

PEARSON INVESTMENT SERVICES LIMITED

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2004**

Registered Office:

**80 Strand
London
WC2R 0RL**

**Registered in England
Number 59713**



PEARSON INVESTMENT SERVICES LIMITED

Directors

S A Jones
A J Midgley

Report of the Directors

The directors present their report and the audited financial statements for Pearson Investment Services ("the company") for the year ended 31 December 2004.

The company is an investment holding company.

The company has not traded during the year. However, a dividend was received from a subsidiary company and then paid to the ultimate parent company in the sum of £34,000,000 during the year.

The present directors are listed above. Both directors served throughout the year.

The ultimate parent company is Pearson plc. The interests of the directors in the ordinary shares of 25p and debentures and loan stocks of Pearson plc and its subsidiaries, as shown by the register of the company kept for the purpose of section 324 of the Companies Act 1985, are as follows:

	At 1.1.2004	SAYE/ Granted	Exercised	Lapsed	At 31.12.2004
S A Jones					
Pearson plc:					
Ordinary shares	11	15	-	-	26
SAYE options on ordinary shares	2,224	-	-	-	2,224
Executive options on ordinary shares	1,500	-	-	-	1,500
Pearson Share Bonus Plan	15	-	(15)	-	-
Long Term Incentive Plan options	2,100	-	-	-	2,100
Long Term Incentive Plan shares	800	1,000	-	-	1,800
A J Midgley					
Pearson plc:					
Ordinary shares	1,791	74	-	-	1,865
SAYE options on ordinary shares	2,224	-	-	-	2,224
Annual Bonus Matching Shares	373	-	-	-	373
Executive options on ordinary shares	10,078	-	-	-	10,078
Pearson Share Bonus Plan	15	-	(15)	-	-
Long Term Incentive Plan options	4,200	-	-	-	4,200
Long Term Incentive Plan shares	3,000	1,500	-	-	4,500

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 6 under Note 1 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

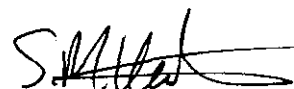
PEARSON INVESTMENT SERVICES LIMITED

Auditors

The Company has passed an Elective Resolution in accordance with the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of accounts and reports before general meetings and the annual reappointment of Auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as Auditors of the Company pursuant to Section 386 of the Companies Act 1985.

However, pursuant to Section 253(2) of the Companies Act 1985, any Member or the Auditors of the Company may require the accounts and reports to be laid before a general meeting by depositing a notice to that effect at the registered office of the Company not later than 28 days after the despatch of the accounts and reports to Members.

By order of the board
S M Henderson
Secretary

A handwritten signature in black ink, appearing to read 'S M Henderson', written over a horizontal line.

22 February 2005

PEARSON INVESTMENT SERVICES LIMITED

Profit and Loss Account for the year ended 31 December 2004

	<u>Notes</u>	<u>2004</u> £000	<u>2003</u> £000
Result on ordinary activities		—	—
Income from shares in group undertakings		34,000	-
Profit on ordinary activities before taxation		<u>34,000</u>	—
Tax on profit on ordinary activities	6	-	-
Profit after taxation		<u>34,000</u>	—
Interim dividend paid on ordinary shares		<u>(34,000)</u>	—
Retained result for the year		<u>—</u>	<u>—</u>

The company has no recognised gains and losses other than those included in the result above and therefore no statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and retained result for the year stated above, and their historical cost equivalents.

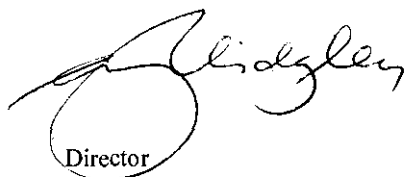
All the above results are derived from continuing operations.

PEARSON INVESTMENT SERVICES LIMITED

Balance Sheet at 31 December 2004

	<u>Notes</u>	<u>2004</u> £000	<u>2003</u> £000
<u>Fixed assets</u>			
Investments	5	<u>34,148</u>	<u>34,148</u>
<u>Current assets</u>			
Due from ultimate parent		24,957	24,965
Cash at bank and in hand		<u>205</u>	<u>205</u>
		<u>25,162</u>	<u>25,170</u>
<u>Net current assets</u>		<u>25,162</u>	<u>25,170</u>
<u>Total assets less current liabilities</u>		59,310	59,318
<u>Provisions for liabilities and charges</u>	7	<u>(510)</u>	<u>(518)</u>
<u>Net assets</u>		<u>58,800</u>	<u>58,800</u>
<u>Capital and reserves</u>			
Called up share capital	8	53,092	53,092
Share premium account		19,873	19,873
Profit and loss account		<u>(14,165)</u>	<u>(14,165)</u>
Equity shareholders' funds	9	<u>58,800</u>	<u>58,800</u>

The financial statements on pages 4 to 8 were approved by the board on 22 February 2005.



Director

PEARSON INVESTMENT SERVICES LIMITED

Notes to the financial statements

1. Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the UK. A summary of the more important accounting policies, which have been applied consistently, is set out below.

- a) Basis of accounting - the financial statements are prepared under the historical cost convention.
- b) Fixed asset investments are stated at cost less provisions for diminution in value.

2. Cash flow statement

The company is a wholly owned subsidiary of Pearson plc and the cash flows of the company are included in the consolidated group cash flow statement of Pearson plc. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

3. Auditors' remuneration

Auditors' remuneration is borne by a fellow group company.

4. Directors' emoluments and employee costs

The directors are employed by another group company and are remunerated by that company in respect of their services as group employees. They receive no emoluments from the company. No one was employed by the company at any time during the year.

5. Fixed asset investments

	<u>2004</u>	<u>2003</u>
	<u>£000</u>	<u>£000</u>

Subsidiary undertaking:-

At 1 January 2004 and 31 December 2004	<u>34,148</u>	<u>34,148</u>
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Details of the company's subsidiary undertaking are shown below:

	<u>Country of Incorporation</u>	<u>Beneficial Percentage Held</u>
Pearson Services Limited	UK	100%

Group accounts have not been prepared as Pearson Investment Services Limited is a wholly owned subsidiary of Pearson plc, which is registered in England and Wales. In the opinion of the directors the value of investments in subsidiaries is not less than the amounts at which they are stated in the balance sheet.

PEARSON INVESTMENT SERVICES LIMITED

Notes to the financial statements (continued)

6. Taxation

	<u>2004</u>	<u>2003</u>
	£000	£000
Current Tax:		
UK corporation tax on profits of the period	—	—
Total current tax	<u>—</u>	<u>—</u>

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<u>2004</u>	<u>2003</u>
	£000	£000
Profit on ordinary activities before tax	<u>34,000</u>	—
Profit on ordinary activities multiplied by standard rate in the UK 30% (2003 - 30%)	(10,200)	—
Effects of:		
Non taxable dividend income	<u>10,200</u>	—
Current tax charge for the period	<u>—</u>	<u>—</u>

7. Provisions for Liabilities and Charges

Guarantees of
former subsidiary
undertaking
£000

At 1 January 2004	518
Utilised during the year	(8)
At 31 December 2004	<u>510</u>

The provision relates to the company's obligations in respect of damp proofing services provided by a former subsidiary.

8. <u>Called up Share Capital</u>	<u>2004</u>	<u>2003</u>
	£000	£000
Authorised 240 million ordinary shares of 25p each	<u>60,000</u>	<u>60,000</u>
Called up, allotted and fully paid 212,367,046 ordinary shares of 25p each	<u>53,092</u>	<u>53,092</u>

9. Reconciliation of movement in equity shareholders' funds

	<u>2004</u>	<u>2003</u>
	£000	£000
Opening shareholders' funds	58,800	58,800
Closing shareholders' funds	<u>58,800</u>	<u>58,800</u>

PEARSON INVESTMENT SERVICES LIMITED

Notes to the financial statements (continued)

10. Contingent Liabilities

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 40 of its subsidiaries, "the guarantors", are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants.

The net balance under this arrangement at 31 December 2004 was a cash balance of £576,647.

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

At 31 December 2004 this was the company's potential liability.

As at 31 December 2004 the potential liability arising from these guarantee arrangements amounted to £50,000,000 for the parent undertaking and fellow subsidiary undertakings and £nil for the subsidiary undertakings of the company.

11. Transactions with directors

No director had a material interest in any contract or arrangement with the company during the year.

12. Related party transactions

The company is a wholly owned subsidiary of Pearson plc and utilises the exemption contained in FRS 8 Related Party Disclosures not to disclose any transactions with entities that are part of the Pearson group. The address at which Pearson plc consolidated financial statements are publicly available is shown in note 13.

13. Ultimate parent company

The ultimate parent company is Pearson plc which is registered in England and Wales. Copies of the consolidated financial statements of Pearson plc may be obtained from The Secretary, Pearson plc, 80 Strand, London WC2R 0RL.

PEARSON INVESTMENT SERVICES LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF PEARSON INVESTMENT SERVICES LIMITED

Independent Auditors' Report to the Members of Pearson Investment Services Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

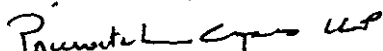
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 February 2005