue to invest back in the business the organic cash into those education programs that are around the 8% of sales that I talked about.

Polo Tang

(Microphone inaccessible) room on your balance sheet to do deals.

Robin Freestone

Well I don't think I am going to get into precise headroom numbers. You might want to talk to Christian next to you about how he calculates the headroom, which is a back art and we talk quite closely to the rating agencies about how much headroom we think we've got. But I don't think I want to get into very precise headroom or (inaudible) numbers.

Marjorie Scardino

John, the Penguin Margin.

John Makinson

Yes, well the margin progress that you will have seen in 2006, moving from 7.5 to 7.8 is relatively modest actually in relation to that 22% underlying profit growth that we talk about. And there are two reasons for that, one is something we've talked about a number of times in the past, which is the structural mismatch particularly in Dorling Kindersley, [through in a] cost base which resides mostly about 100 yards from this auditorium, and the revenue base that is mostly on the other side of the Atlantic. And as the dollar weakens that does cause some impact on margin as a result of currency.

And the second factor, which again we talked about this morning, is the impact of the Chapter 11 filing of AMS right at the end of the year. So if you are looking for a trend in margin I think the trend is probably a little bit more encouraging than is evident from the numbers that we reported. And certainly I feel encouraged that we are on track for that double digit margin territory that we talked about in 2008 and have discussed before.

Marjorie Scardino

Will, you want to talk about text book pricing your favourite topic.

Will Ethridge

Well as everyone knows there is concern about the cost of higher education access is becoming a real issue. So it's really about, from our business, providing value. And that's why we are really focusing on products like formative assessment, really linking our content with our technologies. And we are finding when we do that we are doing well. And so we are really in a transition period where we are moving from the traditional text book model to move of an educational solutions model. And the more we move our portfolio that way the more we are providing value and the more our customers are happy to pay the prices we are offering.

Polo Tang

Can you give some indication in terms of what your pricing did in aggregate last year?

Will Ethridge

I'm not sure we give that information out.

Marjorie Scardino

It was about -- it was less than 0.5% of our growth.

Will Ethridge

It was lower than -- we are getting more unit growth than price growth in terms of that ratio of unit to growth last year, and that's what we are focusing on. We are doing very well in areas like mathematics and sciences where we've really had, what we call the content plus model. So we are getting more growth out of units. Overall (inaudible) are -- we are in a pretty good period now. All the [baby bomber] kids are going to college. So the mix between unit growth and price has moved more towards unit growth.

Marjorie Scardino

I think the important think to understand about this is what Will said, that it is not really about the text book anymore. It really about what is the efficacious way to teach somebody math. And that's going to mean a combination of a book of an online program. That's what's really -- that's why we are winning, because we have so much technology wrapped up in it. So those pricing wars are going to become increasingly less important to us over time.

Will Ethridge

We also get more (inaudible) in cost when we have not just the content and the profession having all their lecturing (inaudible) the content. But we have then using our platform the cost of changing is much greater.

Marjorie Scardino

Colin.

Colin Tennant, Lehman Brothers

Thanks, Colin Tennant at Lehman Brothers. Three things if I can, first of all on education and particularly I guess School and the international development has made moves obviously in '06 in Italy, and I just wondered what -- in terms of priorities going forward what regions might be the most priority Asia versus Europe for example. And what source of -- and how much of the growth can be done organically versus through acquisition?

And then a couple for Robin just on the margin progression, you said sustainable and steady. There was 100 basis points last year is that the sort of number we are looking at going forward?

And finally just a little one on the pension, you are paying £100m in I think to the pension fund, could you just maybe explain what's going on there, and does that just come off the £250m that you've got in pension liabilities in the credit rating consideration?.

Marjorie Scardino

Want to take that Robin, first?

Robin Freestone

Do that one first? Yes it does your right we had £250m of deficit that's across our worldwide schemes, most of it is in the UK though at the end of 2006. Well down actually on the number we started the year at which I think was nearer £390m reflecting some very strong investment performance during the course of the year, and of course, the movement of the double AA bond rating which went with us -- [used to be] went up during the course of the year. But it's highly volatile, and you don't quite know where it's going to go next, and it does make a very significant impact on our schemes.

So we felt that having received $560m on the sale of Government Solutions the right thing to do was to top up our UK pension scheme. We need to try and put this to one side and make sure it's robust. And as part of our deficit recovery plan that we've agreed with the Trustees, we said let's try and sort this out relatively quickly. It's actually a nine year plan, but I think with a good front end chunk of cash going in.

Marjorie Scardino

On School international development that comes under Will who runs international, but just a general comment about this. We are the largest publisher in lots and lots of big markets, South Africa, Hong Kong etc. And so obviously we are growing there. And we will look at a lot of opportunities in the developing world, strangely enough, because an increasing portion of GDP is going to education in those markets. So we'll be looking at that as well as the developed world kinds of markets. But those are the fastest growing markets -- interesting to us. I don't know if Will has any particular comments he wants to make.

Will Ethridge

I think that's true, we are very strong in the Commonwealth countries [notwithstanding] in the developing world. In the non-English language we look at opportunities where there is a close connection between our ELT business, and where English language training is getting more into the basic cross-curricular, and when we won't have a sales force to help us get those synergies. And also we are finding that a lot of our content plus and technology applications are now really starting to have some value overseas, and when we see those opportunities that make an acquisition attractive.

Marjorie Scardino

This is where we get the most [pop] out of the fact that we are now a more digital company, because it's really hard to take a reading text book across national boundaries. But an online program a digital program really works there and it's really easy to customise it because it's quick and cheap. And so that's where we'll see a lot of development internationally in schools as well, which is pretty exciting.

Will Ethridge

And our acquisition (inaudible) is a good example, it made us number one in ELT, and we are finding in areas like science that we can really take our assets that we have in the US and apply them to Italy. So it's going very well (inaudible).

Marjorie Scardino

Other questions?

Robin Freestone

Marjorie, Polo had a margin question as well.

Marjorie Scardino

Oh, so sorry, so sorry.

Robin Freestone

The usual one I think.

Marjorie Scardino

I know you want to answer it.

Robin Freestone

And I think the heartening thing about 2006 was that the areas that we set out at the start of the year where we felt we could increase the margin are the areas where the margin did increase. And we set out for you again the areas that we suspect the margin will improve in 2007, and we think that that is entirely achievable. Your right the two key phrases for us are sustainable and steady, and I think that's what we are trying to do is move the margin up every year, and we hope to see that increase again in 2007 in the areas we've outlined.

Marjorie Scardino

[Meg]. Don't forget to turn that off, I didn't see you turn it off.

Unidentified Audience Member

Is it on?

Marjorie Scardino

Yes.

Unidentified Audience Member

I've got two questions. First generally back on the margin I guess, 2006 included acquisition integration cost in the numbers and I think probably also restructuring charges, perhaps the FT because you integrated a couple of businesses closer together. Can you quantify how much that was? And if you won't quantify it can you give us an idea whether that number in absolute terms will go up or down in 2007, presumably down but -- and -- can you just give us some idea how significant it is?

Secondly I was wondering if Rona could comment on advertising so far in 2007. And also generally what the view is -- I won't ask you what you -- about the rumours on Les Echo but perhaps you can give us a sort of an idea of where you see the FT Group growing, and how important Les Echo is in that future group.

Marjorie Scardino

Want to take the margin question [Mr Margins]?

Robin Freestone

I think we've been here before. We did see -- I am not going to give you too many numbers here, and perhaps -- probably none at all, but the integration costs were higher in 2006 because obviously we did a pretty significant amount of acquisition work and that tends to drive integration costs. Actually we were also integrating AGS from 2005 as well. So it's not always possible to do it all straight away, and there was a residual integration charge from 2005 acquisitions.

The reason that we don't dwell on this is because genuinely we regard these costs as normal. They were probably slightly higher because of the acquisitions in 2005 and '06, in the 2006 accounts, but also we did restructuring in our technology publishing business, we did some new newsroom work which Rona can talk to you about, the Financial Times, and we continue to restructure Penguin too, they had some restructuring charges going through.

I think the thing that we've got to try to get across to you is that we always do this. This is not something that we do with a big bang effect, and say you are going to see an Xm pound charge going through the accounts this year. There is always something going through. Slightly higher in '06 because of acquisitions, but there will be some in '07 as well.

Marjorie Scardino

We see this as a normal way of doing business. We really don't like big restructuring charges.

Unidentified Audience Member

(Microphone inaccessible).

Robin Freestone

I think I said --

Marjorie Scardino

I don't think we know at this point.

Robin Freestone

I think I've covered that.

Marjorie Scardino

Rona you want to talk about --

Rona Fairhead

Yes. In terms of Les Echo and the question I think I'd just echo what we've already said, we never ever talk about anything that we may or may not do. And don't infer anything from that it's just that we are entirely religious about that.

In terms of how Les Echo is doing I mean it's a pretty stagnant to difficult market in France, obviously just ahead of the elections and we are incredibly proud of what they've done. Last year they managed to nudge advertising up when most of the competition did not. They increased news stand sales 2% when pretty much all the competition lost news stand circulation. And I think that's because of the focus that we have there on business.

And on the news stand sales it's been a policy of making sure that we are regionally focused as well, because we see that that was where the opportunities were to expand circulation. So in terms of Les Echo tough market in France, no question, but I think we are very pleased with how they are doing.

In terms of advertising I think the encouraging thing that we see at this point is forward bookings and a slightly improved visibility in terms of what's happening, so forward bookings are up. And that's again on top of the improvements we had in the last two years of 9%.

Marjorie Scardino

Mr [Bruin Dolphin].

[Will Smart], Dresdner

Hi, Will Smart from Dresdner, I'd just like to --

Marjorie Scardino

Wait, I am sorry I called on the guy over there, and then you can be next, sorry. Could you just turn your microphone off until he does -- thanks?

[John Clark], Bruin Dolphin

John Clark, Bruin Dolphin. Just a clarification on the dividend policy, obviously we welcome the increase and the focus on increasing dividends and not on share buybacks. Could you say what your reference base is? You are moving up to double -- you hope over time to move up to two times cover. Are you taking all this from the roughly 55p base of reported earnings? I take it obviously although its going to be rather a long time to get there it's up to 40.5p.

Marjorie Scardino

Robin would you like to take the dividend policy?

Robin Freestone

Just to recap slightly, we did a 6.3% dividend increase in 2005 and now we propose an 8.5% dividend increase for 2006. And it felt slightly anachronistic to be talking about a dividend policy which was to be beating inflation. And so we looked at it and our new dividend policy is to grow dividends more in line with earnings. And that more word is very critical, more in line with earnings than the old dividend policy.

And that's not a mechanistic approach there, for we will always look at what is the sustainability of the dividend, what are we going to see next year as well as what are we seeing last year? And we would like to move the dividend cover up towards two times. And the towards word is quite [clear] as well, because it aint going happen tomorrow as you can tell, it's at 1.4 at the moment. But we are going to move it towards two times.

Marjorie Scardino

Dresdner.

Will Smart, Dresdner

It's Will Smart from Dresdner. I just have two questions on the FT and then just one on Education. On the FT I was just wondering if you could remind us what the advertising revenue drop through rate was in 2006.

And then just following on from that, given that some areas of advertising grew at 30% and the overall growth was at 9% I was just wondering if you could just tell us which areas of advertising didn’t grow or actually went back.

On Education I was just wondering if there is any visibility on whether the No Child Left Behind Act could get rolled over into high schools, and what impact that could have for Pearson?

Marjorie Scardino

Sorry, would you say that one more time.

Will Smart

Just on Education, on the No Child Left Behind Act there has been much talk about it rolled over into high schools, and I was just wondering whether there is any visibility of that happening.

Marjorie Scardino

Okay. Is that all?

Will Smart

And just one more question on European Education. Are you seeing the same loop between content assessment and instruction becoming the norm in Europe, or is Europe lagging behind the US in that respect? Thanks.

Marjorie Scardino

On the No Child Left Behind Bill actually it covers high school now. What you are referring to is that it's been talked about to roll over into college. So this would mean accountability testing for college students, which was the result of a commission that the President appointed to look at, accountability in colleges. And I think that that's going to be a very slow burn issue. I think it would be fantastic for us, very interesting. We are very big in that area and very big in Higher Ed. But I don't think it may happen with the authorisation of the No Child Left Behind Bill this time.

As for education in Europe, Will and whether the digital future is coming yet.

Will Ethridge

It clearly depends by country. There are certain countries like the UK that are pretty close to the US and you have others that are lagging. But I think that the winds are blowing that way, and its something worth keeping a close eye on, its one of the reasons why we think our advantage of content plus will help us.

Marjorie Scardino

So Rona, ad drop through in categories.

Rona Fairhead

In terms of ad drop through it was -- if you looked just purely at the advertising revenue it did drop through over 80% to profit. If you then ask the next inevitable question, which is well why don't we see that dropping through to the sales profit its basically two things. First is mix, obviously some of the growth came from increasing content which doesn’t have that 80% drop through. And the second came from our investment and our efficiency driving in our new news room.

And it’s a really important part of the future for FT that the online and print become a way that our journalists can work, and become almost -- we become indifferent to how our readers take our content. So I think it’s a very important thing that we did last year. It's now integrated, we have journalists who are coming in and who wrote predominantly for the paper who are now helping us to improve the quality of FT.com and will help us to customise it more. So I think that's the answer in terms of drop through.

In terms of which categories did not fair so well, clearly recruitment I think that's been well publicised recruitment is down. Industrial was also a weak area last year. The good news I supposes is even though recruitment classified was down we really helped boost our property classified, so we are sort of looking at different classes. And I suppose the other piece of news that doesn’t come out in the 30% was that technology, which as you know for the last few years has been declining every year, actually grew last year.

Marjorie Scardino

Anymore questions?

Paul Gooden, ABN Amro

Thanks its Paul Gooden from ABN Amro. Marjorie there has been some press speculation that this could be your last set of results of Pearson. But a very strong set of numbers this morning, clearly your strategy is panning out and working. I just wondered if you want to take this opportunity to quash those rumours.

Marjorie Scardino

You know, there has never been a more thrilling time for education I don't think, and a more thrilling time for journalism. We are looking at a market where the competitive landscape is changing and where the technology landscape is changing, and then just look at how we are performing in that market. So I am having a great time doing this. And there is a lot more to do. We have a lot of plans in this team, and we've been together for a while. So I think we are going to carry on doing it. Thank you for giving me the opportunity to say that.

Charles Piermont

[Charles Piermont], I had a couple of questions, firstly on Penguin Group, the year finished off more strongly on the revenue front than I think it was anticipated back in October, I just wondered whether there was specific factors that were at play.

There also seems to have been a sort of marked reluctance to talk about, or to give guidance for the revenue for the Penguin Group this year so I wonder whether we can draw you out on that.

And then the second thing was on the FT Group. In the -- in your comments during your presentation you commented that the businesses were being more closely integrated together, and also with Pearson. And I just wondered whether you could just expand on how these are being -- becoming more closely integrated with Pearson.

Marjorie Scardino

Okay. John, do you want to talk about the strategy? Just on the revenue guidance I think the answer to that is that we really are focused on profitability in Penguin moving the margin out. Its sales, its not a high growth industry, it’s a kind of zero to 2% or 3% growth industry, so talking about sales is really sort of beside the point in a way. We sell as much as we humanly can. So do you want to talk about the --

John Makinson

Well the end of the year was a little stronger than we had thought. It was a little stronger in the US because we had a number of trade paperbacks in particular that had been selling well through the summer and kept selling, Marjorie referred to a couple of them actually on that slide, Hosseini's Kite Runner and Kim Edwards, The Memory Keeper's Daughter kept selling very, very strongly through the end of the year.

And we had in the UK best seller lists a slightly better performance that we had dared to hope. We knew it was going to be a very crowded market last Christmas, the previous Christmas we had the one and two books you know, very un-crowded market. This year there were, as you remember, a lot of celebrity autobiographies a lot of activity. But we did extremely well with Jamie. We did extremely well with Clarkson. Victoria Beckham was a surprise, a big hit and -- not a surprise to us of course, a surprise to a number of other people. And so it was a stronger finish.

Just to echo Charles what Marjorie says about this year, we don't really know. We have got the last Harry Potter in 2007. God knows what that is going to be. The advance orders on Amazon are simply unbelievable, whether that stimulates book buying, whether that cannibalises it to some extent is very hard to tell. It’s -- the market is starting this year sort of flat to a little bit up. Last year on the whole it was flat to a little bit down. It is going to be in that territory. But the key thing for us, as Marjorie says, is that we drive at that margin and at our cash performance.

Marjorie Scardino

I think I am going to use this opportunity also to introduce you to somebody. Peter Field who is sitting, would you just stand up; I know how much you hate this. Peter Field was the head of Penguin's business in Australia/New Zealand, he did a stupendous job and he has become the head of the UK business. So if you got a problem you just talk to him. If you need some free books I am sure he will give those out to you too depending on your recommendations for the stock and things like that. But he is a great executive, and he is doing a lot for Penguin UK.

Any other questions, or very few. Mark? Oh, sorry I forgot the -- I beg your pardon the FT --

Rona Fairhead

I'll talk about the FT with the publishing Group in that integration and then onto Pearson. In terms of the publishing group it seemed that we merged FT business, which is our magazine specialist's magazine business into the FT [area]. We think that makes a lot of sense. There are some obvious back office efficiencies. But more importantly I think what we see is this need to customise and to target specific groups of audience and to share content a lot more, share branding around conferences and awards. And that's something that I think we can also extend to mergermarket. So that as a group we are able to offer more content, better content and very customised for particular individuals.

In terms of with the group I think there are a number of things that we are doing with Pearson. The first is the whole area of back office. We've, for a number of years as you know, been driving towards shared services, George Werner who is in the front row, I think you've been introduced to him before, but increasingly we are looking at ways that we can put our back offices in a way that saves money. We also do a lot of co-publishing, so the education business will use the FT in some of its education programs, and equally in Penguin programs.

And I think the other thing that importantly we are looking to do is to see how we can build FT into some of our training businesses. You'll have seen on FT.com I am sure you are all subscribers FT business School. And so I think there will be increasing connections on training and business education. So those are just some examples.

Marjorie Scardino

I think Rona's last point is an important point. Vocational, technical, skills education is a big opportunity for us, and the FT brand is a big brand all around the world, so we've already started using it on that and its working great.

Mark?

Mark Braley, Deutsche Bank

Hi it's Mark Braley at Deutsche Bank. Sort of following on from the previous question IDC can you just talk about what the synergies are now between IDC and the rest of the FT Group, and the wider Pearson Group? I think IDC has actually stopped using the FT brand now. So kind of what are the synergies there?

And to my usual question about the IDC balance sheet, can you kind of take us through the rationale behind having cash in a partly owned subsidiary paying a [high] rate of tax, and -- compared to the parent level.

And then secondly on the FT publishing margin target, which is now double digit through the cycle, just to help us kind of understand how that compares to an FT margin target of 50% through the mid-cycle I think. Is mergermarket accretive or dillutive to the margin for FT Publishing?

Marjorie Scardino

Okay, Rona that's a lot of questions. Would you like John to take that IDC balance question, okay? John is he Chairman of IDC by the way, just so you know.

Rona Fairhead

I think in terms -- unless you're desperate.

John Makinson

No, not at all.

Rona Fairhead

In terms of -- let’s start with the IDC balance sheet, I think what we've always done with the cash is we have been able to reinvest it in acquisitions. And where we don't think -- and which have been incredibly value creating. And as you've seen IDC's performance has continued at exceptional levels, fantastic margins, great cash, 95% renewal rates. So we've been able to do that by continuing to add bolt-on's.

You'll have seen last year that we did a special dividend payment. And you'll also have seen that we've started an annual dividend policy. And I think that's more to bring it in line with the beliefs that we have in Pearson that if you have enough cash to grow your business, and to do those bolt-on acquisitions, so that policy is still carrying on, we will do bolt-on's in IDC, then a normal dividend is the best way to reward shareholders on an ongoing basis. So I think was just bringing it into line with our beliefs at Pearson.

In terms of its fit, I think that here we have a business which we have built up over the last 10/15 years. It has done exactly what we wanted which is to help manage through the volatility of the advertising cycle and been that consistent profit generator. So we are very, very pleased with what it's done.

In terms of its linkages if there are [a few] direct linkages I think being part of the FT Group, which it is, helps it in particularly in foreign markets in getting their foot though the door. And, as you said, the branding has been done importantly because it's very much a business to business sale, interactive data. And so rather than have a number of brands which were fighting with each other, that the focus has been on more what is the product we do. So it's pricing and reference data, its real time services, its fixed income and analytics. And I think that is just doing what you do in Pearson, which is concentrating on the customer that they are serving, and making sure that the customer understands exactly what we offer, so that we can grow further.

Marjorie Scardino

[Don’t forget]

Rona Fairhead

Oh yes you had another one.

Marjorie Scardino

Mergermarket yes.

Rona Fairhead

Which was about mergermarket, we said that mergermarket will be earnings enhancing in 2007, and we are very comfortable that it will be. It's running ahead of its acquisition plans. We are incredibly pleased with how the acquisition has been. Obviously we only had it for three months at the end of last year, so we expect it to be earnings enhancing in 2007, ROIC enhancing from 2008.

In terms of the overall FT Publishing cycle being in double digits, it is entirely consistent with us thinking that the FT and FT.com can be at 15% through the cycle. Its just as we build this business up then we are expecting at least double digit margins next year.

Unidentified Audience Member

(Microphone inaccessible)

Rona Fairhead

In IDC?

Unidentified Audience Member

Yes.

Marjorie Scardino

Can everybody hear that?

Rona Fairhead

It's at 62%, we own 62% it's not a wholly owned subsidiary.

Unidentified Audience Member

(Inaudible) [Effectively] why your holding is 62% rather than [go to] 100% [the parent] then finances the acquisition which (inaudible) and make it address the inefficiency of cash on the balance sheet (inaudible).

Rona Fairhead

I think its again, we look all the time at what went with our holding IDC what's the best thing to do from the long term for Pearson value creation. And I think we are very comfortable that IDC has got the strategy that we support and completely endorse. They have enough cash to invest to build that business even more strongly. And in a sense what more do we gain from changing our position when we have a lot of other opportunities around the Group. So we are very comfortable with where we are. But we constantly look at that situation.

Marjorie Scardino

Any other questions: Yes. Did you press the button on your thing?

Giasome Salati, Credit Suisse

Yes.

Marjorie Scardino

There you go.

Giasome Salati

It's really only one big questions its Giasome Salati from Credit Suisse. Looking at slide 48 when you kind of set up what next strategy, the Company as it is now is the result of what you thought maybe five, 10 years ago and we look like we are reaping all of the benefits now. It looks like we are now ready for another change maybe a refocusing in terms of strategy with all of these education assets moving around. This is consolidation time.

You spoke about international opportunities. There is maybe a sign that US School K212 is nearing maturity whilst college and professional maybe faster greater opportunities together with international. How do you look at Pearson in this new landscape? What is going to be the share of Pearson revenues coming from new geographies or maybe professional education in the usual geographies we know from Pearson?

Marjorie Scardino

Well I can't really give you percentages because I don’t know them yet, but our focus starting about five years ago was to be a different kind of Education Company. To be a company that really used technology and was in the school and higher Ed and professional services business as well, because we thought that that's what added to content and in many cases content is a commodity. So we have a lot of work to do to carry on doing that. And that will be a big part of our growth for sure.

I wouldn’t say the US education school business is probably slowing down, I would think its ramping up. As now we get to the nub of the problem, they've been preparing to meet the No Child Left Behind Bill and accountability by changing the way they test and all of that. Now they are getting to the point where some schools have succeeded and some haven’t. So they've got problems. And one of the focuses of our school business is to be a solutions company, same with Higher Ed actually. So we have a company that will go into a School system and try to assess their problem and then try to help them solve it. That will be a big area of growth for us in School.

Vocational and technical, as I said and as you imply, will be very big helped partly by the FT. And internationally we now have $1.6m worth of sales. We've been growing quite fast internationally; our focus has been on margins there of course. But we'll look for markets where we think there is a real government commitment to education. And there is a real desire on the part of citizens to have education, and there is a business model that will allow us to make money out of it, and so as we talked about those are both emerging markets, and they are the markets that we know and are already in, in Western Europe and America.

And so that mix will continue. But we will be less and less of a text book and publishing model and more and more of a services and technology model. And that creates a different sort of company. We did set out to do it a long time ago. But that does create a different sort of company.

The other thing that we are trying to do is connect, as I said in my points, connect everything from Kindergarten through Professional life. That's a pretty exciting idea for education because it means if you're in the 10th grade in America but your ready for sophomore biology in college we might be able to offer it to you. So beginning to personalise the learning experience is something that’s going to require us to acquire and think about what we are doing. But our focus has been on breadth, so just adding bulk is not necessary for us, we've got the scale to do what we want to do. I don't know if that answered your question.

Giasome Salati

Sorry, I really don’t want to draw you into saying how much you like Thomson assets or (inaudible), but we understand you are looking at all of these assets. And maybe just to have an indication, if you had an opportunity which area would you like to grow bigger professional, higher education or international?

Marjorie Scardino

I think that we like our focus on all three, and we are going to carry on doing that. I am not trying to dodge your question, but obviously I am not going to comment on what acquisitions and disposals there are out there that really is, as Rona says, is a religion with us. It's just bad if you are a seller and bad if you are a buyer and bad if you are non-participant, because you look like you are kind of not paying attention. So, it’s a very exciting market and everybody is going to be in disruption but us and that's great, so we are going to take advantage of that.

Simon Wallace, Collins Stewart

Thanks its Simon Wallace from Collins Stewart. I'd like to know a little bit more about the Financial Times growth targets. Do you have circulation targets for the FT? I am particularly interested about Asian targets. Is readership a more relevant measurement for Asia rather than circulation? And is dwelling too much on circulation becoming less relevant because you are trying to move to exhibitions and so on?

Marjorie Scardino

Rona.

Rona Fairhead

I think it’s a great question but I think advertisers will look both to circulation and to readership. So I think it would be, if you just concentrated on one and let the other go then eventually the advertisers would point to the one that was slipping. So I think you have to look at both.

I think increasingly on circulation you have to look at the users and subscribers in online, because I think that will be important. But I think readership is critical in the quality of audience that it says that you are gaining. So, for example, the US survey the Mendelson Survey last year we grew -- our circulation is about 135,000, our readership in 2005 was just 300,000 and we were almost 500,000 in 2006. And when you look at the quality of that audience over 20% were in the C-suite.

So as far as an advertiser they don't just want value, there's a lot of advertisers that are advertising business, global publications want to get to those decision makers. So I think they'll both carry on being important. And I think in terms of moving to conferences and awards what's that doing is using the power of the brand and the power of the content and the power of the access, and looking for different was that we can get more revenue from our content, and will tell you how that move towards increasing the content proportion of our revenues is developing as the years progress.

Marjorie Scardino

So I guess the implication of that is we are not a volume business, we are a who reads us business though continuing to grow is important. One last question and [Meg] it's to you since you are the last man standing.

[Meg Geldens, MAN Securities]

I am wondering if Will and Mike Dowling right -- Steve, sorry, can tell us whether technology is going to be another -- a big thing again in winning 2007 adoptions in the case of schools and driving college growth. Are we going to see another digital program that's going to wow us in 2007, for example, for Texas math, can you maybe talk about technology in '07?

Marjorie Scardino

Without giving any competitive advice.

Steve Dowling

Yes. We are following on with more digital programs. We had a bit of a digital play in the current math adoption in Texas the 2006/07 which is a secondary math this year. We'll bid an elementary program for the elementary adoption that's coming up at the end of March I believe it is, and we expect to follow on with the digital program there and that will be a program that's bid in Texas and then will be sold nationally as a national program too. It's becoming a much greater and sort of more regular part of our whole publishing plan. So over time I think it will become in some sense less unique and more integrated. But we will follow on in this immediate cycle.

And the -- we are building our business more and more to integrate print and technology so that our developmental people and our management of all the publishing programs and so on are really fully integrated. And that's -- we see that's the way the markets going, a lot of demand for the personalisation that Marjorie talked about. And for schools to get digital content we are going to be a provider and I think a leader.

Marjorie Scardino

Will, important in Higher Ed.

Will Ethridge

Yes, we've been very strong in math and sciences and we've been working on extending it to business and what we call this soft side. And this year, especially in business I think we'll see some real uplift. Last year we brought out My EconLab with Glenn Hubbard's, [Prince's] economic text. That text did very well because of the great text and also because of My EconLab; I think we have uplift there.

We are brining out a very exciting finance book (inaudible), and it’s a big course worldwide and again we are launching MyFinanceLab. And then we are brining MyReadingLab and MyWritingLab, so we'll have the whole basic skills in maths and then in English. So I think it will be a fairly big year for us in terms of accelerating our technology across the portfolio.

Marjorie Scardino

Thank you. I know you got a lot more media meetings to go, but appreciate your attention and courtesy. And hope to have any other questions to Luke or to anybody else you'd like here. Thank you very much.