2005 our shareholders approved a final dividend of 15.7p per ordinary share for the year ended December 31, 2004.

The table below sets forth the amounts of interim, final and total dividends paid in respect of each fiscal year indicated, and is translated into cents per ordinary share at the noon buying rate in the city of New York on each of the respective payment dates for interim and final dividends. The final dividend for the 2004 fiscal year was paid in May 2005.

Fiscal Year	Interim	Final	Total	Interim	Final	Total
	(Pence per ordinary share)			(Cents per ordinary share)		
2004	**9.7**	**15.7**	**25.4**	**18.6**	**30.2**	**48.8**
2003	9.4	14.8	24.2	16.7	26.4	43.1
2002	9.1	14.3	23.4	14.7	23.0	37.7
2001	8.7	13.6	22.3	12.6	19.7	32.3
2000	8.2	13.2	21.4	13.3	18.7	32.0

Future dividends will be dependent on our future earnings, financial condition and cash flow, as well as other factors affecting the Group.

Exchange Rate Information

The following table sets forth, for the periods indicated, information concerning the noon buying rate for sterling, expressed in dollars per pound sterling. The average rate is calculated by using the average of the noon buying rates in the city of New York on each day during a monthly period and on the last day of each month during an annual period. On December 31, 2004, the noon buying rate for sterling was £1.00 = $1.92.

Month	High	Low
May 2005	$ 1.90	$ 1.82
April 2005	$ 1.92	$ 1.87
March 2005	$ 1.93	$ 1.87
February 2005	$ 1.92	$ 1.87
January 2005	$ 1.91	$ 1.86
December 2004	$ 1.95	$ 1.91

Year Ended December 31	Average Rate
2004	$ 1.84
2003	$ 1.63
2002	$ 1.51
2001	$ 1.45
2000	$ 1.52

Risk Factors

You should carefully consider the risk factors described below, as well as the other information included in this Annual Report. Our business, financial condition or results from operations could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.

Our US educational textbook and testing businesses may be adversely affected by changes in state educational funding that result from the condition of the local state or US economy, changes in legislation, both at the federal and state level, and/or changes in the state procurement process.

The results of our US educational textbook and testing business, Pearson Education, which accounted for 60% of our total 2004 revenue, depend on the level of US and state educational funding. The economic slowdown in 2002 and 2003, coupled with declining tax revenues, resulted in some US states deferring purchases as they sought to reduce budget deficits. State budgets have begun to recover but there is no guarantee that states will fund new programs, or that we will win this business.

Legislative changes can also affect the funding available for educational expenditure. These might include changes in the procurement process for textbooks, learning material and student tests, particularly in the adoptions market and thus our ability to grow. For example, changes in curricula, delays in the timing of the adoptions and changes in the student testing process can all affect these programs and therefore the size of our market in any given year.

Our newspaper business may be adversely affected by a weak global advertising environment and other economic and market factors.

Our newspaper business results have been adversely affected by the reduction in advertising, particularly financial advertising, since 2001. Also some of our newspapers' circulation is declining or static due to general economic conditions and changes in consumer purchasing habits, as readers look to alternative sources and/or providers of information such as the internet.

Our intellectual property and proprietary rights may not be adequately protected under current laws in some jurisdictions and that may adversely affect our results and our ability to grow.

Our products are largely comprised of intellectual property delivered through a variety of media, including newspapers, books and the internet. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products. However, we cannot be sure that our proprietary rights will not be challenged, invalidated or circumvented. Our intellectual property rights in countries such as the United States and the United Kingdom, which are the jurisdictions with the largest proportions of our operations, are well established. However, we also conduct business in other countries where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. Moreover, despite trademark and copyright protection, third parties may be able to copy, infringe or otherwise profit from our proprietary rights without our authorization. These unauthorized activities may be more easily facilitated by the internet. The lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights. The loss or diminution in value of these proprietary rights or our intellectual property could have a material adverse effect on our business and financial performance.

The contracting risks associated with our Professional division within Pearson Education are complex and, if unmanaged, could adversely affect our financial results and growth prospects.

In recent years we have begun, through our Professional division, to offer services ranging from call center operations to complete outsourcing of administrative functions. Customers are government agencies and professional organizations, mainly in the United States and the United Kingdom, and commercial businesses. These services are provided under contracts with values that vary significantly, from a few million to several hundred million pounds over the term of the contract, which can run from one to ten years in length. The results of our Professional division can be significantly dependent on a small number of large contracts.

As in any long-term contracting business, there are inherent risks associated with the bidding process, operational performance, contract compliance (including penalty clauses), indemnification (if available) and contract re-bidding, which could adversely affect our financial performance and/or reputation. In addition, US government contracts are subject to audit and investigation by the applicable contracting government entity and may otherwise be investigated by the government, and this can result in payment delays and, in certain circumstances, reductions in the amounts received, penalties or other sanctions.

A control breakdown in our school testing businesses could result in financial loss and reputational damage.

There are inherent risks particularly associated with our school testing businesses, both in the United States and the United Kingdom. A breakdown in our testing and assessment products and processes could lead to either a mis-grading of student test scores and/or late delivery of test scores to students and their schools. In either event we may be subject to legal claims, penalty charges under our contracts and non-renewal of contracts. It is also likely that such events would result in adverse publicity, which may affect our school testing business's ability to retain existing clients and/or obtain new clients.

Changes in the Penguin business may restrict our ability to grow and return this business to historical profit levels.

Weak US market conditions (particularly in mass market books), higher than average historical return rates, the weak US dollar and distribution problems in the United Kingdom associated with a new automated warehouse facility all adversely affected Penguin's financial performance in 2004. Our ability to restore Penguin to historical profit levels will be constrained if the US mass market does not recover. Penguin's financial performance will also be negatively affected if book return rates remain above their historical average or increase further.

The majority of the UK warehousing problems were resolved by the 2004 year end. We are planning to move Pearson Education into this new facility in the second half of 2005. This represents a short term operational risk to both businesses. We will continue to incur dual running costs until this project is successfully completed.

We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive.

Our education, business information and book publishing businesses operate in highly competitive markets. These markets constantly change in response to competition, technological innovations and other factors. To remain competitive we continue to invest in our authors, products and services. There is no guarantee that these investments will generate the anticipated returns or protect us from being placed at a competitive disadvantage with respect to scale, resources and our ability to develop and exploit opportunities. Specific competitive threats we face at present include:

- Students seeking cheaper sources of content, e.g. on-line, used books or imported textbooks. To counter this trend we introduced our own on-line format (called SafariX) and are providing students with a greater choice and customization of our products.
- Competition from major publishers and other educational material and service providers in our US educational textbook and testing business.
- Author advances in Penguin. We compete with other publishing businesses for the rights to author manuscripts, and a competitive situation arises where author advances can be bid up to a level at which we cannot generate a sufficient return on our investment.

We operate in markets which are dependent on Information Technology systems and technological change.

All our businesses, to a greater or lesser extent, are dependent on technology. We either provide software and/or internet services or we use complex information technology systems and products to support our business activities, particularly in back-office processing and infrastructure.

We face several technological risks associated with software product development and service delivery in our educational businesses, information technology security (including virus and hacker attacks), e-commerce, enterprise resource planning system implementations and upgrades and business continuity in the event of a disaster at a key data center.