

2014 half-year results

Friday 25 July 2014

First half summary

<i>£m</i>	HI 2014	HI 2013	<i>Headline growth</i>	<i>CER growth</i>
Sales	2,047	2,190	(7)%	2%
Adjusted operating profit excluding Mergermarket	73	124	(41)%	(31)%
Total adjusted operating profit	75	137	(45)%	(36)%
Adjusted EPS	4.7p	9.9p	(53)%	
Operating cash flow	(254)	(247)	(3)%	
Net debt	(2,028)	(1,837)	(10)%	
Dividend	17p	16p	6%	

What we learned in H1 2014

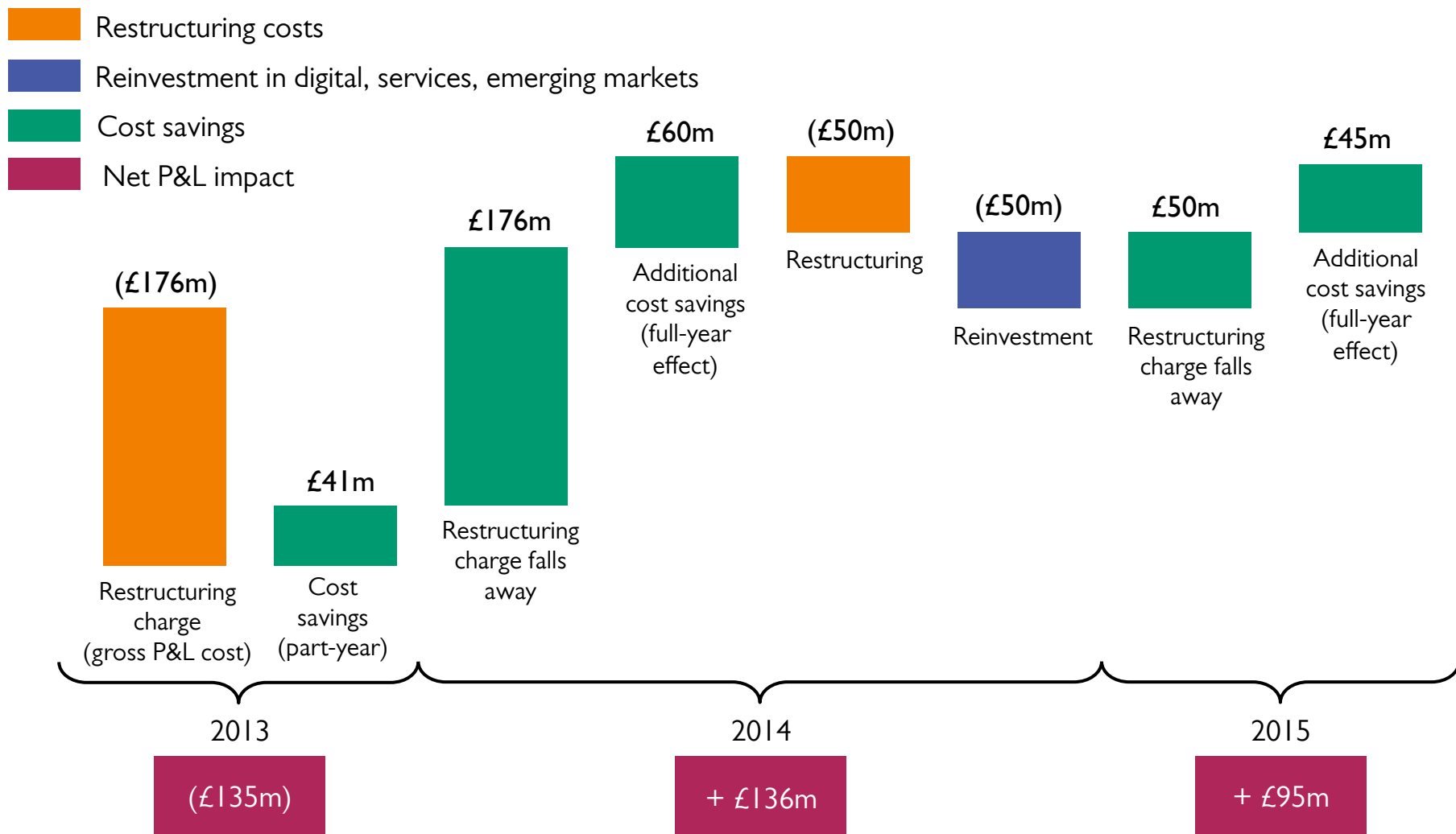
- Cyclical and policy forces as expected
- Overall, good competitive performance
- Major restructuring costs to be completed this year
- Growing strongly in digital, services & emerging markets
- Reinvestment on track
- Reiterating 62p to 67p earnings per share guidance for 2014
- Larger market opportunity, a sharper focus on the fastest-growing markets and stronger financial returns in 2015 and beyond

Financial review

2014 outlook unchanged: 2013 vs. 2014 base

- Portfolio changes
 - Mergermarket: (£26m)
 - Grupo Multi: completed on 11 February; integration; currency
 - Penguin Random House associate tax accounting: (£10m)
- Currency @ 28 February 2014
 - £/US\$ @ 1.67: (£30m)
 - Emerging markets (Rand, Renminbi, Real): (£20m)
- Restructuring charges/benefits; reinvestment
 - Absence of 2013 restructuring: £176m
 - Incremental savings from 2013 restructuring: £60m
 - 2014 restructuring: (£50m)
 - 2014 reinvestment: (£50m)
- Tax on PBT including PRH: 19%-21% in 2014 vs. 15% in 2013

P&L charges/ benefits of restructuring programme*



*Excludes impact of any underlying change in performance

2014 outlook unchanged: organic

North American Education

- K12 Learning Services
 - better year for curriculum; another good year for Connections
 - significant revenue deferral; increased plate amortisation
- Assessment & Information
 - disruption during transition to Common Core
- College
 - good growth in digital & services
 - lower college enrolments, notably career and community colleges

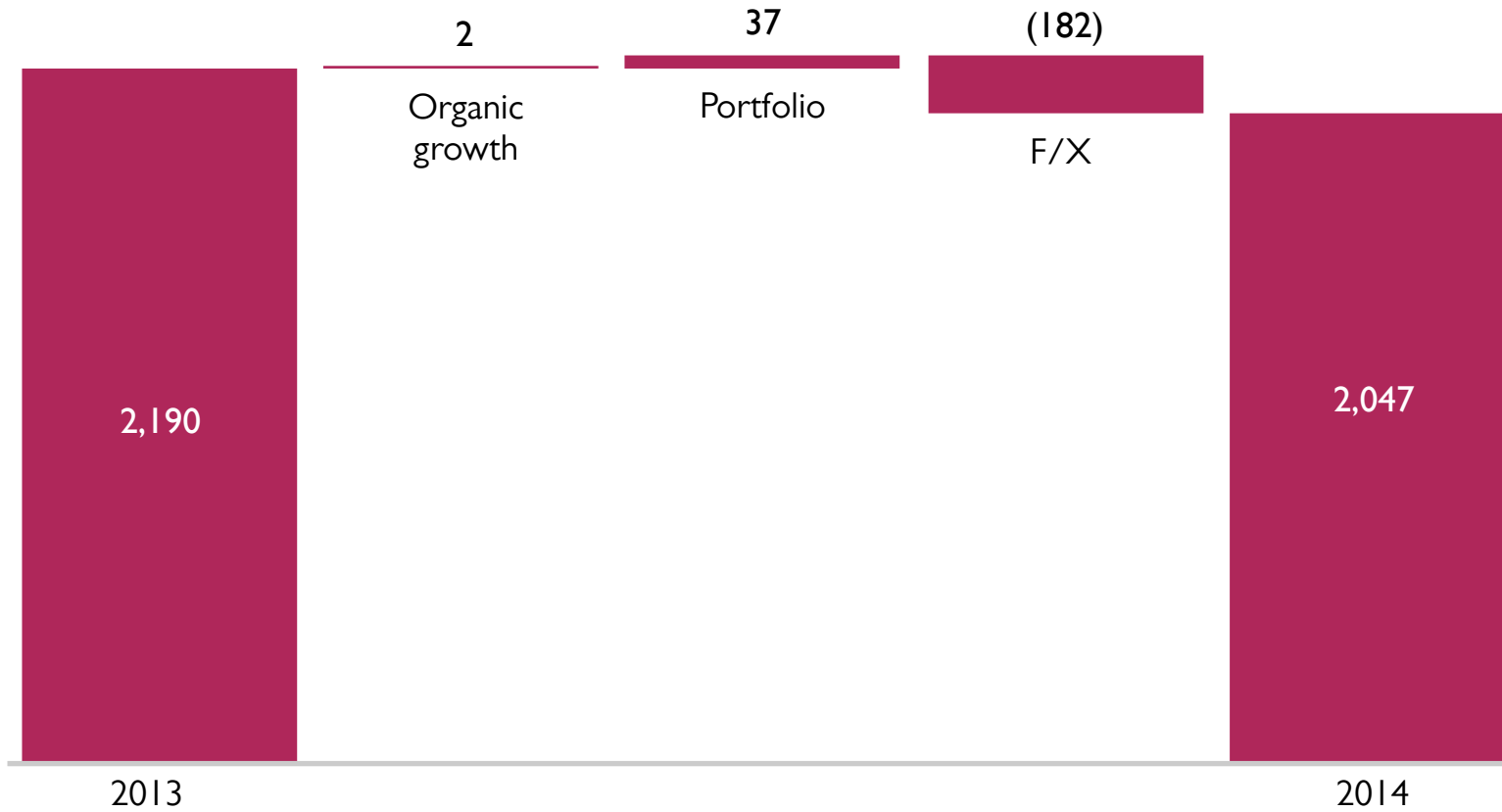
Core

- ongoing disruption from curriculum change to resources and assessment in UK
- Australia stabilising; curriculum change in Italy

Growth

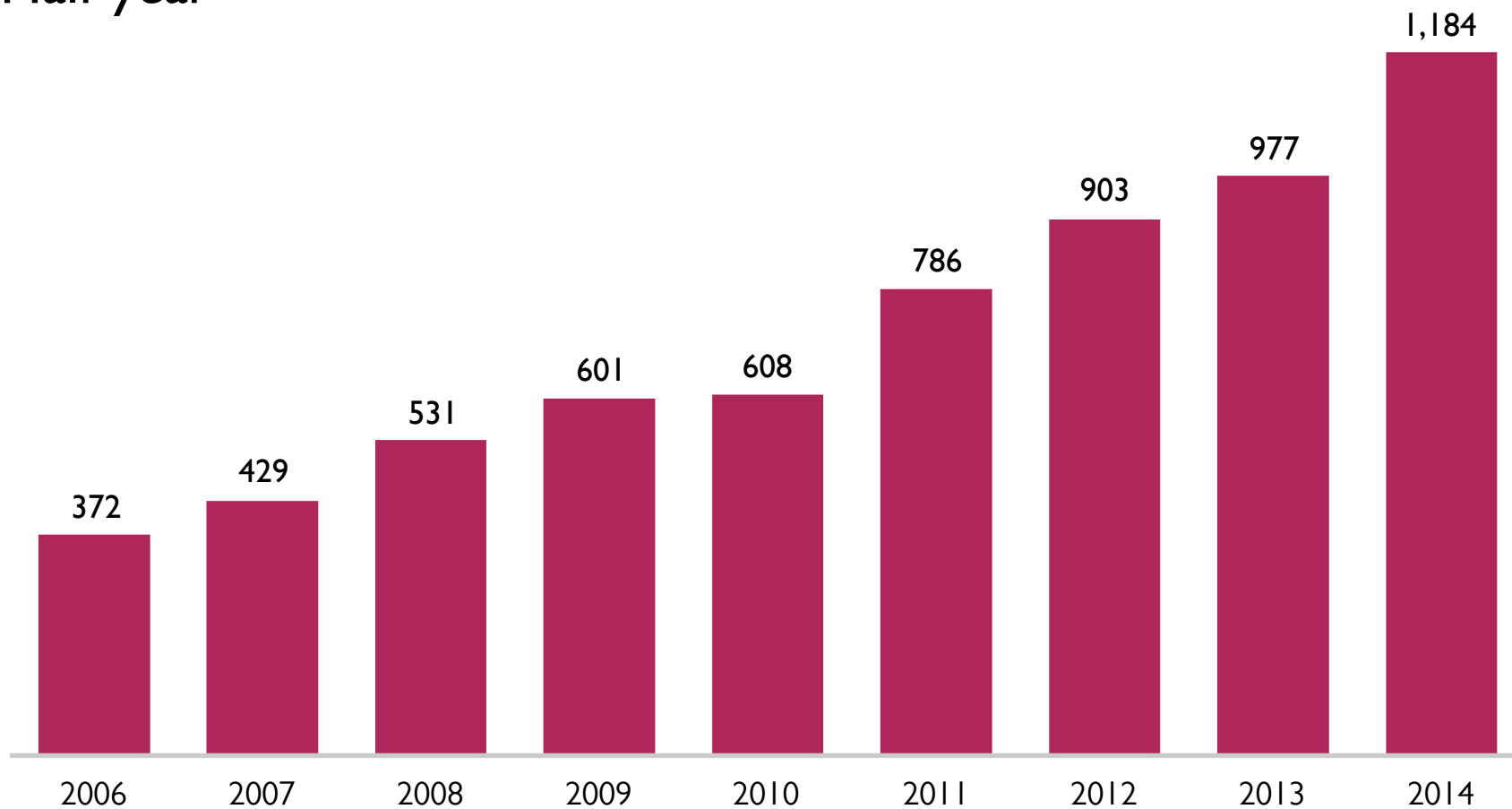
- good growth in China, Brazil
- slower year in South Africa after significant curriculum change in 2013

Sales growth, £m



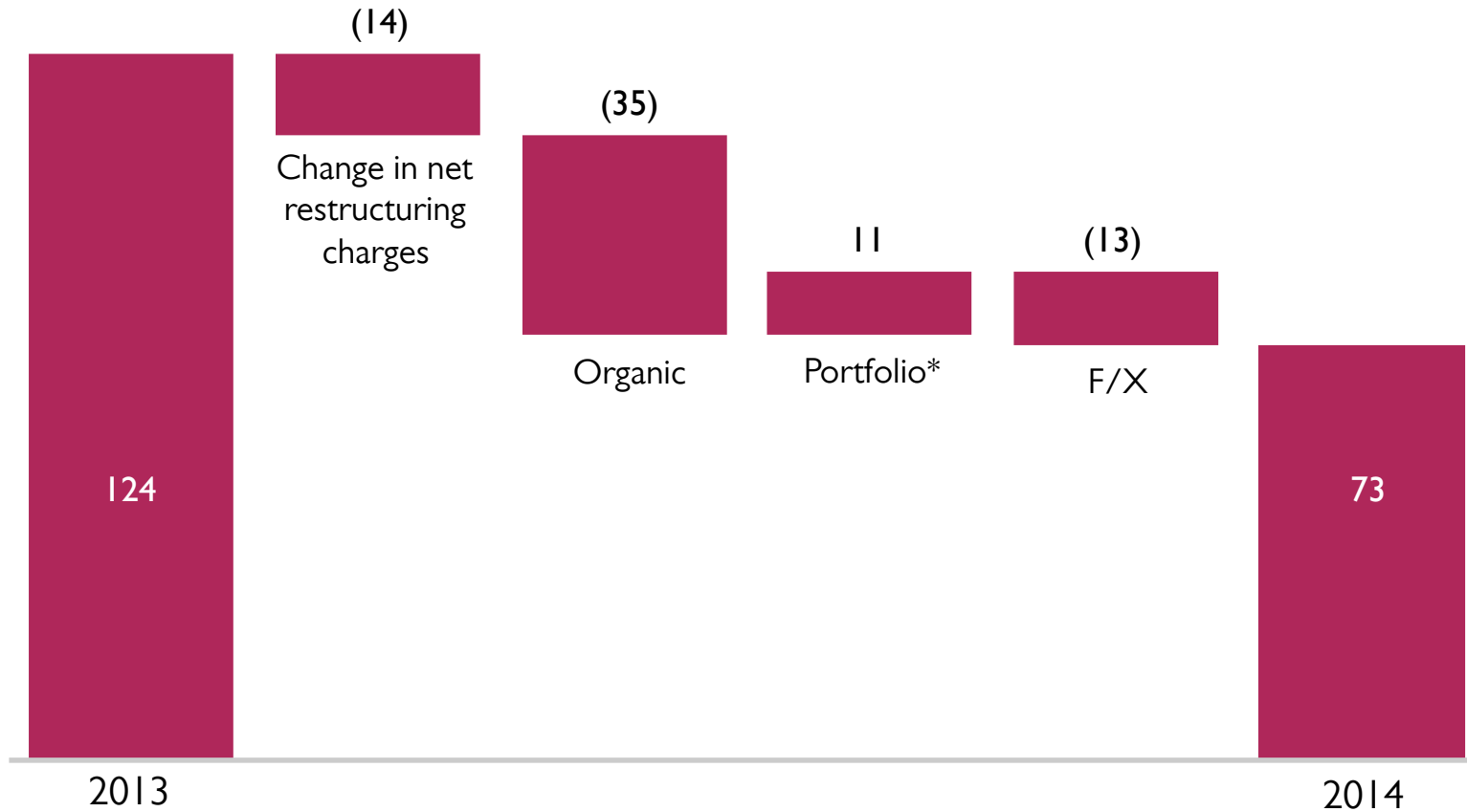
Deferred revenue, \$m

Half-year



Continuing operations

Profit growth, £m



Excludes Mergermarket

* Acquisitions, disposals, impact of Penguin Random House associate accounting

North America

<i>£m</i>	HI 2014	HI 2013	<i>Headline Growth</i>	<i>CER Growth</i>
Sales	1,164	1,243	(6)%	2%
Operating profit	36	29	24%	52%

2013 includes £8m of restructuring; 2014 includes £24m of restructuring

Core

<i>£m</i>	HI 2014	HI 2013	<i>Headline Growth</i>	<i>CER Growth</i>
Sales	540	616	(12)%	(8%)
Operating profit	13	55	(76)%	(76)%

2013 includes £16m of restructuring; 2014 includes £8m of restructuring

Growth

<i>£m</i>	HI 2014	HI 2013	<i>Headline Growth</i>	<i>CER Growth</i>
Sales	343	331	4%	18%
Operating profit	6	12	(50)%	(25)%

2013 includes £5m of restructuring; 2014 includes £4m of restructuring

Lines of Business

	School			Higher Education			Professional		
£m	HI 2014	HI 2013	CER Growth	HI 2014	HI 2013	CER Growth	HI 2014	HI 2013	CER Growth
Sales	939	1,098	(7)%	589	575	13%	519	517	8%
Operating profit	36	95	(58)%	(10)	(19)	(51)%	29	20	76%

2013 includes £29m net restructuring charges as follows: School, £9m; Higher Education, £8m; Professional, £12m

2014 includes £43m net restructuring charges as follows: School, £22m; Higher Education, £10m; Professional £4m, PRH £7m

Adjusted earnings per share

£m	HI 2014	HI 2013
Adjusted operating profit excluding Penguin Random House / Penguin & Mergermarket	55	96
Penguin Random House / Penguin	18	28
Mergermarket	2	13
Total adjusted operating profit	75	137
Finance costs	(28)	(33)
Adjusted profit before tax	47	104
Taxation	(9)	(25)
Adjusted profit after tax	38	79
Non-controlling interest	-	1
Adjusted earnings	38	80
Adjusted EPS	4.7p	9.9p

Total business

P&L – statutory

£m	HI 2014	HI 2013
Operating profit	(37)	8
Finance costs	(28)	(33)
IAS 39/IAS 21	29	9
Profit before tax	(36)	(16)
Taxation	10	11
Profit after tax	(26)	(5)
Discontinued operations	253	(4)
Non-controlling interest	-	1
Earnings	227	(8)
EPS (statutory)	28.0p	(1.0)p

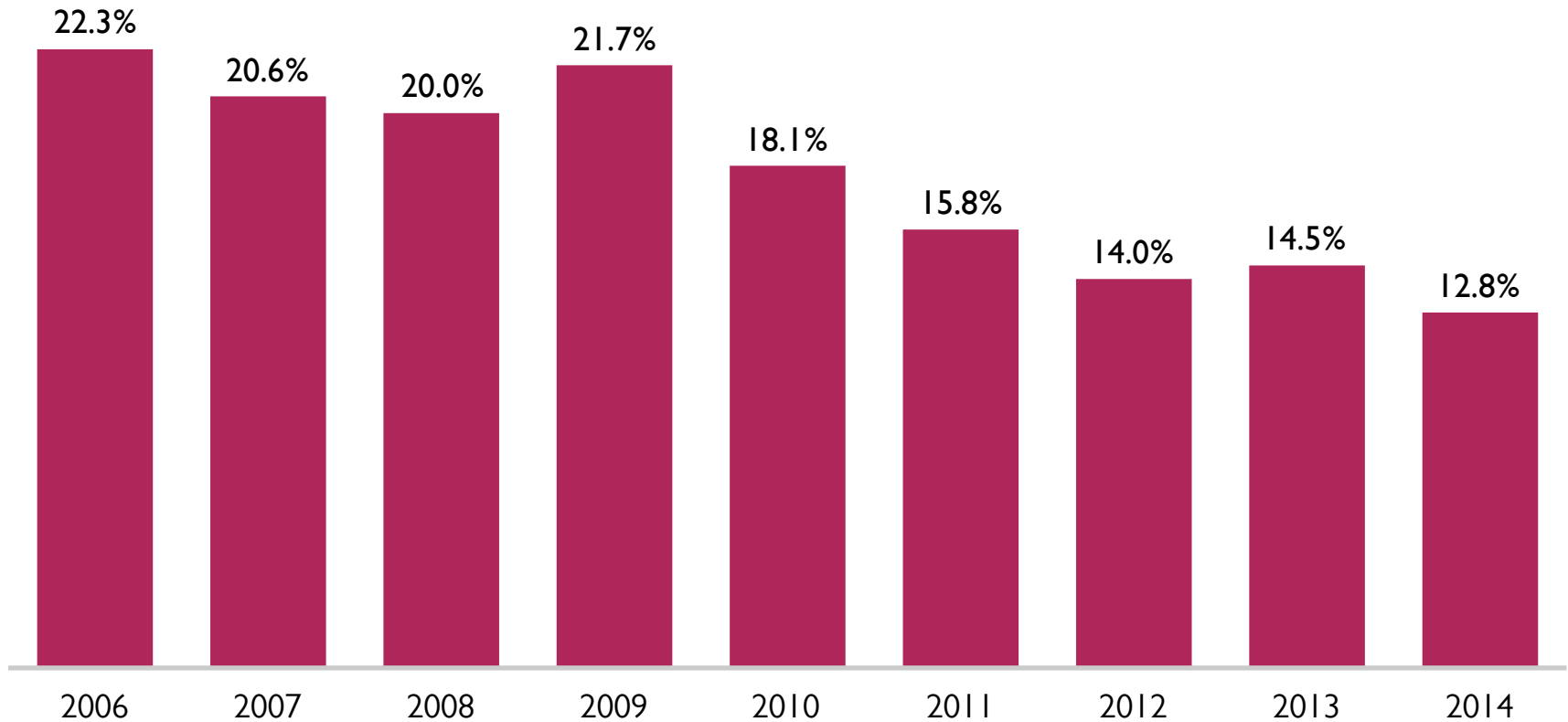
Free cash flow

£m	HI 2014	HI 2013
Adjusted operating profit	75	137
Working capital	(286)	(342)
Fixed asset net purchases	(62)	(87)
Depreciation	65	73
Other movements	(46)	(28)
Operating cash flow	(254)	(247)
Tax paid	(58)	(102)
Finance charges	(16)	(28)
Free cash flow	(328)	(377)

Total business

Average working capital/sales

Average to June



Total business

Balance sheet

£m	HI 2014	HI 2013
Goodwill & intangible assets	6,080	6,987
Tangible fixed assets	308	382
Investment in Joint Ventures and Associates	1,061	19
Operating working capital	704	1,073
Other net liabilities	(124)	(180)
Net assets	8,029	8,281
Shareholders' funds	5,567	5,753
Pensions	-	65
Other provisions	117	197
Non-controlling interest	5	19
Deferred tax	312	410
Net debt	2,028	1,837
Capital employed	8,029	8,281

Total business

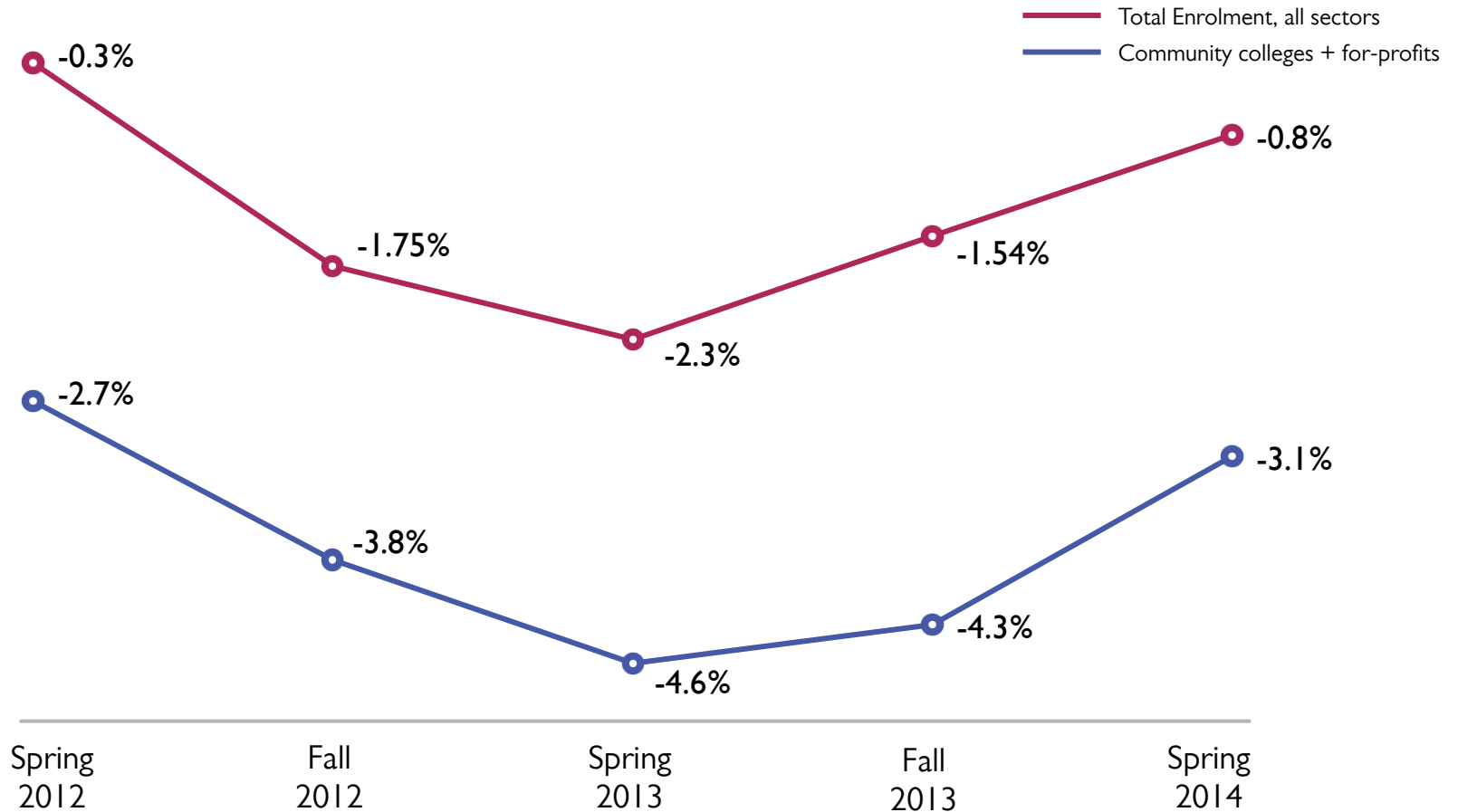
2014 half-year results

Key trends

	2013	2014	2015
US higher education enrolments	➤ Down	➤ Down	➤ Stabilise
Curriculum change in US and UK	➤ Negative	➤ Negative	➤ Neutral/positive
Restructuring cost	£176m	£50m	Normalised
Restructuring benefit	£41m	£60m	£45m
Planned infrastructure and product investment	Increased	Increased	Stable

Cyclical forces

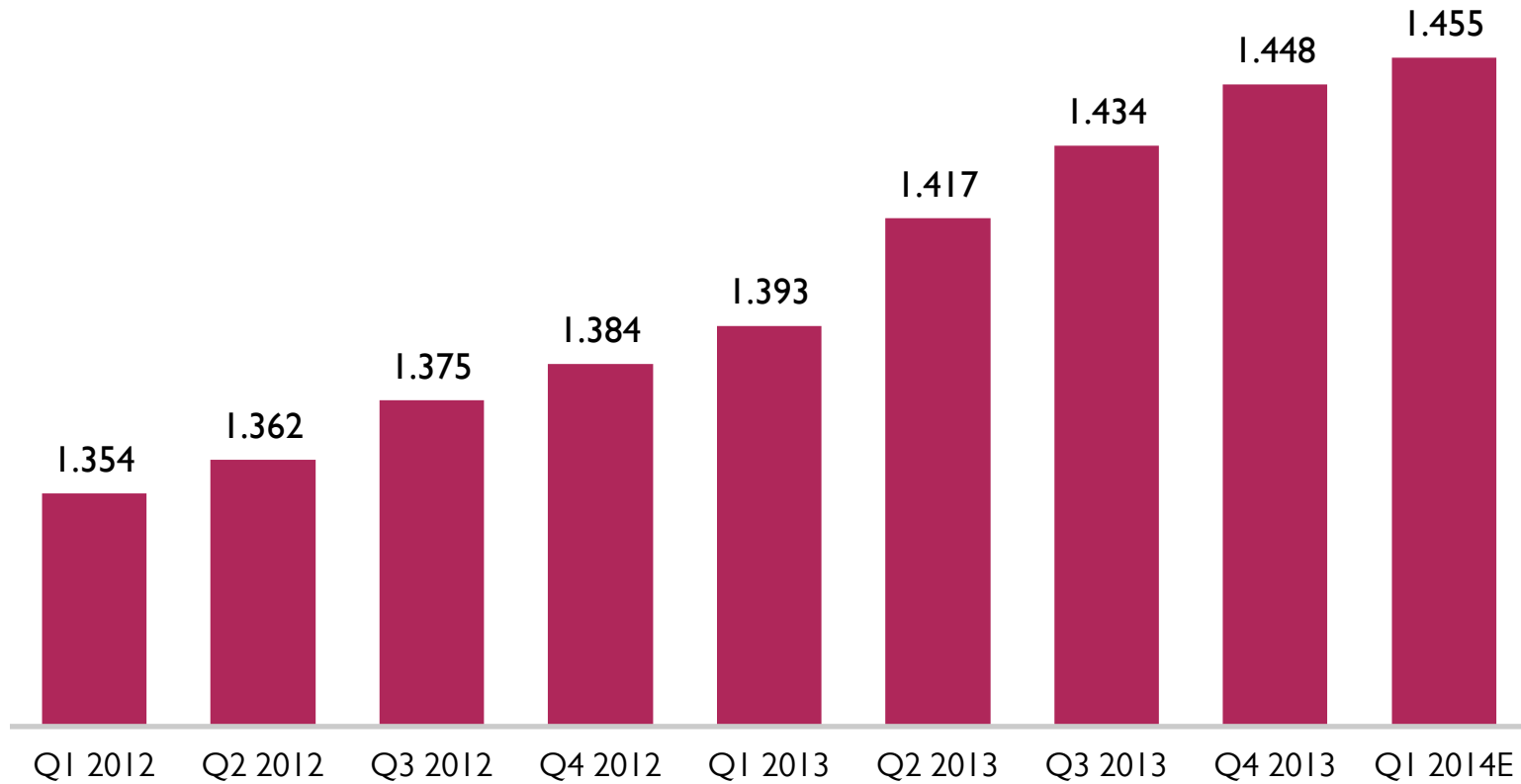
US College Enrolments



Sources: National Student Clearinghouse

Cyclical forces

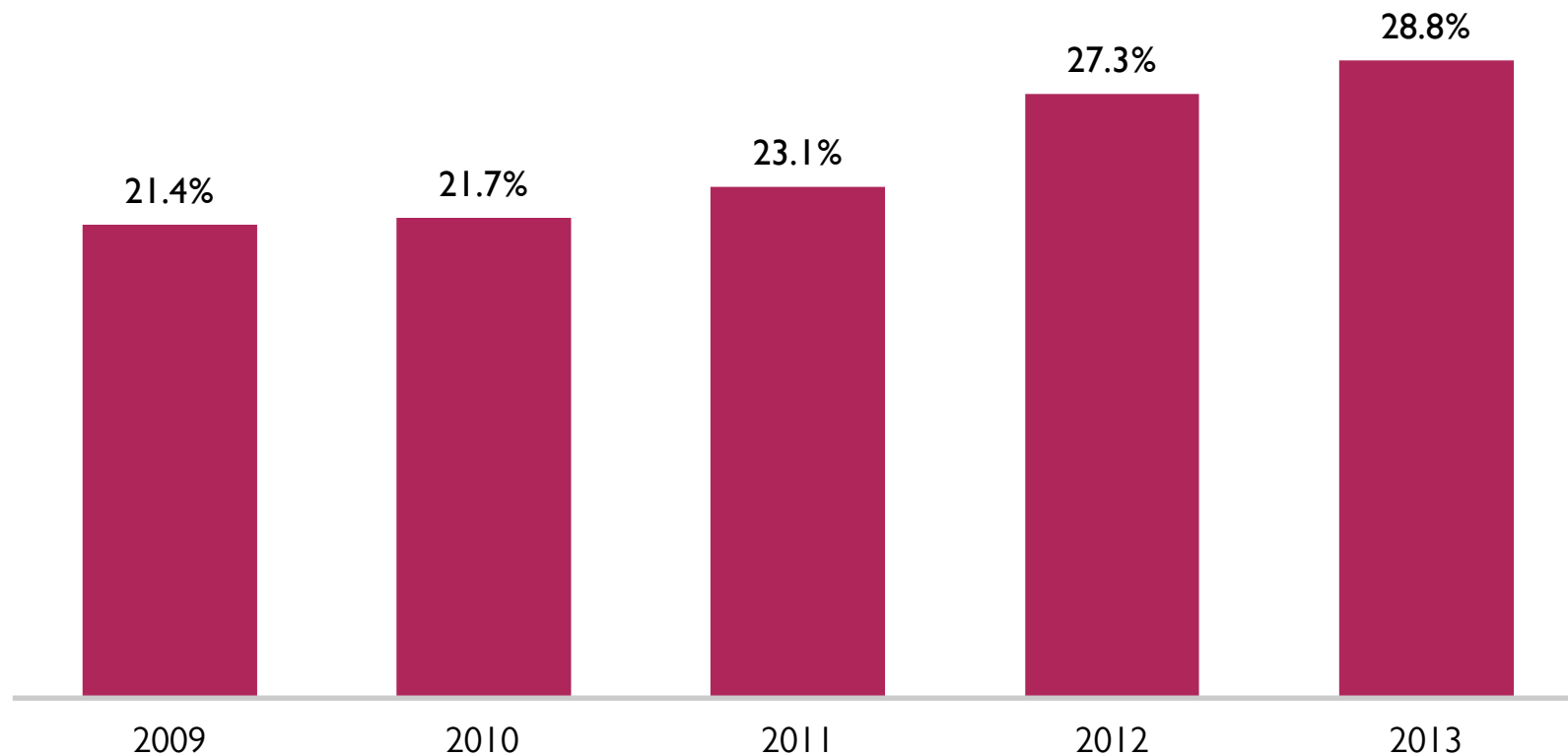
LTM State & Local Tax Receipts, \$bn



Sources: US Census Bureau (Personal, Income, Sales and Property taxes only)

Policy change

Share of UK General Qualifications



Sources: Pearson

Restructuring and investment

Two-year accelerated restructuring plan on track and nearing completion

Ongoing program of simplification will continue, normalised restructuring costs

Increased investment in digital & services, Growth markets, learning outcomes

We are investing to improve learning outcomes

1. Raise the standards of career and college readiness in schools
2. Make higher education more accessible, affordable and relevant
3. Teach English as a foreign language in a far more rewarding and successful way
4. Ease the pathway from education into employment

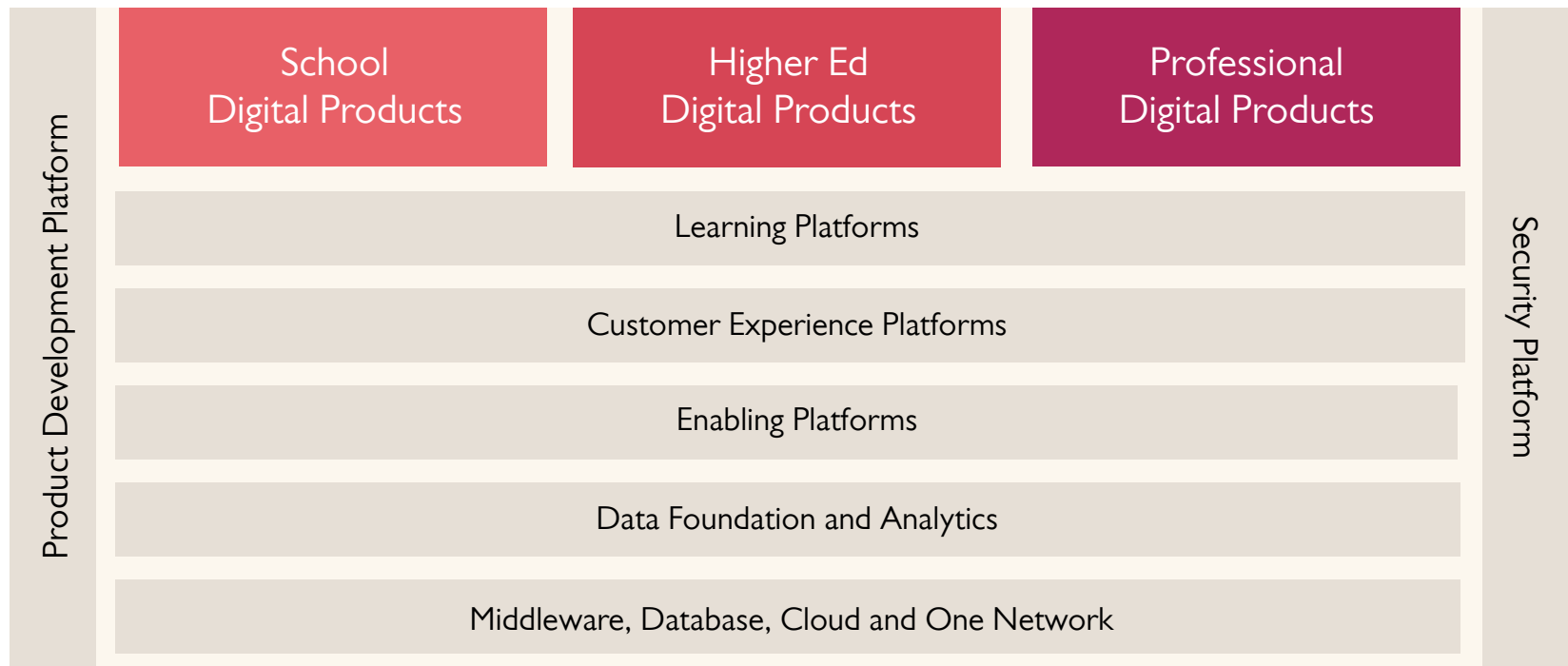
The world's leading learning company

- Effective and engaging teaching methods
- Change knowledge and scale
- New technologies



World's leading
learning company

We are simplifying our platforms



We are building a more powerful company

Lower cost, more flexible analogue infrastructure

Simpler, more scalable digital infrastructure

Higher use, higher impact, blended and digital products

Greater capacity to co-create, co-deliver, go direct

Key trends

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US higher education enrolments	➤ Down	➤ Down	➤ Stabilise
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The global education company

Scale in high growth economies = larger market opportunity

Strength in digital + services = larger part of value chain

Lower capital intensity = higher returns, investment capacity

Focus on efficacy = greater impact on learning outcomes

2014 half-year results

Appendices

Reconciliation: statutory to adjusted earnings

Half-year 2014

£m	Statutory	Discontinued operations	Other net gains & losses	Acquisition & disposal costs	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	(37)	2	-	3	107	-	-	75
Net finance costs	1	-	-	-	-	(29)	-	(28)
Profit before tax	(36)	2	-	3	107	(29)	-	47
Income tax	10	(1)	-	(1)	(26)	6	3	(9)
Profit after tax	(26)	1	-	2	81	(23)	3	38
Discontinued operations	253	(1)	(252)	-	-	-	-	-
Profit for the period	227	-	(252)	2	81	(23)	3	38
Non-controlling interest	-	-	-	-	-	-	-	-
Earnings	227	-	(252)	2	81	(23)	3	38

Reconciliation: statutory to adjusted earnings

Half-year 2013

£m	Statutory	Discontinued operations	Other gains & losses	Acquisition & disposal costs	Intangible charges	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	8	41	-	3	85	-	-	137
Net finance costs	(24)	-	-	-	-	(9)	-	(33)
Profit before tax	(16)	41	-	3	85	(9)	-	104
Income tax	11	(14)	-	(1)	(28)	2	5	(25)
Profit after tax	(5)	27	-	2	57	(7)	5	79
Discontinued operations	(4)	(27)	31	-	1	(1)	-	-
Profit for the period	(9)	-	31	2	58	(8)	5	79
Non-controlling interest	1	-	-	-	-	-	-	1
Earnings	(8)	-	31	2	58	(8)	5	80

Reconciliation: pre-publication costs

£m	HI 2014	HI 2013
Opening balance	717	682
Exchange	(18)	38
New spend capitalised	158	200
Acquisitions	1	-
Amortisation	(121)	(127)
Closing balance	737	793
Sales	2,047	2,190
Amortisation as a % of sales	5.9%	5.8%

Total business

Reconciliation: half-year net debt

£m	2014	2013
Non current assets		
Derivative financial instruments	129	125
Current assets		
Derivative financial instruments	13	13
Marketable securities	14	6
Cash & cash equivalents	460	596
Non current liabilities		
Borrowings	(2,075)	(2,259)
Derivative financial instruments	(38)	(39)
Current liabilities		
Borrowings	(531)	(414)
Net debt – continuing operations	(2,028)	(1,972)
Net cash classified as held for sale	-	135
Total net debt	(2,028)	(1,837)

Retirement benefit obligations

£m	HI 2014	HI 2013
Income statement		
Operating charge		
Defined benefit schemes	8	15
Defined contribution schemes	32	41
Post retirement medical benefit schemes	(11)	2
	<u>29</u>	<u>58</u>
Interest	(2)	2
Total	<u>27</u>	<u>60</u>
 Balance sheet		
UK pension scheme asset	119	99
Other pension scheme liabilities	(29)	(42)
Post retirement medical benefit liability	(66)	(88)
Other pension accruals	(24)	(34)
Total	<u>-</u>	<u>(65)</u>

Total business

Leadership Team

Pearson leadership team



John Fallon

Chief Executive Officer

John became Pearson's chief executive on 1 January 2013. Since 2008 John has been responsible for the company's education businesses outside North America, and a member of the Pearson management committee. He joined Pearson in 1997 as director of communications and was appointed president of Pearson Inc., a role he combined with his communications responsibilities, in 2000.

In 2003, he was appointed CEO of Pearson's educational publishing businesses for Europe, Middle East & Africa (EMA) and gradually took on a broader international education brief. Prior to joining Pearson, John was director of corporate affairs at Powergen plc, where he was also a member of the company's executive committee. Earlier in his career, John held senior public policy and communications roles in the British and UK local governments.

Lines of Business



John Ridding

President, Professional

John Ridding is the president of Pearson Professional, appointed in May 2013. In this role he oversees the Financial Times and Pearson's executive education and financial training businesses, including Pearson English, Pearson VUE and the New York Institute of Finance.

John also serves as chief executive of the Financial Times, a role he has held since 2006. Under his stewardship the FT has expanded its global operation, successfully scaled and transformed its core business and acquired a number of companies that support its multichannel strategy including Money-Media, Medley Global Advisors, Exec-Appointments and Assanka, renamed FT Labs.



Tim Bozik

President, Higher Education

Tim Bozik is the president of Higher Education at Pearson. He has 20+ years industry experience in higher education in various roles in product and general management. His team is focused on making higher education more effective, accessible and affordable to learners around the world by providing innovative products, services and delivery models that measurably improve student achievement and workforce readiness. Tim is a graduate of the University of Notre Dame.



Doug Kubach

President, School

Doug Kubach is currently the president of the School Line of Business, responsible for Pearson's global K-12 education strategy and products. He was formerly the chief executive of Pearson's Assessment & Instruction group in North America, which included K-12 instructional resources, learning assessment, state and national testing, teacher licensure testing, clinical and talent assessment and early childhood programs. Doug joined Pearson's education business in 2000 as senior vice president of strategy and chief technology officer for North America, and became head of Pearson's U.S. assessment business in 2004.

Before joining Pearson, Doug was the chief technology officer for McGraw-Hill Education. Prior to this, Doug was a senior executive in the Harcourt School division and vice president, operations for The Psychological Corporation. Doug is a summa cum laude graduate of Dartmouth College.

Geographies



Don Kilburn

President, North America

Don is currently the president of Pearson North America. Prior to this role, he served as CEO of Pearson Learning Solutions and Vice Chairman of Higher Education. From 1998 until 2008, he served as President of Pearson Custom Publishing with responsibility for overseeing its higher education services and solutions business. Prior to joining Pearson, he spent 12 years at Simon and Schuster Custom Publishing, during which he served as editor-in-chief for six years, and then later became president of the business for six years. He has also worked for the Xerox corporation and served as a director of Interactive Data Corporation.



Rod Bristow

President, Core

Rod Bristow is president, Core markets for Pearson. Core markets include those 100+ countries with, in general, developed economies and education systems.

In 2010, Rod became president for Pearson UK and was appointed to lead all other Core markets for Pearson in January 2014. Rod has worked in education, publishing and assessment for thirty years in universities, schools, colleges, professional training and learning technologies in the UK and internationally. He is a trustee for the Education and Employers Taskforce, a fellow of the Royal Society for Arts, and past president of the Publishers Association.



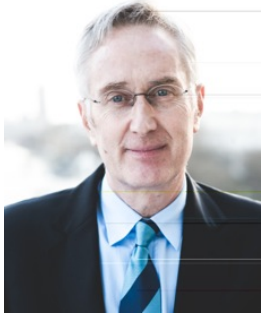
Tamara Minick-Scokalo

President, Growth

Tamara Minick-Scokalo is responsible for Pearson's businesses in China, India, Brazil, South Africa and a number of other significant emerging markets around the globe. Her responsibilities include Pearson's educational strategy, products and content plans, engagement with governments and other stakeholders and joint leadership of 17,000 employees. She joined Pearson in March 2012.

Tamara has previously held senior leadership roles in a number of global businesses including Procter & Gamble, Cadbury plc, Kraft Foods, Coca-Cola and Elizabeth Arden. More recently she led a high-tech start-up, Trax Technology, through fund raising and first revenue generation. Tamara started out by studying chemical engineering at college, and joined P&G in a manufacturing role. She later moved into marketing and senior management positions within the firm.

Enabling Functions



Michael Barber
Chief Education Advisor

Sir Michael Barber joined Pearson in September 2011 as Chief education advisor, leading Pearson's worldwide programme of efficacy and research. He plays a particular role in Pearson's strategy for education in the developing world, and is chairman of the Pearson Affordable Learning Fund. Prior to Pearson, he was a partner at McKinsey & Company and Head of McKinsey's global education practice. He holds an honorary doctorate from the University of Exeter and the University of Wales.

He previously served the UK government as head of the Prime Minister's Delivery Unit (from 2001-2005) and as Chief Adviser to the Secretary of State for Education on School Standards (from 1997-2001). Before joining government he was a professor at the Institute of Education at the University of London. He is the author of several books including *Instruction to Deliver*; *Deliverology 101*; *The Learning Game: Arguments for an Education Revolution* and *The Making of the 1944 Education Act*.



Kate James
Chief Corporate Affairs Officer

Kate joined Pearson as chief corporate affairs officer in January 2014. Before joining Pearson, Kate was chief communications officer at the Bill and Melinda Gates Foundation where she ran the Foundation's global communications efforts to raise awareness and build engagement around global poverty, health and US education issues. Kate was responsible for overseeing the communications and brand functions, driving public engagement on the issues the Foundation champions, managing reputation risk, and building media partnerships to support independent coverage of critical development and education issues.



Albert Hitchcock
Chief Information Officer

Albert joined Pearson in March 2014 and is responsible for the Technology organisation. Prior to this, he was Chief Information Officer for the Vodafone Group from 2007 and was responsible for the information technology teams within Vodafone and its operating companies around the world. In a 28 year career in the technology industry, he has also worked and previously held leadership roles at BAE Systems, Racal Electronics and Nortel Networks where he was also CIO.

Albert is a fellow of the Institute of Engineering and Technology - FIET and a chartered engineer. Albert studied electronic engineering at South Devon College of Arts and Technology and was awarded a dipMBA with Distinction by the Centre of Management Studies at Exeter University.

Enabling Functions



Robin Freestone
Chief Financial Officer

Robin's experience in management and accounting includes a previous role as group financial controller of Amersham plc (now part of General Electric) and senior financial positions with ICI plc, Zeneca and Henkel UK. He joined Pearson in 2004 as deputy chief financial officer and became chief financial officer in June 2006. Robin qualified as a chartered accountant with Touche Ross (now Deloitte). Robin sits on the Advisory Group of the ICAEW's Financial Reporting Faculty and is chairman of The Hundred Group of Finance Directors. He also sits on the CBI's Economic Growth Board.



Melinda Wolfe
Chief Human Resources Officer

Melinda Wolfe has led talent initiatives with a passionate focus on diversity at major global companies over the past 20 years. In September 2013, she joined Pearson, becoming the company's first chief human resources officer, charged with renewing Pearson's focus on its people at a time of major transformation of its education business.

In her prior role, Ms. Wolfe headed human resources at Bloomberg LP, where she elevated the role of HR by reinforcing its alignment to the business while building centres of excellence in recruiting, learning, leadership, assessment and reward.



Philip Hoffman
Chief Corporate Finance & Strategic Development Officer

As chief corporate finance and strategic development officer and company secretary Pearson plc, Philip is responsible for business development, corporate finance and governance. Prior to this role, he was Chairman and CEO of Learning Network with earlier roles including president of Pearson Inc., CFO of Pearson North America and CFO and COO of Penguin Group. He is a member of the Pearson Executive Committee. Phil is a nominee director of The Economist Group and Penguin Random House.

Philip started his career as an accountant and a lawyer. He grew up in the mid-west and eastern parts of the US and has been commuting between London and NY for well more than a decade.

Enabling Functions



Luke Swanson

Chief Transformation Officer

Luke is chief transformation officer and is responsible for developing and implementing Pearson's global education strategy and organization design. Prior to this, Luke worked as director of communications, a role he held since 2003. His background includes corporate communications, branding, relations with investors, governments and the media, public policy and corporate responsibility. Luke is a nominee director of The Economist Group.