

THE BEST  
OF OUR  
KNOWLEDGE

## A CLASS OF YOUR OWN

With sales of around £2.4bn and publishing operations all around the world, our education business is the largest and most international. It's also the broadest, serving students from pre-school through school and higher education and on into their professional lives; and providing a wide range of services from textbooks to testing and technology-based learning programmes.

The base of our education business is our publishing. Around one in three American schoolchildren learn reading and maths with one of our textbooks, and we publish more than one-third of all US college textbooks. Outside the US, we are a \$1.2bn education company, three times the size of our nearest rival. We are the leading publisher for students of English as a second language and have growing businesses in school, college and professional publishing.

We also have leading positions in educational testing and services. Last year we marked 40 million examination papers and administered over one million tests for professional people. We mark school examinations for the US federal government, 20 American states and thousands of UK schools. We provide tests to certify all kinds of professional people including nurses, software engineers and business school applicants, and we manage public information for government customers including the US Departments of Health and Education.

In 2004, our education business moved forward on several fronts. It reported good growth in underlying sales and profits, and laid the ground for faster growth in 2005, which should be a buoyant year in US education. States in America are seeing their budgets recover and planning more textbook purchases, while the federal government is spending more on reading instruction, school testing and professional

development of teachers. We've published new programmes in key subjects such as maths, science and music and won some \$1bn of new long-term contracts in school and professional testing. And we've made some investments to combine our content, testing and technology into an integrated service for schools and colleges.

So 24,000 American schools are using our technology to help instruct children and manage information about how they are doing; around three million US college students are pursuing their courses online through one of our programmes; and thousands of college professors are teaching from bespoke textbooks that we've published to their own specifications. These services help each student to learn at his own pace, in his own way.



We fashion learning materials around the needs of individual students

We're confident about the future of our broad-based education business for several reasons. Over the past 10 years our US school and college publishing businesses have grown at an annual rate of around 7%, and our testing businesses have grown faster. Worldwide, estimates put education publishing as a \$100bn plus industry, growing at around 5%. The British Council estimates that two billion people, or one-third of the world's population, will be studying English by 2015. In just about every market we're in, governments and individuals have consistently made investing in education – and the learning achievements of students of all ages – a priority.

There has never been a better time to be in the business of education.

## IN THE PINK

The FT Group brings together the world's best international business newspaper with a network of leading national business titles and a consistently successful financial information company.

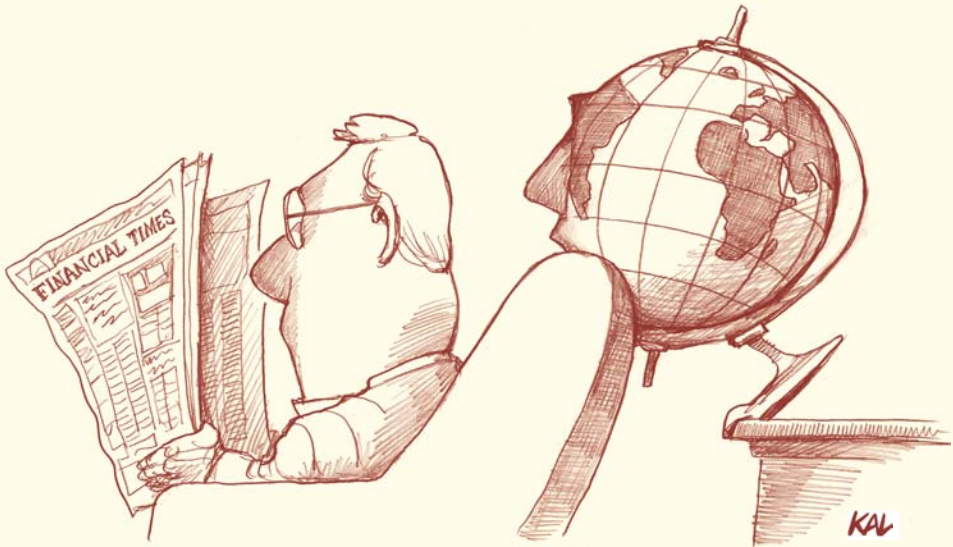
The *Financial Times* is the world's most international newspaper, printed in 24 cities with correspondents in 55 countries and readers in over 110. We create four different newspapers every day – for the UK, continental Europe, the US and Asia – at the same time as we provide live news and analysis around the clock on FT.com. Eight years ago the FT's newspaper circulation was 300,000, with more than half in the UK; today it is 435,000, with two-thirds outside the UK. And over the same period FT.com has gained a regular audience of around three million monthly users and 76,000 paying subscribers. In print and online, the FT has more paying readers today than at any point in its history.

Alongside the FT, we have a network of leading national business newspapers and online services including *Les Echos* in France and *FT Deutschland* in Germany, stakes in business newspapers in South Africa, Russia and India, and 50% of the world's best weekly current affairs journal, *The Economist*. So the FT Group combines an international perspective on business news with local market intimacy; it shares ideas, stories and insights across our newspapers; and its individual parts punch above their weight because we buy paper, distribution and other services together.

Twelve years ago, the FT Group conceived Interactive Data Corporation, now one of the leading providers of financial data to institutional and private investors. IDC provides them with information on more than 3.5 million securities traded around the world, and through a combination of organic growth and bolt-on acquisitions has grown from a company with sales of \$140m in 1997 to a \$500m company today.

For the past three years, our newspapers have faced a harsh business advertising recession, coupled with the increasing importance of the internet as a source of news.

In 2004, we weathered the storm and set the stage for further recovery. Our cost actions meant that our network of newspapers returned to profit, even though we haven't yet seen any meaningful pick-up in advertising. Our investments in content and technology kept our newspaper franchises strong – maintaining high-quality audiences in print and growing audiences online very rapidly. IDC posted another great year, growing again even while its competitors were shrinking and adding some new businesses which will be important to its long-term future.



The world's business newspaper

Looking further ahead, we're confident about the prospects for the FT Group, even in an uncertain advertising climate. We see financial institutions continuing to rely on IDC for the high quality financial information they need to operate successfully and meet their regulatory requirements. We see business people looking for a truly global outlook on business, finance and economics, and for independent, authoritative news and analysis. And we see advertisers shifting from mass media to niche titles which deliver a very precise, very targeted audience of the world's influential business people, investors and political leaders. Among them Warren Buffett, the world's most successful investor, who told his shareholders: 'If you wish to keep abreast of trade and currency matters, read the *Financial Times*.'

## NOVEL IDEAS

Penguin is one of the world's leading consumer publishing businesses, the most loved brand in the industry and home to other famous names such as Dorling Kindersley, Puffin and Ladybird. Each year we publish close to 4,000 titles, for adults and children, in fiction and non-fiction, from timeless classics to the hottest bestsellers.

We benefit from strength in all areas: an unrivalled stable of bestselling authors including Patricia Cornwell, Jan Karon, Nora Roberts, Terry McMillan, Jamie Oliver and Nick Hornby; a strong record of uncovering new writing talent such as Sue Monk Kidd, Zadie Smith, Eoin Colfer and Khaled Hosseini; and a stable, powerful backlist of evergreen titles through Dorling Kindersley and the Penguin Classics.

After five straight years of record sales and profits, 2004 turned out to be a tough year for Penguin. The business was hit by the weak dollar and a slowdown in the US book market (Penguin makes around two-thirds of its sales in the United States), and by a disrupted move to a new warehouse in the UK which is now running smoothly. Our year was also affected by some trends which the consumer publishing industry has faced for some years now: the growing importance of major supermarket chains as booksellers; increasing competition in backlist publishing; and weakness in the 'mass market' category of bestselling books in the United States.

Some of Penguin's efforts to tackle these industry issues will begin to bear fruit in 2005. We've created some innovative ways of reaching new readers, including a direct-to-consumer sales operation in the United States. We have led the industry in

innovation, launching a 'premium paperback' that is meeting our consumers' wish for a higher quality, more appealing style of book. And we've continued to invest in new authors – especially in relatively fast-growing segments of the consumer publishing market such as history, politics and business. Our newest imprints, including the Penguin Press, Gotham and Razorbill, have already published some big hits, including Lynne Truss's *Eats, Shoots & Leaves*, a one-million seller in the US, and Ron Chernow's acclaimed biography of the first US Treasury Secretary, *Alexander Hamilton*. Together, our new imprints have already published more than 30 national bestsellers in the US and generated sales of some \$40 million.



Hatching a new generation of book brands

We're also stepping up our efforts to make the most of the scale we enjoy when Penguin and Pearson Education work together. Pearson is the world's largest book company and we have combined our warehousing and distribution operations in Australia, Canada, India and the UK. In 2005, we'll begin to see significant cost savings from these combinations, which will help us improve Penguin margins and reinvest in the quality writing that has made Penguin the world's best and most inventive publishing company for the past 70 years.