

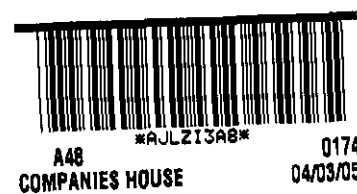
PEARSON INTERNATIONAL FINANCE LIMITED

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

Registered Office:

**80 Strand
London
WC2R 0RL**

**Registered in England
Number 2496206**



PEARSON INTERNATIONAL FINANCE LIMITED

Directors

D H Colville
R A Fairhead
A C Miller
P J Hoffman

Report of the Directors

The directors present their report and the financial statements for the year ended 31 December 2004

The company is an investment holding company.

The retained loss for the year was £59,405,000 (2003 profit: £5,798,000). The directors proposed and paid a dividend of £101,584,758 to the company's ultimate parent, Pearson Plc (2003: £nil).

The present directors are listed above. All served throughout the year, except G M Rinck who resigned on 29th February 2004, and P J Hoffman who was appointed on 12 November 2004.

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 or date of appointment	SAYE/ Granted	Exercised	Lapsed	At 31.12.2004
D H Colville					
Pearson plc:					
Ordinary shares	23,993	3,275	(2,515)	-	24,753
SAYE options on ordinary shares	1,836	761	-	(271)	2,326
Annual Bonus Matching Shares	2,052	513	-	-	2,565
Reward Plan:					
Pearson Equity Incentive	4,978	-	(4,978)	-	-
Pearson Premium Options	17,330	-	-	-	17,330
Executive Options on Ordinary Shares	44,128	-	(13,552)	-	30,576
Pearson Share Bonus Plan	15	-	(15)	-	-
Long Term Incentive Plan options	17,040	-	-	-	17,040
Long Term Incentive Plan shares	8,500	2,500	-	-	11,000
A C Miller					
Pearson plc:					
Ordinary shares	26,735	1,485	(735)	-	27,485
SAYE options on ordinary shares	4,094	-	(735)	-	3,359
Executive Options on ordinary shares	49,840	-	-	-	49,840
Pearson Share Bonus Plan	15	-	(15)	-	-
Long Term Incentive Plan options	12,600	-	-	-	12,600
Long Term Incentive Plan shares	2,000	500	-	-	2,500
P J Hoffman					
Pearson Plc:					
Ordinary shares	3,551	9,091	-	-	12,642
SAYE options on ordinary shares	-	-	-	-	-
Annual Bonus Matching Shares	2,512	-	(710)	-	1,802
Reward Plan:					
Pearson Equity Incentive	11,179	-	(11,179)	-	-
Pearson Premium Options	39,333	-	-	-	39,333
Executive Options on Ordinary Shares	35,178	-	-	-	35,178
Pearson Share Bonus Plan	57	2	-	-	59
Long Term Incentive Plan options	64,920	-	-	-	64,920
Long Term Incentive Plan shares	29,930	10,222	-	(110)	40,042

PEARSON INTERNATIONAL FINANCE LIMITED

The interests of R A Fairhead who is also a director of Pearson plc, are not shown in this company's financial statements as they are disclosed in the financial statements of Pearson plc.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 period 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 period ended 31 December 2004 and that applicable accounting standards have been followed.

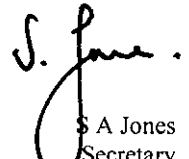
The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

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 A Jones
Secretary
22 February 2005

PEARSON INTERNATIONAL FINANCE LIMITED

Profit and Loss Account for the Year ended 31 December 2004

	<u>Notes</u>	<u>2004</u> £000	<u>2003</u> £000
Share of Pearson Finance Partnership (Bermuda) profit	5	6,292	7,260
Exchange gain/(loss) on revaluation of loans		(739)	501
Income from shares in group undertakings		39,848	-
Loss on liquidation of wholly owned subsidiary		<u>(5,120)</u>	<u>-</u>
Profit on ordinary activities before interest and taxation		40,281	7,761
Interest receivable from group undertakings		13,358	9,696
Interest payable to group undertakings		<u>(8,596)</u>	<u>(8,972)</u>
Profit on ordinary activities before taxation		45,043	8,485
Taxation on profit on ordinary activities	7	<u>(2,864)</u>	<u>(2,687)</u>
Profit for the year		<u>42,179</u>	<u>5,798</u>
Interim dividend paid on ordinary shares		(101,584)	-
Retained (loss)/profit for the year		<u>(59,405)</u>	<u>5,798</u>

The company has no recognised gains and losses other than those included in the profit 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 the retained loss for the year stated above and their historical cost equivalents.

All the above results are derived from continuing operations.

PEARSON INTERNATIONAL FINANCE LIMITED

Balance Sheet at 31 December 2004

	<u>Notes</u>	<u>2004</u> £000	<u>2003</u> £000
<u>Fixed assets</u>			
Investment in Pearson Finance Partnership (Bermuda)	5	409,249	405,361
Investment in other group companies	6	<u>627,606</u>	<u>636,261</u>
		<u>1,036,855</u>	<u>1,041,622</u>
<u>Current assets</u>			
Amounts owed by parent company		59,294	67,252
Amounts owed by fellow subsidiaries		202,020	210,312
Accrued interest income		<u>3,949</u>	<u>1,285</u>
		<u>265,263</u>	<u>278,849</u>
<u>Creditors: amounts falling due within one year</u>			
Amounts owed to parent company		(413)	(3,509)
Amounts owed to fellow subsidiary		(22,575)	(26,880)
Taxation		(3,653)	(1,911)
Accruals and deferred income		<u>(8,784)</u>	<u>(9,852)</u>
		<u>(35,425)</u>	<u>(42,152)</u>
<u>Net current assets</u>		229,838	236,697
<u>Creditors: amounts falling due after more than one year</u>			
Convertible loan notes 2008	8	<u>(213,558)</u>	<u>(165,779)</u>
<u>Net assets</u>		<u>1,053,135</u>	<u>1,112,540</u>
<u>Capital and reserves</u>			
Called up share capital	9	950,010	950,010
Share Premium account	10	90,000	90,000
Profit and loss account	10	<u>13,125</u>	<u>72,530</u>
Equity shareholders' funds	11	<u>1,053,135</u>	<u>1,112,540</u>

The financial statements on pages 4 to 9 were approved by the board on 22 February 2005.



Director

PEARSON INTERNATIONAL FINANCE LIMITED

Notes to the financial statements for the year ended 31 December 2004

1. Accounting policies

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

- a) Foreign currencies – Profit and loss account transactions are translated at the exchange rate ruling on the date of the transaction.

In general, monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the year end, and any exchange gains or losses arising are recognised in the profit and loss account. The exception to this policy relates to monetary liabilities that hedge foreign currency denominated investments. In these cases the foreign exchange gains or losses arising on the translation of foreign currency denominated investments and on foreign currency borrowings are taken to reserves. Exchange differences on related borrowings exceeding those on foreign currency investments are taken to the profit and loss account. Foreign currency denominated investments, which are not hedged by any related foreign currency borrowings are held in the balance sheet at historical cost.

- b) Share of partnership income – The results of the Company includes the Company's share of the results of associated partnerships, and the balance sheet includes the Company's interest in the partnership at the book value of attributable net assets and attributable goodwill.

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. Directors' Emoluments and Employee Costs

The directors are employed by another group undertaking and are remunerated by that undertaking in respect of their services as group employees. Their emoluments are dealt with in the group financial statements and they received no emoluments from the company in respect of qualifying services. No one was employed by the company at any time during the year.

4. Auditors' remuneration

Auditors remuneration is borne by a fellow group company.

5. Investment in Pearson Finance Partnership (Bermuda)

£000

Investment at 1 January 2004	405,361
Share of profit	6,292
Distribution in the year	<u>(2,404)</u>
Investment at 31 December 2004	<u>409,249</u>

The investment is a 50% interest in Pearson Finance Partnership (Bermuda) which operates in Bermuda.

PEARSON INTERNATIONAL FINANCE LIMITED

Notes to the financial statements (continued)

6. Investment in other Group Companies

	Shares in subsidiary and associate undertakings £000
At 1 January 2004 – at cost	636,261
Liquidation of Pearson Internet Holdings BV	(8,655)
At 31 December 2004 - at cost	627,606

The company's direct 100% owned subsidiary undertakings are listed below. They operate mainly in the country of incorporation.

	<u>Country of Incorporation</u>
Embankment Finance Ltd	UK
Strand Finance Ltd	UK

The company's associated undertakings are listed below. They operate mainly in the country of incorporation.

	<u>Country of Incorporation</u>	<u>Beneficial Percentage Held</u>
Marketwatch.com Inc	USA	34.40%
Les Echos	France	25%

The company disposed of its stake in Marketwatch.com Inc to Dow Jones for \$101.5 million on 21 January 2005.

Group accounts have not been prepared as the company is a wholly owned subsidiary undertaking of Pearson plc, an undertaking registered in England and Wales.

7. Taxation on profit on ordinary activities

	<u>2004</u> £000	<u>2003</u> £000
Current tax:		
UK corporation tax on profits of the period	(1,820)	(233)
UK Corporation tax liability	<u>(1,820)</u>	<u>(233)</u>
Foreign taxation	(1,044)	(702)
Total current tax	<u>(2,864)</u>	<u>(935)</u>
Deferred tax:		
Timing differences	-	(1,752)
Total deferred tax	<u>-</u>	<u>(1,752)</u>
Tax on profit on ordinary activities	<u>(2,864)</u>	<u>(2,687)</u>

PEARSON INTERNATIONAL FINANCE LIMITED

Notes to the financial statements (continued)

7. Taxation on profit on ordinary activities (continued)

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

	<u>2004</u> £000	<u>2003</u> £000
Profit on ordinary activities before tax	<u>45,043</u>	<u>8,485</u>
Profit on ordinary activities multiplied by standard rate in the UK 30% (2003 - 30%)	(13,513)	(2,546)
Effects of:		
Non taxable foreign exchange on liquidation of investment	231	(141)
Non taxable loss on liquidation of investment	(1,536)	-
Non taxable dividend income	11,954	-
Current tax charge for the period	<u>(2,864)</u>	<u>(2,687)</u>

8. Creditors amounts falling due after more than one year

	<u>2004</u> £000	<u>2003</u> £000
364,450 Canadian Dollar Convertible Loan Notes 2008	158,436	108,961
135,000 Australian Dollar Convertible Loan Notes 2008	<u>55,122</u>	<u>56,818</u>
	<u>213,558</u>	<u>165,779</u>

The nominal value of one Canadian dollar loan note is C\$1,000 and of one Australian dollar loan note is A\$1,000. All the loan notes were issued at par. Each Canadian dollar loan note is convertible in 2008 into 190 ordinary shares and each Australian dollar loan note is convertible in 2008 into 185 ordinary shares.

9. Share capital

	<u>2004</u> £000	<u>2003</u> £000
Authorised		
Ordinary shares of £1 each	<u>1,200,000</u>	<u>1,200,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>950,010</u>	<u>950,010</u>

10. Reserves

	<u>Share premium account</u> £000	<u>Profit and loss reserve</u> £000
At 1 January 2004	90,000	72,530
(Loss)/profit for the year	-	<u>(59,405)</u>
At 31 December 2004	<u>90,000</u>	<u>13,125</u>

11. Reconciliation of movements in shareholders' funds

	<u>2004</u> £000	<u>2003</u> £000
(Loss)/profit for the financial year	(59,405)	5,798
Opening shareholders' funds	<u>1,112,540</u>	<u>1,106,742</u>
Closing shareholders' funds	<u>1,053,135</u>	<u>1,112,540</u>

PEARSON INTERNATIONAL FINANCE LIMITED

Notes to the financial statements (continued)

12. 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 is joint and severally liable for the guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. The net overdraft position under this arrangement at 31 December 2004 was an overdraft 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.

13. Transactions with directors

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

14. Related party transactions

The company is a wholly owned subsidiary within 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 15.

15. Ultimate parent undertaking

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 INTERNATIONAL FINANCE LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF PEARSON INTERNATIONAL FINANCE LIMITED

Independent Auditors' Report to the Members of Pearson International Finance Ltd

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 profit for the period 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