

2013 half year results

Friday 26 July 2013

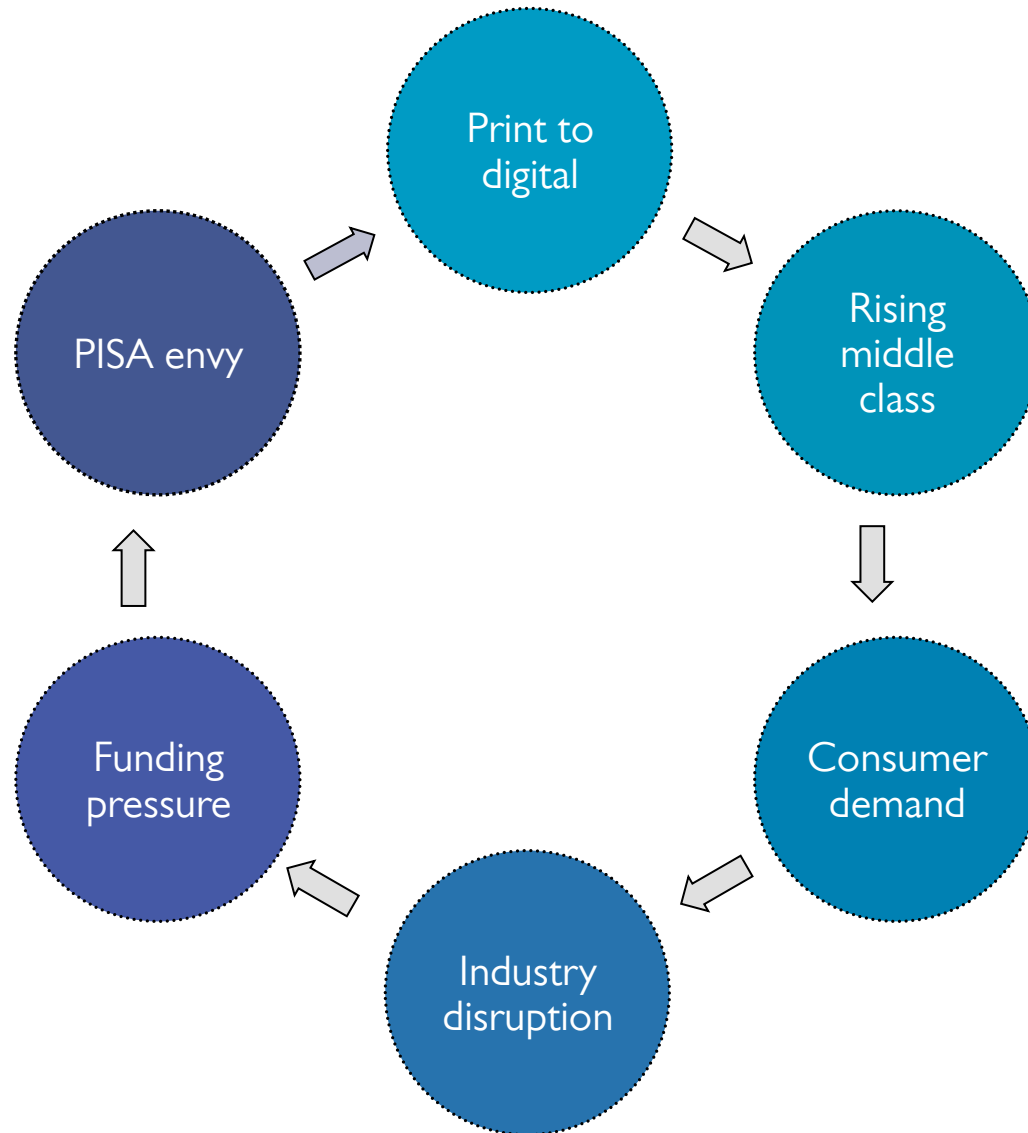
Lessons from the first half

Significant share gains, even in tough markets

Strong organic growth in key categories, geographies

Continuing structural change

Structural change



First half highlights

- Good growth in digital, services, emerging markets
- Penguin Random House merger complete
- Major restructuring on track
- Reorganisation into single global education company under way
- New senior leadership team established
- Full year guidance reiterated; 7% increase in interim dividend

Financial review

Outlook unchanged

Developed world and print publishing generally tough

Developing economies; digital and services generally strong

Modest growth in North America; good growth in International (outside UK)

Good growth in professional testing; Pearson in Practice closure

FT Group content/subscription revenues growing; advertising weak

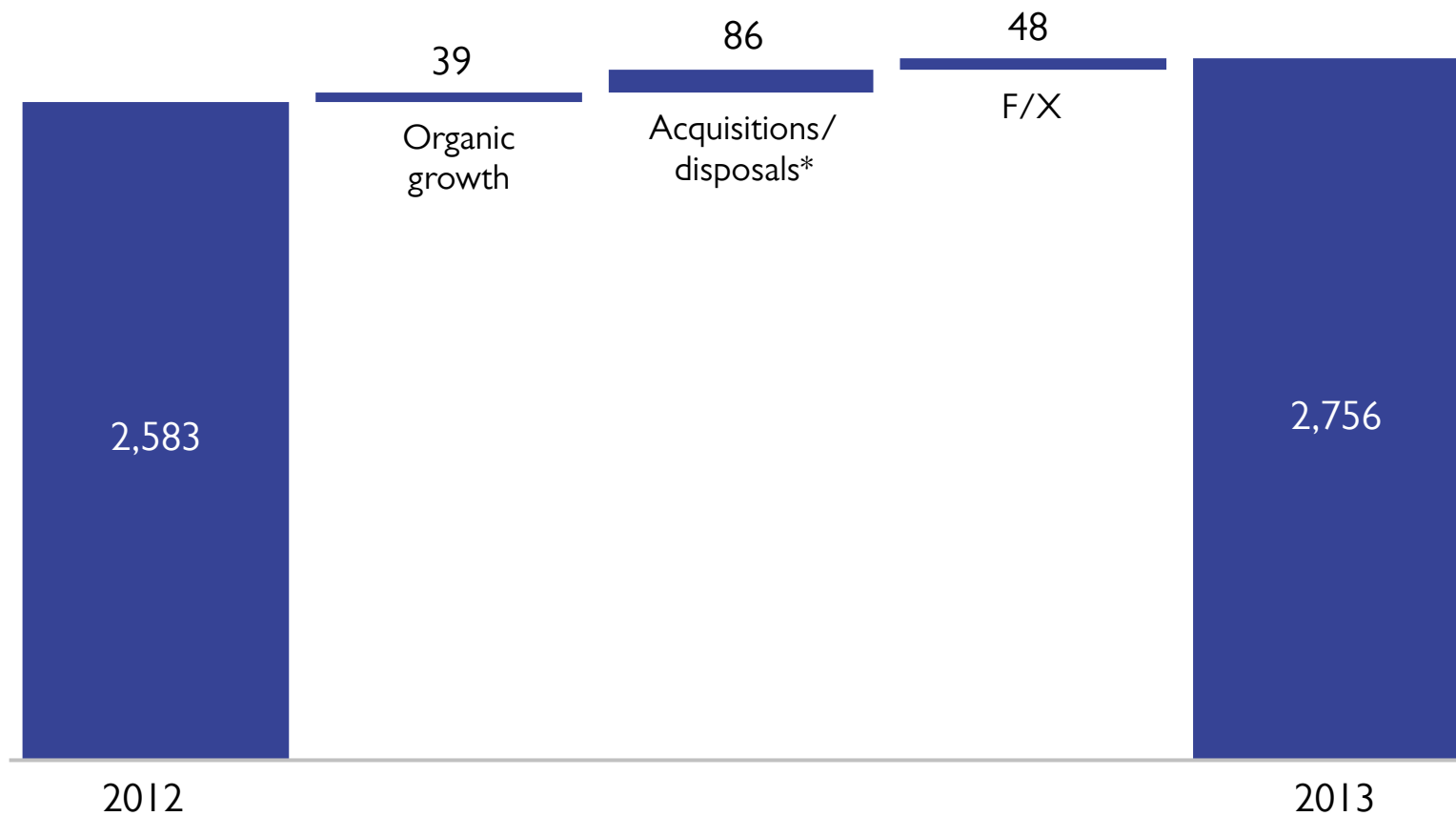
Penguin Random House completed on 1st July 2013



Guidance unchanged: adjusted EPS before restructuring of ~82.6p at CER*

* £/\$ exchange rate of 1.59

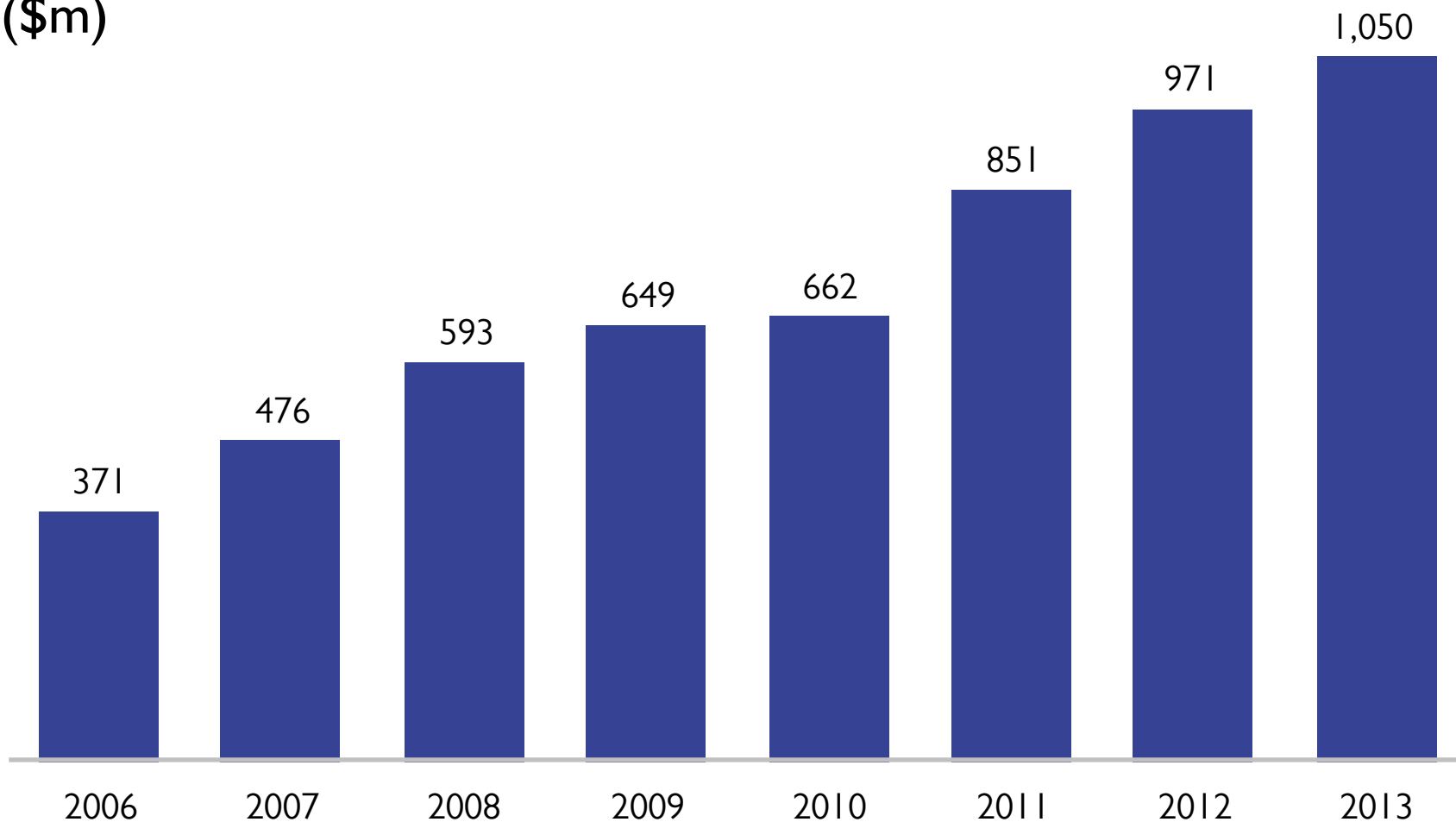
Sales growth, £m



Total business

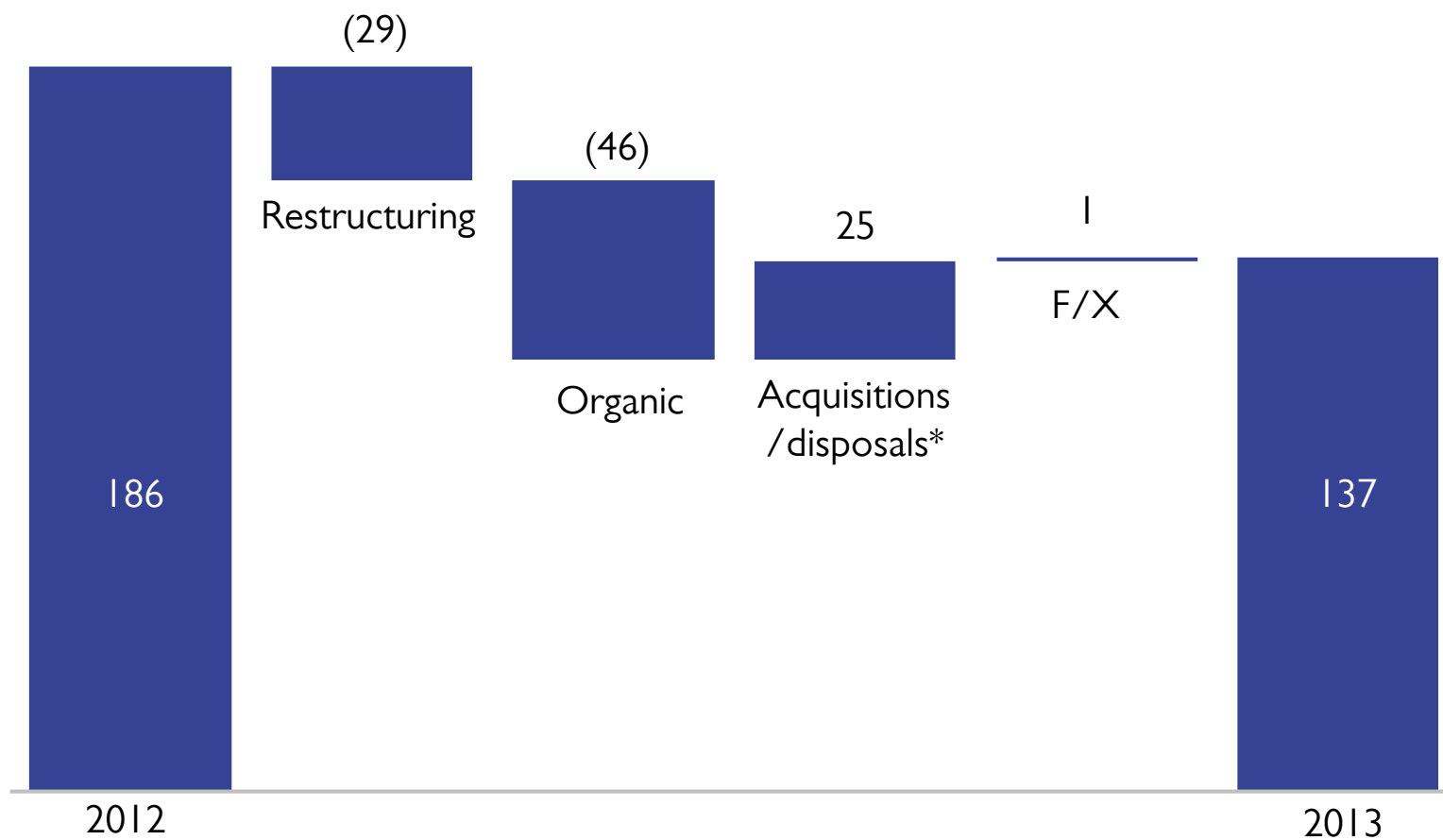
*Includes Pearson in Practice closure

Deferred revenue – Half year (\$m)



Continuing operations

Profit growth, £m



Total business

* Includes Pearson in Practice closure

North American Education

£m	H1 2013	H1 2012	Headline Growth	CER Growth
Sales	1,102	1,022	8%	5%
Operating profit	13	62	(79)%	(77)%

- School sales broadly level
- Assessment & Information resilient
- Higher Ed ahead; gaining share; phasing benefit; EmbanetCompass
- £7m net restructuring charge expensed in H1

International Education

£m	HI 2013	HI 2012	Headline Growth	CER Growth
Sales	736	724	2%	2%
Operating profit	50	72	(31)%	(30)%

- Emerging market revenues up strongly
- Now 45% of International total
- £18m net restructuring charge expensed in H1

Professional Education

£m	HI 2013	HI 2012	Headline Growth	CER Growth
Sales	188	180	4%	2%
Operating profit	20	9	122%	111%

- Good growth in testing
- Absence of Pearson in Practice

FT Group

£m	HI 2013	HI 2012	Headline Growth	CER Growth
Sales	217	216	0%	(1%)
Operating profit	26	21	24%	19%

- Digital & content revenues growing
- Ad revenues declining
- Good growth at Mergermarket
- £4m net restructuring charge expensed in H1

Penguin

£m	HI 2013	HI 2012	Headline Growth	CER Growth
Sales	513	441	16%	14%
Operating profit	28	22	27%	27%

- Strong HI release schedule
- Author Solutions performing well

Adjusted earnings per share

£m	HI 2013	HI 2012
Adjusted operating profit	137	186
Finance costs	(33)	(29)
Adjusted profit before tax	104	157
Taxation	(25)	(39)
Adjusted profit after tax	79	118
Non-controlling interest	1	1
Adjusted earnings	80	119
Adjusted EPS	9.9p	14.8p

Total business

Associate accounting

£m	HI 2013 As reported	HI 2013 pro forma*
Adjusted operating profit	137	109
Penguin as associate	-	19
Adjusted operating profit (new)	137	128
Finance costs	(33)	(33)
Adjusted profit before tax	104	95
Taxation	(25)	(16)
Adjusted profit after tax	79	79
Non-controlling interest	1	1
Adjusted earnings	80	80
Adjusted EPS	9.9p	9.9p

*Pro forma for Penguin Group only as an associate. Does not include Random House.

P&L – statutory

£m	HI 2013	HI 2012
Operating profit	20	52
Finance costs	(33)	(29)
IAS 39/IAS 21	9	5
Profit before tax	(4)	28
Taxation	6	(8)
Profit after tax	2	20
Discontinued operations	(11)	15
Non-controlling interest	1	1
Earnings	(8)	36
EPS (statutory)	(1.0)p	4.5p

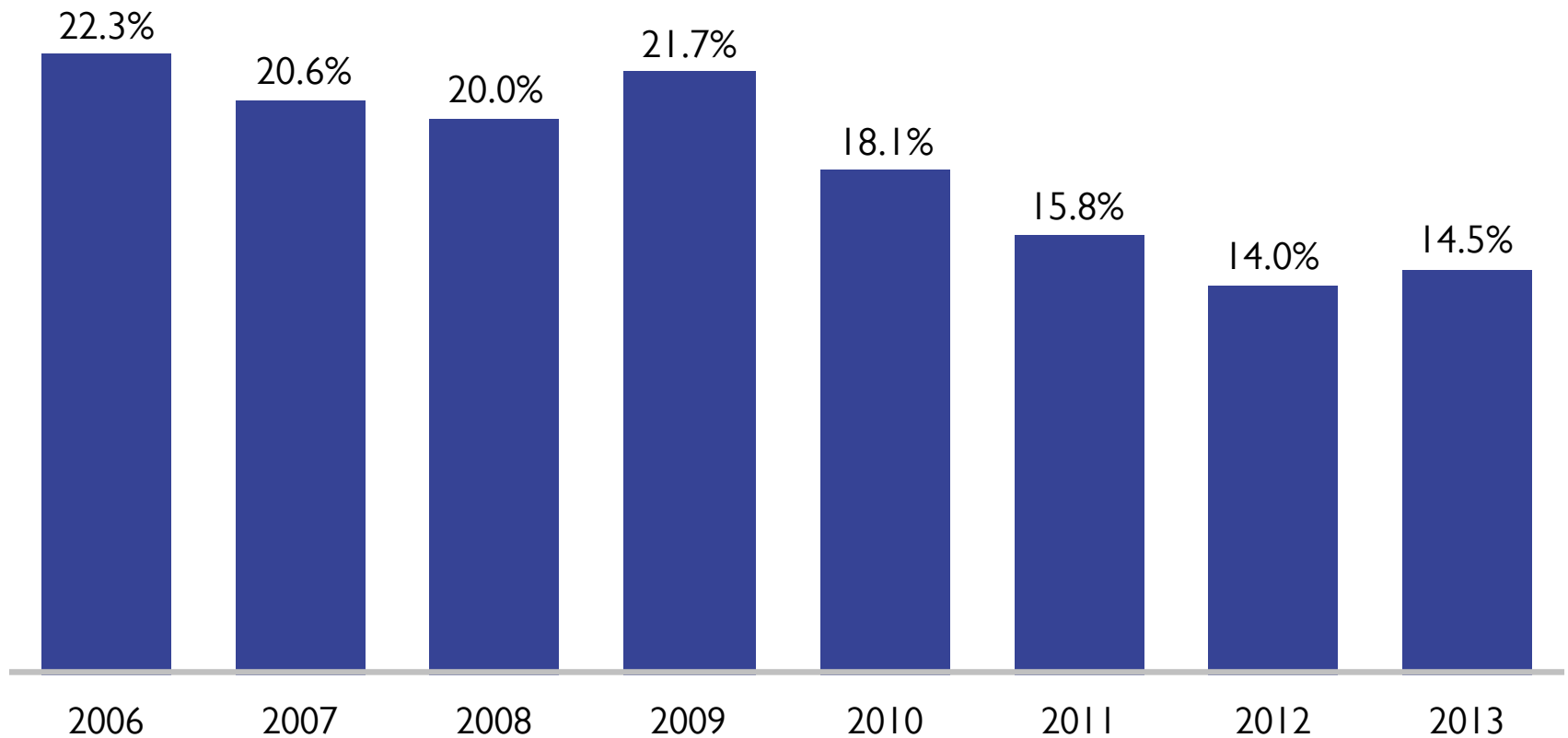
Free cash flow

£m	HI 2013	HI 2012
Adjusted operating profit	137	186
Working capital	(342)	(361)
Fixed asset net purchases	(87)	(77)
Depreciation	73	66
Other movements	(28)	(17)
Operating cash flow	(247)	(203)
Tax paid	(102)	(67)
Finance charges	(28)	(21)
Free cash flow	(377)	(291)

Total business

Average working capital/sales

Average to June

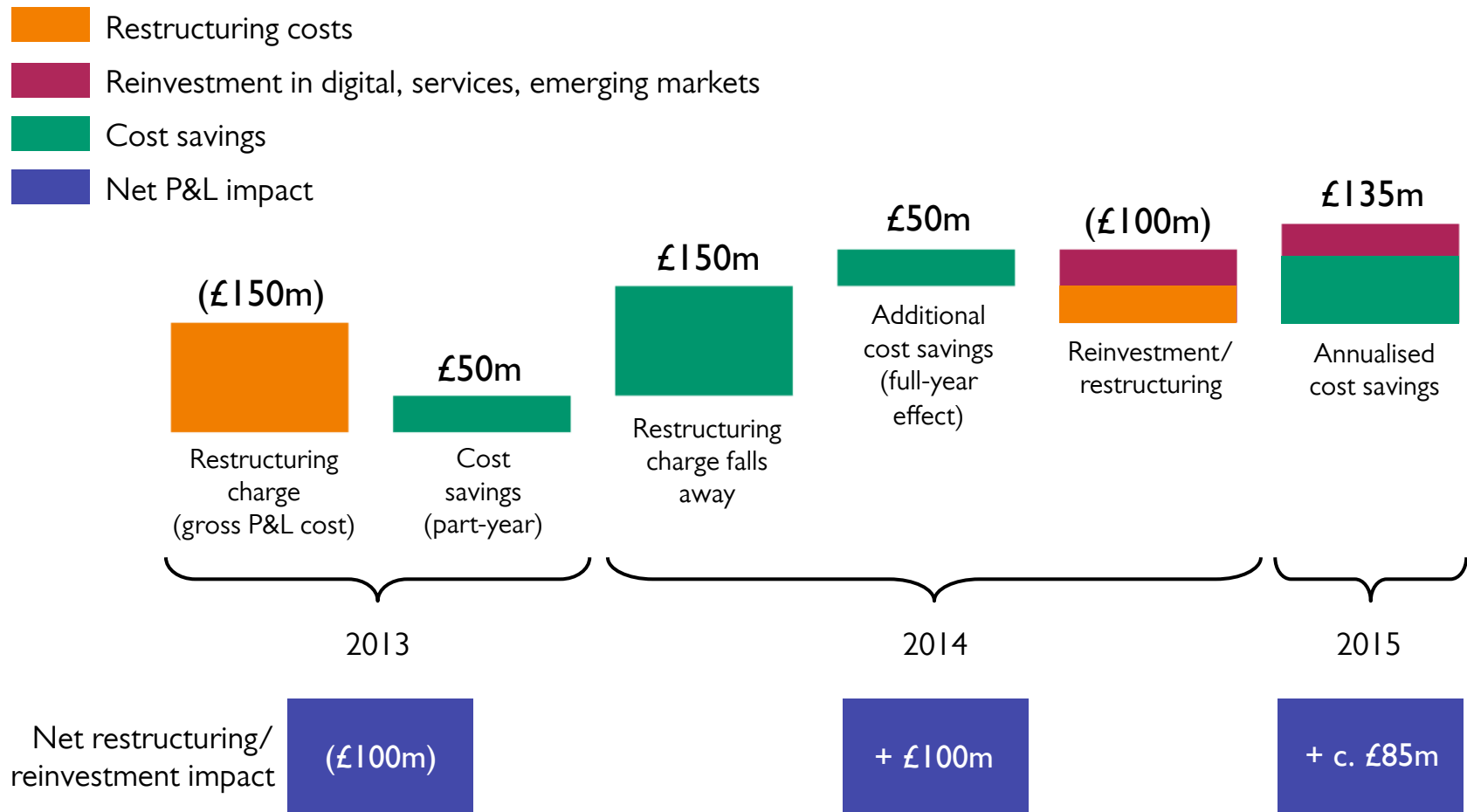


Total business

Balance sheet

£m	HI 2013	HI 2012
Goodwill & intangible assets	6,987	6,276
Tangible fixed assets	382	381
Operating working capital	1,073	1,004
Other net liabilities	(161)	(170)
Net assets	8,281	7,491
Shareholders' funds	5,753	5,779
Pensions	65	46
Other provisions	197	139
Non-controlling interest	19	17
Deferred tax	410	332
Net debt	1,837	1,178
Capital employed	8,281	7,491
Total business		

P&L impact of restructuring programme*



*Excludes impact of any underlying change in performance

Restructuring on track

- £37m gross (£29m net) expense in H1 2013
 - Exit/distributor model: e.g. New Zealand, Australia vocational
 - Restructure: e.g. US sales, Australia, ELT, Spain, IndiaCan
- £113m gross (£71m net) in H2
- New organisation structure

2013 half year results

What we are stopping



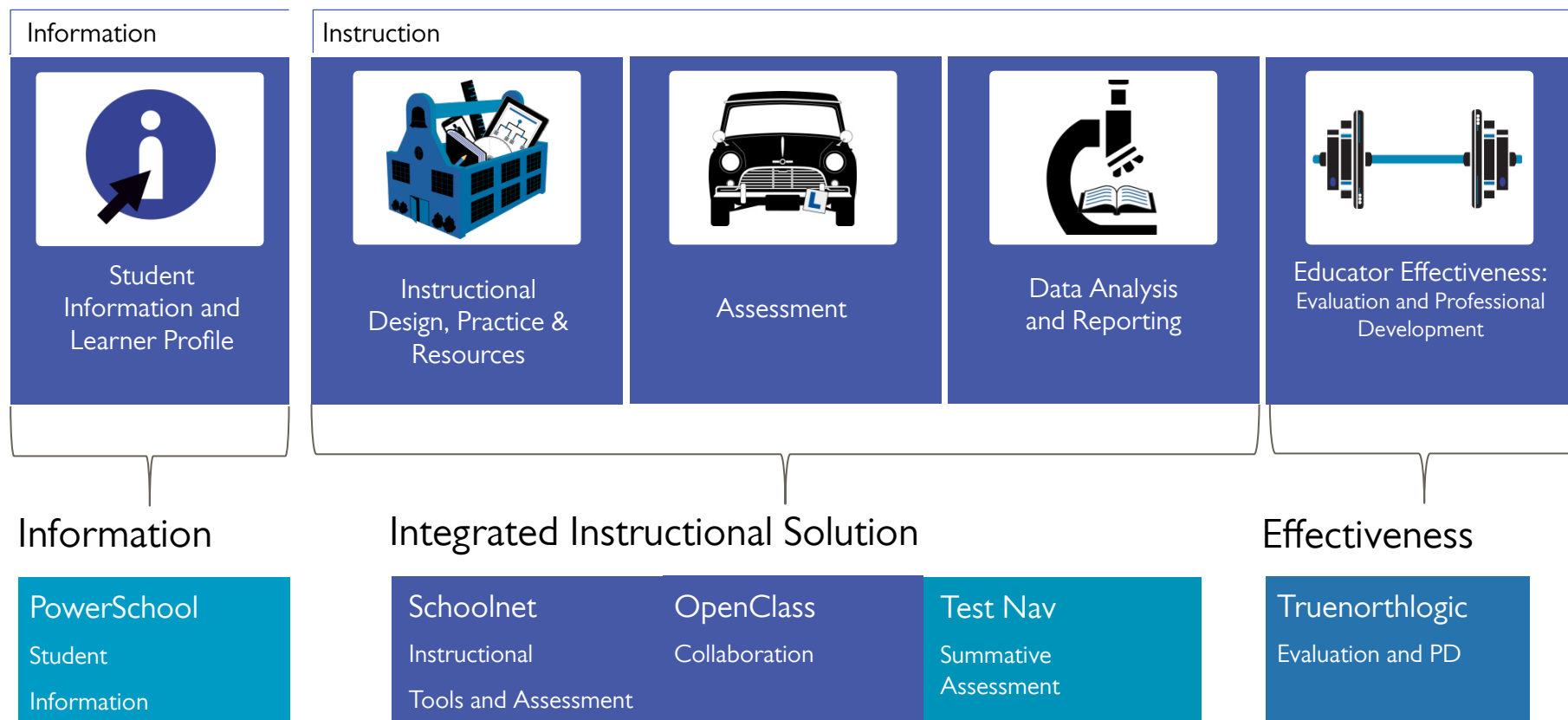
What we are stopping: common themes

- Structural challenges
- Local, not scalable
- Unclear transition to digital or services

Where we are investing

1. Next generation learning services
2. Next generation assessments
3. Pearson Inside
4. Direct delivery

Next generation learning: HomeBase



Next generation assessments

"The new national curriculum embodies high expectations in every subject and will raise standards for all children. It combines the best elements of what is taught in the world's most successful school systems, including Hong Kong, Massachusetts, Singapore and Finland, with some of the most impressive practice from schools in England".

- UK Department for Education

"No national curriculum can be modernised without paying close attention to what's been happening in education internationally".

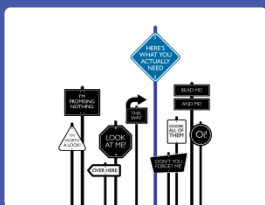
- Michael Gove, Secretary of State for Education

Next generation assessments: World class qualifications



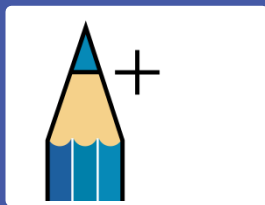
We have conducted an extensive investigation of the standards, curriculum and assessments in high-performing education jurisdictions

Inside services: Pearson Embanet



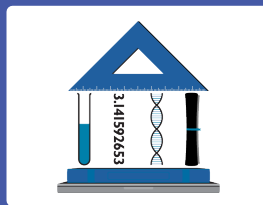
Marketing and
recruitment

- Programme marketing and campaign management
- Market research
- Institutional readiness / strategy
- Self-paced, self-directed



Enrollment and
admissions
services

- Enrollment services
- Placement / prep
- Online readiness assessment



Academic/
programme
services

- Programme planning, labour market intelligence
- Curriculum services
- Course and programme development
- Faculty support & training
- Faculty recruitment
- Lecture capture



Student services

- Help desk/Technical support
- Mentoring and coaching
- Online tutoring services
- Early warning systems



Placement and career
services

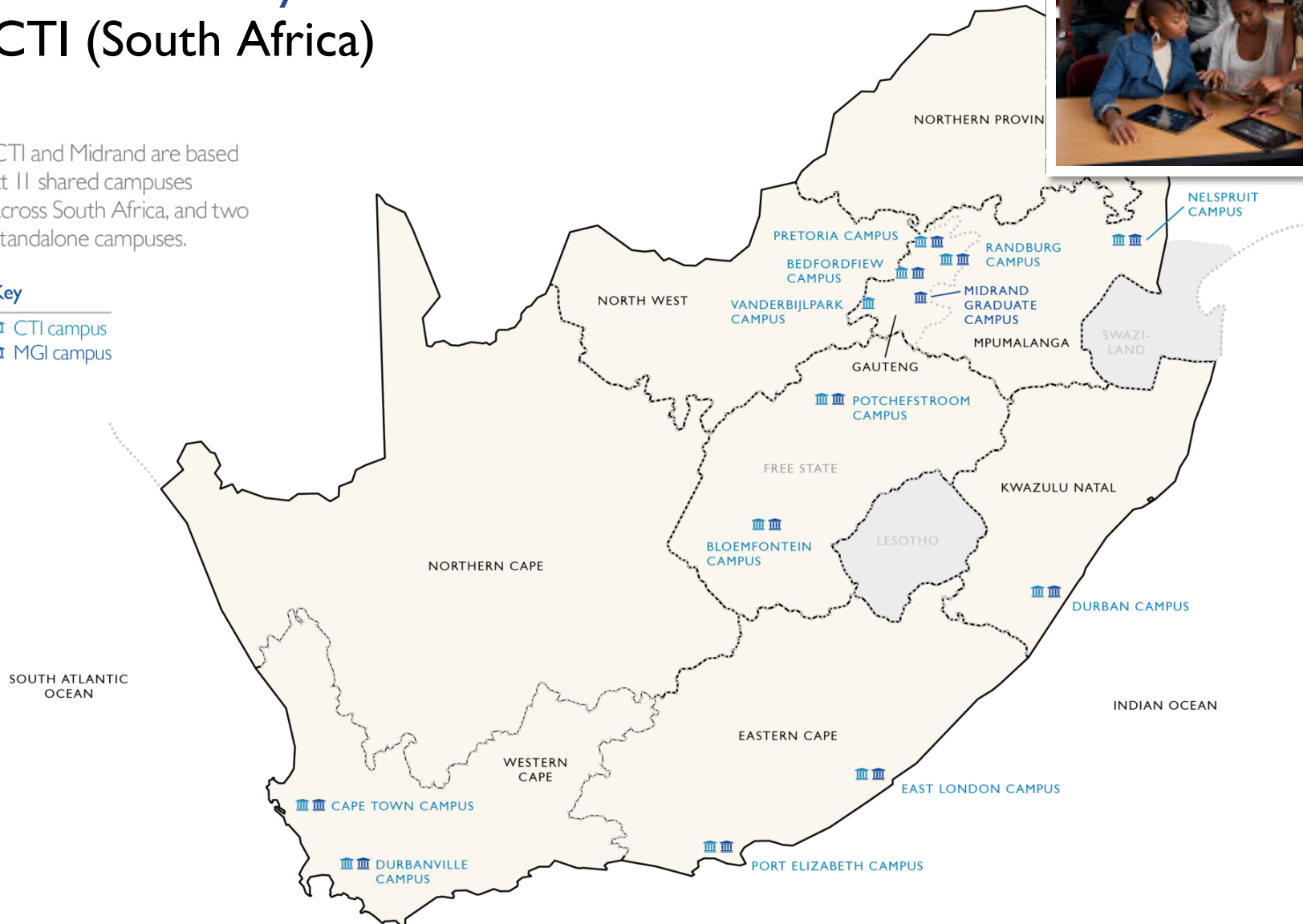
- Mentoring and coaching
- Workforce education
- Career assessment and exploration
- Experiential learning management

Direct delivery: CTI (South Africa)

CTI and Midrand are based at 11 shared campuses across South Africa, and two standalone campuses.

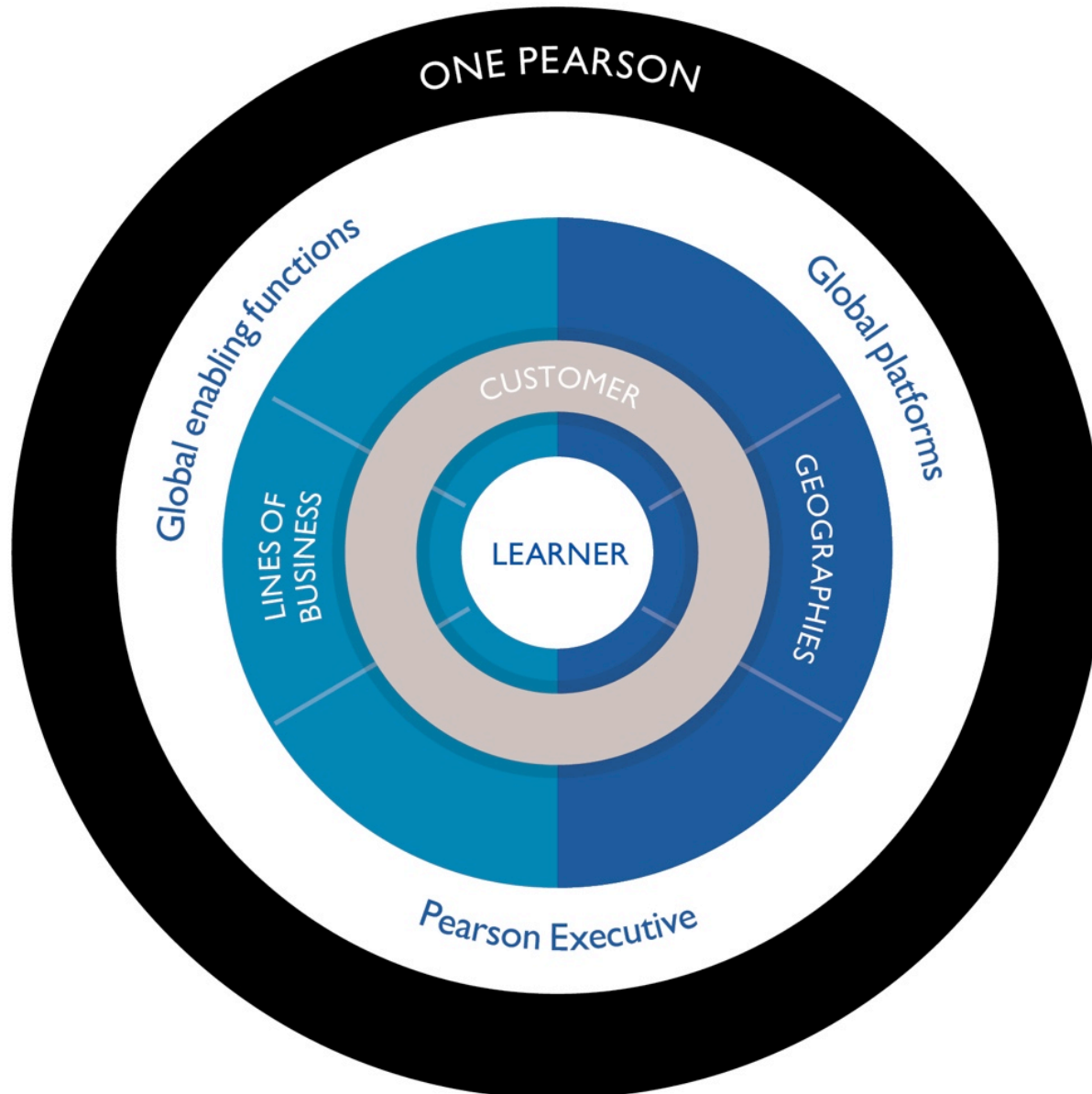
Key

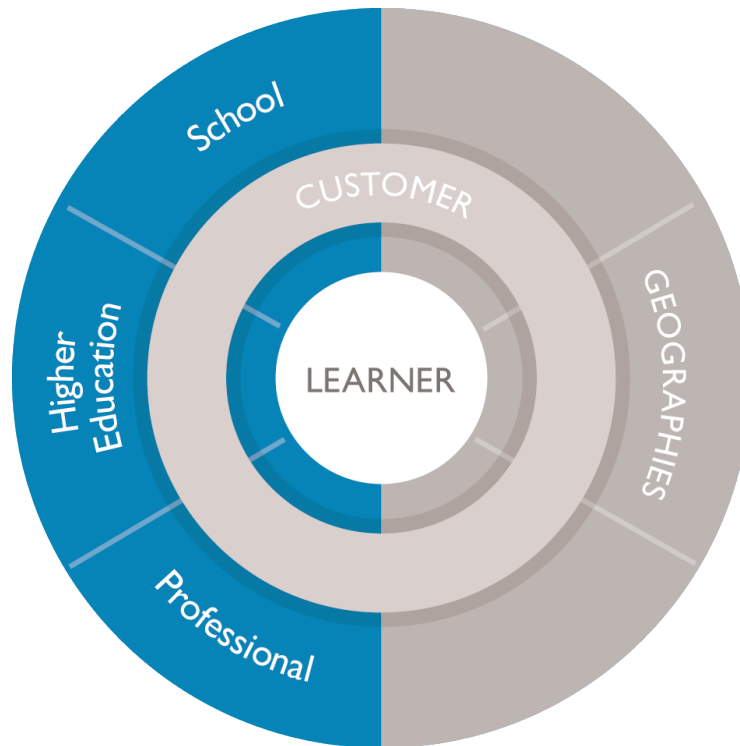
- CTI campus
- MGI campus

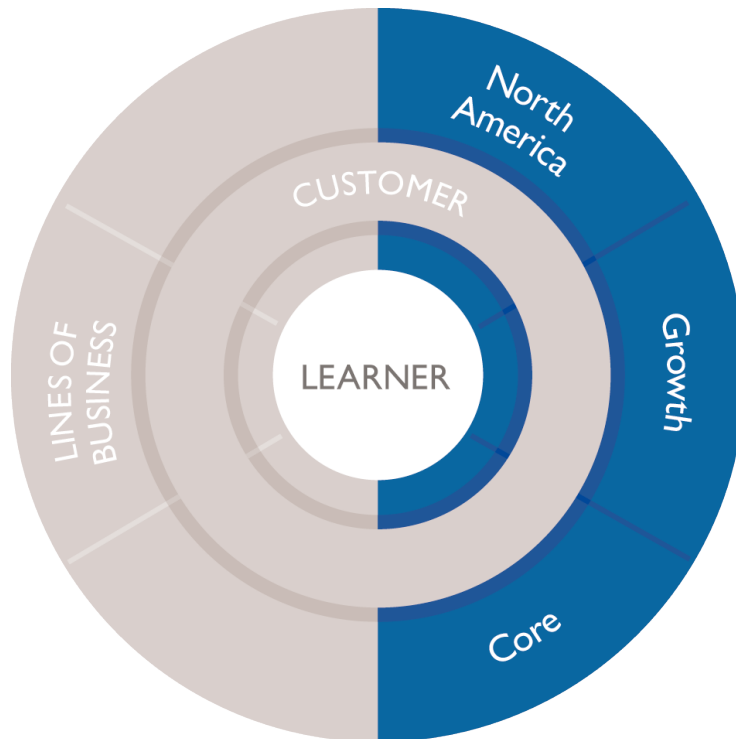


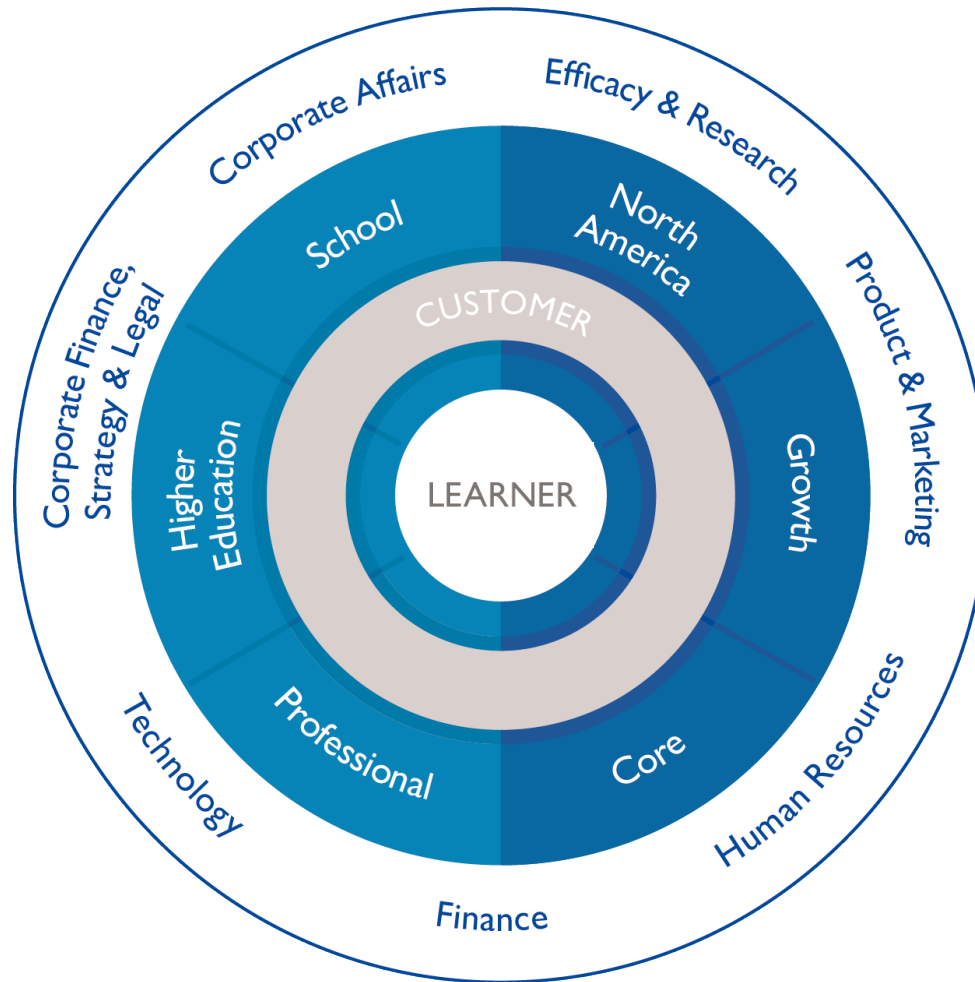
Our goals

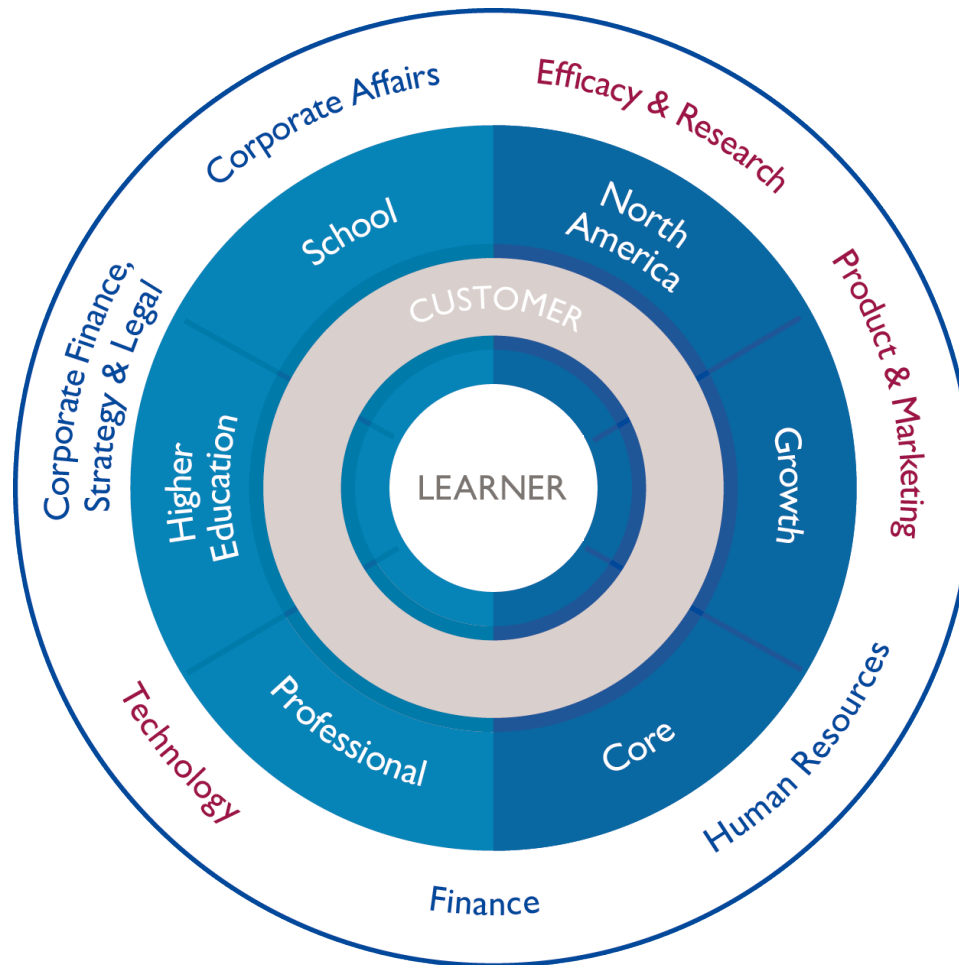
- Organise our resources around our greatest opportunities, focusing on those markets (segments and countries) where demand for our services is growing fastest
- Become leaner and faster, removing internal redundancy and focusing on a smaller number of internationally-relevant and increasingly digital products and services
- Institutionalise efficacy that puts the learner first; personalised and connected learning at scale

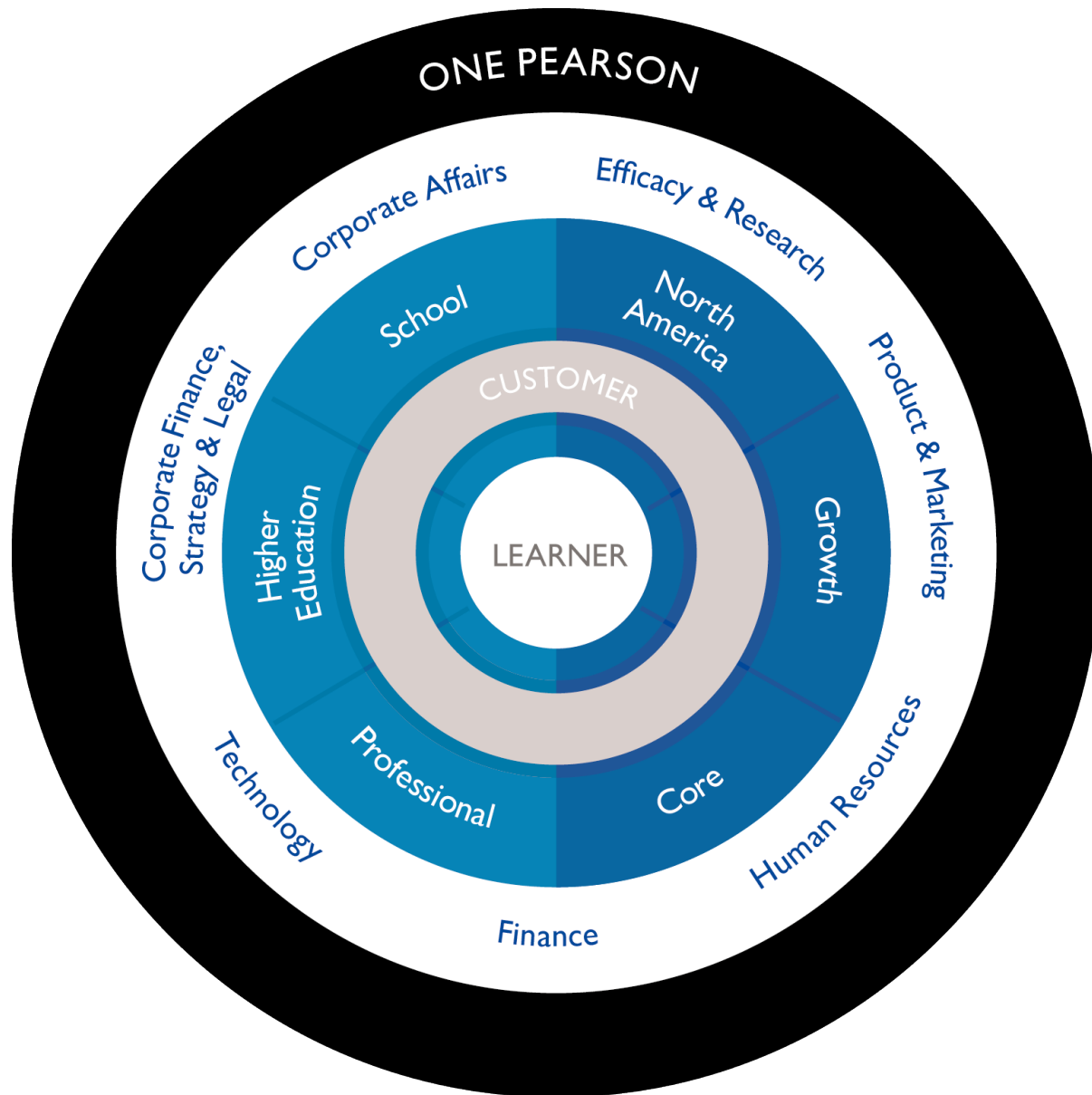












Global education is a once-in-a-generation opportunity.

To seize it, we must transform Pearson.
Again.

ALWAYS
LEARNING