operating profit in 2004 was reduced by costs associated with disruption in UK distribution following the move to a new warehouse and closure costs associated with Penguin TV.

Net Finance Costs

Net finance costs reduced from £79 million in 2004 to £70 million in 2005. Net interest payable in 2005 was £77 million, up from £74 million in 2004. The group's net interest rate payable rose by 0.9% to 5.9%. Although we were partly protected by our fixed rate policy, the strong rise in US dollar floating interest rates had an adverse effect. Year on year, average three month LIBOR (weighted for the Group's borrowings in US dollars, euro and sterling) rose by 1.9% to 3.4%. This was largely offset by the £260m fall in average net debt, reflecting in particular the proceeds from the disposal of Recoletos and good cash generation. In addition, in 2005 we did not benefit from a one-off credit of £9m for interest on a repayment of tax that occurred in 2004. As at January 1, 2005 we adopted IAS 39 *'Financial Instruments: Recognition and Measurement'* in our financial statements. This has had the effect of introducing increased volatility into the net finance cost and in 2005 the adoption of IAS 39 reduced net finance costs by £14 million. For a more detailed discussion of our borrowings and interest expenses see "— Liquidity and Capital Resources — Capital Resources" and "— Borrowing" below and "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

Taxation

The total tax charge for the year was £124 million, representing a 27% rate on pre-tax profits of £466 million. This compares with a 2004 rate of 19% (or £63m on a pre-tax profit of £325m). In 2004, the tax charge reflected credits of £48m relating to previous years, a substantial element of which was non-recurring; adjustments relating to previous years in 2005 resulted in a credit of £18m. The 2005 rate benefited from the fact that the profit of £40m on the sale of Marketwatch.com was free of tax.

Minority Interests

Following the disposal of our 79% holding in Recoletos in April 2005 and the purchase of the 25% minority stake in Edexcel in February 2005, our minority interests now mainly comprise the 39% minority share in IDC.

Discontinued Operations

The results of Recoletos have been consolidated for the period up to February 28, 2005 and included in discontinued operations in 2005 and 2004. The results for 2005 include an operating loss for the two months to February 28, 2005 of £3 million compared to an operating profit in the full year to December 31, 2004 of £26 million. The profit on disposal of Recoletos reported in 2005 was £306 million.

Profit for the Financial Year

The total profit for the financial year in 2005 was £644 million compared to a profit in 2004 of £284 million. The overall increase of £360 million was mainly due to the profit on disposal of Recoletos and MarketWatch together with significant improvement in operating profits reported across all the Pearson businesses. These increases were only partially offset by the increase in the tax charge in 2005.

Earnings per Ordinary Share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 78.2 pence in 2005 compared to 32.9 pence in 2004 based on a weighted average number of shares in issue of 797.9 million in 2005 and 795.6 million in 2004. This increase in earnings per share was due to the additional profit for the financial year described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 78.1 pence in 2005 and 32.9 pence in 2004 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

Exchange Rate Fluctuations

The strengthening of the US dollar against sterling on an average basis had a positive impact on reported sales and profits in 2005 compared to 2004. We estimate that if the 2004 average rates had prevailed in 2005, sales would have been lower by £46 million and operating profit would have been lower by £12 million. See

“Item 11. Quantitative and Qualitative Disclosures About Market Risk” for a discussion regarding our management of exchange rate risks.

Sales and Operating Profit by Division

The following table summarizes our operating profit and results from operations for each of Pearson’s divisions. Adjusted operating profit is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments, as reported under SFAS 131. Since 1998 we have reshaped the Pearson portfolio by divesting of non-core interests and investing in educational publishing and testing, consumer publishing and business information companies. During this period of transformation management has used adjusted operating profit to track underlying core business performance.

In our adjusted operating profit we have excluded amortization of acquired intangibles, other gains and losses and other net finance costs of associates. The amortization of acquired intangibles is not considered to be fully reflective of the underlying performance of the group. Other gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations but which distort the performance for the year. Other net finance costs of associates are foreign exchange and other gains and losses that represent short-term fluctuations in market value and are subject to significant volatility. These gains and losses may not be realized in due course as it is normally the intention to hold these instruments to maturity. Increased volatility has been introduced as a result of adopting IAS 39 ’Financial Instruments: Recognition and Measurement’ as at January 1, 2005. Finance costs and income of joint ventures and associates are reported within the share of results of joint ventures and associates that is included within operating profit. Group finance costs and income are reported separately in the income statement below the operating profit line.

Adjusted operating profit enables management to more easily track the underlying operational performance of the group. A reconciliation of operating profit to adjusted operating profit is included in the table below:

	Year Ended December 31			
	2005		2004	
	£m	%	£m	%
Total operating profit				
Pearson Education:				
School	**142**	**27**	112	27
Higher Education	**156**	**29**	133	33
Professional	**45**	**8**	42	10
FT Group:				
FT Publishing	**58**	**11**	8	2
IDC	**75**	**14**	62	16
Penguin	**60**	**11**	47	12
Total	**536**	**100**	404	100
Add back:				
Amortization of acquired intangibles				
School	**5**		—	
Higher Education	**—**		—	
Professional	**—**		—	
Penguin	**—**		—	
FT Publishing	**1**		—	
IDC	**5**		5	
Total	**11**		5	
Other net gains and losses				
School	**—**		(4)	
Higher Education	**—**		(4)	
Professional	**—**		(2)	
Penguin	**—**		5	
FT Publishing	**(40)**		(4)	
IDC	**—**		—	
Total	**(40)**		(9)	
Other net finance costs of associates				
School	**—**		—	
Higher Education	**—**		—	
Professional	**—**		—	
Penguin	**—**		—	
FT Publishing	**2**		—	
IDC	**—**		—	
Total	**2**		—	
Adjusted operating profit				
Pearson Education:				
School	**147**	**29**	108	27
Higher Education	**156**	**31**	129	32
Professional	**45**	**9**	40	10
FT Group:				
FT Publishing	**21**	**4**	4	1
IDC	**80**	**15**	67	17
Penguin	**60**	**12**	52	13
Total	**509**	**100**	400	100

School

School business sales increased by £208 million, or 19%, to £1,295 million in 2005, from £1,087 million in 2004 and adjusted operating profit increased by £39 million, or 36%, to £147 million in 2005 from £108 million in 2004. The School results in 2005 benefit from the inclusion of AGS Publishing, acquired in July 2005 and the strengthening of the US dollar, which we estimate added £34 million to sales and £2 million to adjusted operating profit when compared to the equivalent figures at constant 2004 exchange rates.

In the US school market, Pearson's school publishing business grew 12% ahead of the Association of American Publishers' estimate of industry growth of 10.5%. New adoption market share was 33% in the adoptions where Pearson competed (and 24% of the total new adoption market). The School business now has leading positions in math, science, literature and foreign languages. School testing sales were up more than 20%, benefiting from significant market share gains and mandatory state testing under No Child Left Behind. School software also had a strong year with good sales and profit growth on curriculum and school administration services.

Outside the US, the School publishing sales increased in high single digits. The worldwide English Language Teaching business benefited from strong demand for English language learning and investments in new products, including *English Adventure* (with Disney) for the primary school market, *Sky* for secondary schools, *Total English* for adult learners and *Intelligent Business* (with *The Economist*) for the business markets. There was also strong growth in the international school testing markets. Four million UK GCSE, AS and A-Level scripts were marked onscreen and 2005 saw the first year of running the UK National Curriculum tests and a new contract for a national school testing pilot in Australia.

School margins were up by 1.5% points to 11.4% with efficiency gains in central costs, production, distribution and software development.

Higher Education

Sales in Higher Education increased by £50 million, or 7%, to £779 million in 2005, from £729 million in 2004. Adjusted operating profit increased by £27 million, or 21%, to £156 million in 2005 from £129 million in 2004. Both sales and adjusted operating profit benefited from the strengthening US dollar which we estimate added £14 million to sales and £3 million to adjusted operating profit when compared to the equivalent figures at constant 2004 exchange rates.

In the US, the Higher Education sales were up by 6% ahead of the Association of American Publishers' estimate of industry growth of 5%. 2005 is the seventh consecutive year that Pearson's US Higher Education business has grown faster than the industry. The US business benefited from continued growth from market-leading authors in key academic disciplines including biology (Campbell & Reece), chemistry (Brown & LeMay), sociology (Macionis), marketing (Kotler & Keller), math (Tobey & Slater), developmental math (Martin-Gay) and English composition (Faigley's *Penguin Handbook*). There was also expansion in the career and workforce education sector, with major publishing initiatives gaining market share in allied health, criminal justice, paralegal, homeland security and hospitality. The online learning and custom publishing businesses saw rapid growth. Approximately 3.6 million US college students are studying through one of our online programs, an increase of 20% on 2004; and custom publishing, which builds customized textbooks and online services around the courses of individual faculties or professors, had double digit sales growth.

International Higher Education publishing sales grew by 4%, benefiting from the local adaptation of global authors, including Campbell and Kotler, and the introduction of custom publishing and online learning capabilities into new markets in Asia and the Middle East.

Higher Education margins were up by 2.3% points to 20%. Good margin improvement in the US and in international publishing was helped by shared services and savings in central costs, technology, production and manufacturing.

Professional

Professional sales increased by £82 million, or 16%, to £589 million in 2005 from £507 million in 2004. Adjusted operating profit increased by £5 million, or 13%, to £45 million in 2005, from £40 million in 2004. Sales benefited from the strengthening US dollar, which we estimate added £8 million to sales when compared to the equivalent figures at constant 2004 exchange rates.

Professional testing sales were up more than 40% in 2005 benefiting from the successful start-up of major new contracts including the Driving Standards Agency, National Association of Securities Dealers and the Graduate Management Admissions Council. Government Solutions grew sales by 38%, helped by new contracts with the US Department of Education and the Social Security Administration worth over $800 million, together with strong growth from add-ons to existing programs, including those with the US Department of Health and Human Services.

Overall margins in the Professional business were a little lower in 2005 compared to 2004 mainly due to new contract start-up costs at Government Solutions. Margins in the Professional publishing businesses were maintained despite falling sales.

FT Publishing

Sales at FT Publishing (excluding discontinued businesses) increased by £14 million or 4%, from £318 million in 2004 to £332 million in 2005. Adjusted operating profit increased by £17 million, from £4 million in 2004 to £21 million in 2005. Much of the sales and profit increase was at the FT newspaper; sales at the other business newspapers were broadly level with 2004 with a small increase in adjusted operating profit compared to 2004.

FT newspaper sales were up 6% while adjusted operating profit increased £14 million to register a profit of £2 million in 2005 compared to a loss of £12 million in 2004. FT advertising revenues were up 9% for the year with sustained growth in luxury goods and worldwide display advertising. FT.com advertising sales were up 27% as some of the FT’s biggest advertisers shifted to integrated print and online advertising. The FT’s worldwide circulation was 2% lower for the year at 426,453 average copies per day although the second half of the year showed improvement to 430,635 average copies per day. FT.com’s paying subscribers increased by 12% to 84,000 and the average unique monthly users was up 7% to 3.2 million.

Les Echos advertising and circulation revenues for 2005 were level with 2004 despite tough trading conditions. FT Business improved margins with growth in its international finance titles. Our share of the results of the FT’s joint ventures and associates improved as *FT Deutschland* reduced its losses and increased its average circulation despite a weak advertising market in Germany and *The Economist* increased profits helped by an increase in circulation (10% to an average weekly circulation of 1,038,519 for the January-June ABC period).

Interactive Data

Interactive Data, grew its sales by 10% from £269 million in 2004 to £297 million in 2005. Adjusted operating profit grew by 19% from £67 million in 2004 to £80 million in 2005. Both sales and adjusted operating profit benefited from the strengthening US dollar, which we estimate added £2 million to sales and £1 million to adjusted operating profit when compared to the equivalent figures at constant 2004 exchange rates.

FT Interactive Data, IDC’s largest business (approximately two-thirds of IDC revenues) generated strong growth in North America and returned to growth in Europe. There was more modest growth at Comstock, IDC’s business providing real-time data for global financial institutions, and at CMS BondEdge, its fixed income analytics business. Renewal rates for IDC’s institutional businesses remain at around 95%. eSignal, IDC’s active trader services business, increased sales by 27% with continued growth in the subscriber base and a full year contribution from FutureSource, acquired in September 2004.

The Penguin Group

The Penguin Group sales were up 2% to £804 million in 2005 from £786 million in 2004 and adjusted operating profit up 15% to £60 million in 2005 from £52 million in 2004. Both sales and adjusted operating profit benefited from the strengthening US dollar which we estimate added £9 million to sales and £6 million to adjusted operating profit when compared to the equivalent figures at constant 2004 exchange rates. 2005 adjusted operating profit also benefited from reduced operating costs at our UK distribution center.

In the US, successful format innovation helped to address weakness in the mass market category that saw a further decline of 4% for the industry in 2005. The first seven Penguin Premium paperbacks were published in 2005, priced at $9.99, and all became bestsellers, with authors including Nora Roberts, Clive Cussler and Catherine Coulter.

Penguin authors received a number of awards during the year: A Pulitzer Prize (for Steve Coll's *Ghost Wars*), a National Book Award (William T. Vollman's *Europe Central*), the Whitbread Book of the Year (Hilary Spurling's *Matisse the Master*), the Whitbread Novel of the Year (Ali Smith's *The Accidental*) and the FT & Goldman Sachs Business Book of the Year Award (Thomas Friedman's *The World is Flat*). In 2005, there were 129 New York Times bestsellers and 54 top 10 bestsellers in the UK. Major bestselling authors include Patricia Cornwell, John Berendt, Sue Grafton, Jared Diamond, Jamie Oliver, Gillian McKeith, Jeremy Clarkson and Gloria Hunniford.

In 2005, there was also a strong contribution from new imprints and first-time authors. The new imprint strategy continued to gather pace and Penguin published more than 150 new authors in the US and approximately 250 worldwide — its largest ever investment in new talent. Sue Monk Kidd's first novel, *The Secret Life of Bees,* has been a New York Times bestseller for almost two years; her second, *The Mermaid Chair,* reached number one in 2005. *The Kite Runner,* Khaled Hosseini's first book, stayed on the New York Times bestseller list for all of 2005, selling an additional two million copies (three million in total). In the UK, there was also strong performance from new fiction authors including Jilliane Hoffman, PJ Tracy, Karen Joy Fowler and Marina Lewycka.

Results of Operations

Year ended December 31, 2004 compared to year ended December 31, 2003

Consolidated Results of Operations

Sales

Our total sales decreased by £154 million to £3,696 million in 2004, from £3,850 million in 2003. This decrease of 4% was attributable to the effect of foreign currency exchange. The strength of sterling compared to the US dollar had a significant negative effect on sales, and we estimate that had the 2003 average rates prevailed in 2004, sales would have been higher by £301 million. In constant exchange rate terms Pearson Education had a strong year with an increase in sales of 5%. The Higher Education and Professional businesses were the main contributors to this growth with the Higher Education business growing faster than its market for the sixth straight year and Professional benefiting from new contracts and add-ons to existing contracts at Pearson Government Solutions. The School business was helped by a full year contribution from Edexcel, the UK testing business, but otherwise sales were flat as new adoption spending in the US fell by approximately $200 million. The FT Group sales were ahead of last year after another good year at Interactive Data and a return to sales growth for the Financial Times newspaper in a more stable business advertising environment. Penguin's results were disappointing with sales down 6% as reported, but flat on a constant currency basis after disruption to UK distribution and a weakness in the US consumer publishing market.

Pearson Education, our largest business sector, accounted for 63% of our sales in 2004 and in 2003. North America continued to be the most significant source of our sales although sales in the region decreased, as a proportion of total sales, to 68% in 2004, compared to 71% in 2003. This decrease in 2004, however, reflects the comparative strength of sterling and the euro compared to the US dollar.

Cost of Sales and Net Operating Expenses

The following table summarizes our cost of sales and net operating expenses:

	Year Ended December 31	
	2004	**2003**
	£m	**£m**
Cost of goods sold	**1,789**	1,846
Distribution costs	**201**	206
Administrative and other expenses	**1,365**	1,439
Other income	**(46)**	(51)
Total operating expenses	**1,520**	1,594

Cost of Sales. Cost of sales consists of costs for raw materials, primarily paper, printing costs, amortization of pre-publication costs and royalty charges. Our cost of sales decreased by £57 million, or 3%, to

£1,789 million in 2004, from £1,846 million in 2003. The decrease mainly reflected the decrease in sales over the period with overall gross margin remaining constant.

Distribution Costs. Distribution costs consist primarily of shipping costs, postage and packing.

Administration and Other Expenses. Our administration and other expenses decreased by £74 million, or 5%, to £1,365 million in 2004, from £1,439 million in 2003. Administration and other expenses as a percentage of sales remained constant at 37%. The decrease in administration and other expenses comes from both the effect of exchange and increased efficiencies, in particular from the cost actions taken at the Financial Times in recent years.

Other Operating Income. Other operating income mainly consists of sub-rights and licensing income and distribution commissions. Other operating income decreased 10% to £46 million in 2004 from £51 million in 2003 with the decrease mainly representing the continued decline in distribution commissions received for distribution of third party books.

Other Net Gains and Losses

Profits or losses on the sale of businesses, associates and investments that are included in our continuing operations are reported as other net gains and losses. In 2004, other gains and losses amounted to £9 million with the principal items being profits on the sale of stakes in Capella and Business.com. In 2003 there were small losses on a number of items totaling £6 million.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased from £2 million in 2003 to £8 million in 2004. The increase was largely due to a reduction in losses at FT Deutschland together with some improvement in profit at the Economist.

Operating Profit/Loss

The total operating profit in 2004 of £404 million compares to a profit of £406 million in 2003. This marginal decrease was due to the impact of exchange rates. We estimate that had the 2003 average rates prevailed in 2004, operating profit would have been £51 million greater. Operating profit attributable to Pearson Education remained constant at £287 million in both 2004 and 2003. There was an estimated reduction in profit of £29 million from exchange. After accounting for exchange rates, operating profit was ahead in each of the School, Higher Education and Professional businesses. Operating profit attributable to the FT Group increased by £33 million, or 89%, to £70 million in 2004, from £37 million in 2003. The increase was largely due to another strong performance from Interactive Data and significant cost savings at the Financial Times newspaper. Operating profit attributable to the Penguin Group decreased by £35 million, or 43%, to £47 million in 2004, from £82 million in 2003. The biggest single factor in the profit decline was exchange rates, which are estimated to have accounted for £14 million of the difference. There were also a number of other factors, including disruption in UK distribution following the move to a new warehouse and the weakness of the US consumer publishing market.

Net Finance Costs

Net finance costs decreased by £14 million to £79 million in 2004 from £93 million in 2003. Net interest payable decreased by £10 million, or 12%, to £74 million in 2004, from £84 million in 2003. The reduction is due to lower average net debt levels in 2004, which more than offset the effect of a general increase in floating interest rates, and a one-off credit of £9 million for interest on a repayment of tax in France which reduced the net interest cost in 2004. Year end indebtedness decreased to £1,221 million in 2004 compared to £1,376 million in 2003 due to funds generated from operations and foreign exchange movements. The weighted average three month London Interbank Offered ("LIBOR") rate, reflecting our borrowings in US dollars, euros and sterling, rose by 40 basis points, or 0.4%. The company is partially protected from these increases by our treasury policy, which put £736 million of the year end debt on a fixed rate basis. As a result the net interest rate payable (excluding the £9 million credit referred to above) rose by only 25 basis points or 0.25% to 5% in 2004. For a more detailed discussion of our borrowings and interest expenses see "— Liquidity and Capital Resources — Capital Resources" and "— Borrowing" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

Taxation

The overall taxation charge for 2004 was £63 million, compared to a charge of £61 million in 2003. In 2004 the Group recorded a total pre-tax profit of £325 million giving a tax rate of 19% compared to a similar rate of 19% on total pre-tax profits of £313 million in 2003. These low rates of tax were mainly a result credits of £56 million and £48 million respectively relating to prior year items; these reflect a combination of settlements with the Inland Revenue authorities and changes to deferred tax balances.

Minority Interests

Minority interests principally consist of the public’s 39% interest in Interactive Data.

Discontinued Operations

Following the disposal of Recoletos in 2005, the results of Recoletos have been included in discontinued operations in 2004 and 2003. The results for 2004 include an operating profit of £26 million compared to an operating profit in 2003 of £43 million. The profit in 2003 includes a profit of £12 million on the sale of the Recoletos interest in El Mundo.

Profit for the Financial Year

The total profit for the financial year in 2004 was £284 million compared to a profit in 2003 of £275 million. The overall increase of £9 million was mainly due to the decrease in net finance costs in 2004 after adverse movements in exchange had eroded the underlying increase in operating profit.

Earnings per Ordinary Share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 32.9 pence in 2004 compared to 31.7 pence in 2003 based on a weighted average number of shares in issue of 795.6 million in 2004 and 794.4 million in 2003. This increase in earnings per share was due to the additional profit for the financial year described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 32.9 pence in 2004 and 31.7 pence in 2003 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

Exchange Rate Fluctuations

The weakening of the US dollar against sterling on an average basis had a negative impact on reported sales and profits in 2004 compared to 2003. We estimate that if the 2003 average rates had prevailed in 2004, sales would have been higher by £301 million and operating profit would have been higher by £51 million. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk” for a discussion regarding our management of exchange rate risks.

Sales and Operating Profit by Division

The following table summarizes our operating profit and results from operations for each of Pearson’s divisions. Adjusted operating profit is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments, as reported under SFAS 131. Since 1998 we have reshaped the Pearson portfolio by divesting of non-core interests and investing in educational publishing and testing, consumer publishing and business information companies. During this period of transformation management has used adjusted operating profit to track underlying core business performance.

In our adjusted operating profit we have excluded amortization of acquired intangibles, other gains and losses and other net finance costs of associates. The amortization of acquired intangibles is not considered to be fully reflective of the underlying performance of the group. Other gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations but which distort the performance for the year.

Adjusted operating profit enables management to more easily track the underlying operational performance of the group. A reconciliation of operating profit to adjusted operating profit is included in the table below:

	Year Ended December 31			
	2004		2003	
	£m	%	£m	%
Total operating profit				
Pearson Education:				
School	**112**	**27**	114	28
Higher Education	**133**	**33**	140	35
Professional	**42**	**10**	33	8
FT Group:				
FT Publishing	**8**	**2**	(29)	(7)
IDC	**62**	**16**	66	16
Penguin	**47**	**12**	82	20
Total	**404**	**100**	406	100
Add back:				
Amortization of acquired intangibles				
School	**—**		—	
Higher Education	**—**		—	
Professional	**—**		—	
Penguin	**—**		—	
FT Publishing	**—**		—	
IDC	**5**		4	
Total	**5**		4	
Other net gains and losses				
School	**(4)**		2	
Higher Education	**(4)**		2	
Professional	**(2)**		1	
Penguin	**5**		1	
FT Publishing	**(4)**		—	
IDC	**—**		—	
Total	**(9)**		6	
Other net finance costs of associates				
School	**—**		—	
Higher Education	**—**		—	
Professional	**—**		—	
Penguin	**—**		—	
FT Publishing	**—**		—	
IDC	**—**		—	
Total	**—**		—	
Adjusted operating profit				
Pearson Education:				
School	**108**	**27**	116	28
Higher Education	**129**	**32**	142	34
Professional	**40**	**10**	34	8
FT Group:				
FT Publishing	**4**	**1**	(29)	(7)
IDC	**67**	**17**	70	17
Penguin	**52**	**13**	83	20
Total	**400**	**100**	416	100

School

The School business sales decreased by £62 million, or 5%, to £1,087 million in 2004, from £1,149 million in 2003 and adjusted operating profit decreased by £8 million, or 7%, to £108 million in 2004 from £116 million in 2003. Both sales and adjusted operating profit were adversely affected by the weakening US dollar and we estimate that had 2003 average rates prevailed in 2004 then sales would have been approximately £93 million higher than reported and results from operations £8 million higher. The School results include a full year contribution from Edexcel, 75% of which was acquired in 2003. The extra Edexcel contribution increased sales growth in 2004 but reduced profit growth as the business is loss making in the first half.

In the US school market, adoption spending in 2004 fell by some $200 million to approximately $500 million. Our school businesses took the largest share (27%) of the new adoption opportunities. We benefited from strength across a wide range of subjects and grade levels, with a decline in elementary sales (after particularly strong market share growth in 2003) mitigated by a strong performance in the secondary market. We returned to growth in the open territories and in supplementary publishing, helped by restructuring actions taken in 2003 and by the sharp recovery in US state budgets. Our US school testing business benefited from growth in new and existing state contracts, including Texas, Ohio, Virginia and Washington. We continued to win new multi-year contracts including Tennessee, New Jersey and California ahead of implementation of the No Child Left Behind Act testing requirements, which become mandatory in the school year starting in September 2005. Our digital learning business showed a further profit improvement on slightly lower sales as we continued to integrate our content, testing and technology in a more focused way.

Outside the US, the School business sales increased with continued growth in English Language Teaching (ELT) helped by a very significant investment in ELT and in school testing we won $200 million of multi-year contracts.

Higher Education

Higher Education sales decreased by £41 million, to £729 million in 2004, from £770 million in 2003. Adjusted operating profit decreased by £13 million, or 9%, to £129 million in 2004 from £142 million in 2003. Both sales and adjusted operating profit were adversely affected by the weakening US dollar, and we estimate that had 2003 average rates prevailed in 2004 then sales would have been approximately £69 million higher than reported and results from operations £16 million higher than reported. In the US we grew faster than the market for the sixth consecutive year in US dollar terms, up 4% while the industry without Pearson was up 2% according to the Association of American Publishers.

In the US, our Higher Education business benefited from strength in two-year career colleges, a fast growing segment, with vocational programs in allied health, technology and graphic arts, and elsewhere in math and modern languages. Margins reduced a little as we achieved good growth outside the US and continued to invest to make our technology central to the teaching and learning process. Our custom publishing business, which creates specific programs built around the curricula of individual faculties or professors, grew strongly. Pearson Custom has now increased its sales in dollar terms eight-fold over the past six years and we have introduced our first customized online resources for individual college courses.

Professional

Sales and profit from operations in our Professional business improved in spite of the weakening dollar. Sales increased by £4 million, or 1%, to £507 million in 2004 from £503 million in 2003. Adjusted operating profit increased by £6 million, or 18%, to £40 million in 2004, from £34 million in 2003. We estimate that had 2003 average rates prevailed in 2004 then sales would have been approximately £60 million higher than reported and results from operations £5 million higher than reported.

After taking out the effect of exchange rates, Pearson Government Solutions grew sales by 25%, with strong growth from add-ons to existing programs. We also won some important new contracts, including multi-year contracts worth $500 million from customers such as the US Department of Health and Human Services and the London Borough of Southwark. Our professional testing business grew sales (before exchange impacts) by 31% as we benefited from the start-up of major new contracts, although we continued to operate at a small loss as we invested in building up the infrastructure for our 150-strong UK test center network. Markets remained tough for our technology publishing titles, where although sales were lower, profits were broadly level as a result of further cost actions.

FT Publishing

Sales at the FT Publishing (excluding discontinued businesses) increased by £3 million, from £315 million in 2003 to £318 million in 2004 and adjusted operating profit increased by £33 million from a loss of £29 million in 2003 to a profit of £4 million in 2004. Sales were boosted by a return to growth at the *Financial Times* newspaper (“FT”) for the first year since 2000. The FT returned to profit in the seasonally strong fourth quarter of 2004 with both advertising and circulation revenues ahead for the full year.

Advertising performance across all categories and regions at the FT were mixed throughout the year. While the recruitment and luxury goods categories increased by more than 20%, the business-to-business and technology sectors showed few signs of recovery. In terms of geography, good growth in Europe and Asia offset a very weak US corporate advertising market. Average circulation for 2004 was 3% lower than in 2003, whilst FT.com now has 76,000 paying subscribers and 3.0 million average unique monthly users. Adjusted operating profit at the FT improved by £24 million over 2003 as we continued to reduce the FT’s cost base, which is now £110 million lower than it was in 2000.

Les Echos achieved euro sales growth of 4% and profits grew strongly despite a volatile advertising market. Average circulation grew 3% to 119,800, while competitors saw falling sales. FT Business posted significant sales growth of 8%, with progress in all its main markets. Profits improved 25% following a continued emphasis on cost management. Adjusted operating profit at the FT’s associates and joint ventures showed a profit of £6 million compared to £2 million in 2003. Losses narrowed at FT Deutschland as circulation and advertising revenue grew strongly. FT Deutschland reached the 100,000 copy sales mark in December and circulation averaged 96,600, up 6% on the previous year. The Economist Group again increased adjusted operating profit with The Economist’s circulation passing the 1 million mark with an average weekly circulation of 1,009,759 (January-June Audit Bureau of Circulations period).

Interactive Data

Interactive Data, our 61%-owned financial information business saw a decrease in sales of £4 million, from £273 million in 2003 to £269 million in 2004 and adjusted operating profit decreased by £3 million from £70 million in 2003 to £67 million in 2004. We estimate that had 2003 average rates prevailed in 2004 then sales would have been approximately £22 million higher than reported and results from operations £7 million higher than reported.

FT Interactive Data and e-Signal (Interactive Data’s real-time financial market information and decision support tool business) performed well particularly in the US in 2004 where there were some signs of improvement in market conditions. Worldwide renewal rates among institutional clients remained at or above 95%. Demand for Interactive Data’s value-added services remained strong, with the signing of our 100th customer for our Fair Value Information Service product in December 2004. IDC had a first full year contribution from acquisitions made in 2003, ComStock and Hyperfeed Technologies, and acquired FutureSource in September 2004 to expand and compliment e-Signal.

The Penguin Group

The Penguin Group had a difficult 2004 with sales down 6% to £786 million from £840 million in 2003 and adjusted operating profit down 37% to £52 million in 2004 from £83 million in 2003. Both sales and adjusted operating profit were adversely affected by the weakening US dollar, and we estimate that had 2003 average rates prevailed in 2004 then sales would have been approximately £57 million higher than reported and results from operations £14 million higher than reported. In addition to exchange, the decline in results from operations was caused by a number of factors including disruption at the new UK warehouse and a weakening in the US consumer publishing market.

In the UK, our move to a new warehouse, to be shared with Pearson Education, disrupted supply of our books and had a particular impact on backlist titles. Although we traded well in the second half of 2004, and shipped more books to our UK customers than in the previous year, we incurred some £9 million of additional costs as we took special measures to deliver books, including the costs of running two warehouses, shipping books direct and additional marketing support. By the end of the year we had eliminated the order backlog in the warehouse and the new management team has continued to make good progress in the early part of 2005.

After a good start to the year, the US consumer publishing market deteriorated sharply in the second half and full year industry sales were 1% lower than in 2003, according to the Association of American Publishers. The adult mass market segment, which accounts for approximately one-third of Penguin's US sales, was down 9% for the industry for the full year, and 13% in the second half.

Despite the problems outlined above, Penguin had another great publishing year in 2004. We benefited from our new imprint strategy, with a further four imprints published for the first time. Non-fiction performed particularly well, with a 40% increase in our titles on the New York Times bestseller list, including Lynne Truss's *Eats, Shoots & Leaves* (now with over one million copies in print), Ron Chernow's *Alexander Hamilton* and Maureen Dowd's *Bushworld.* Best selling UK titles included Jamie Oliver's *Jamie's Dinners,* Sue Townsend's *Adrian Mole and the Weapons of Mass Destruction* and Gillian McKeith's *You Are What You Eat*.

Liquidity and Capital Resources

Cash Flows and Financing

Net cash inflow from operating activities increased by £170 million, or 24%, to £875 million in 2005, from £705 million in 2004, even though the 2004 cash inflow included collection of the $151 million receivable in respect of the TSA contract. Cash flows within the education businesses and IDC in particular continued to grow strongly and cash flows at Penguin recovered significantly from their lower levels in 2004 and 2003. Underlying working capital efficiency improved considerably. On an average basis (excluding the impact of the TSA receivable), the working capital to sales ratio for our book publishing businesses improved from 29.4% to 27.4%. Compared to 2003, the net cash inflow from operating activities in 2004 increased by £174 million, or 33%, to £705 million from £531 million. Although the 2004 performance was helped by the receipt of the $151 million receivable in respect of the TSA contract, growth within the education businesses and IDC underpinned the underlying improvement.

Net interest paid was £72 million in 2005 compared to £85 million in 2004 and £76 million in 2003. The 7% decrease in 2005 over 2004 reflected the reduction in debt following receipt of the proceeds from the disposals of Recoletos and MarketWatch (offset in part by the impact of the year on year increases in interest rates), while the 2004 increase compared to 2003 was entirely due to the year on year increases in interest rates.

Capital expenditure on property, plant and equipment was £76 million in 2005 compared to £101 million in 2004 and £79 million in 2003. The higher spending in 2004, compared to both 2005 and 2003, reflected up-front expenditure on our Professional testing contracts.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £253 million in 2005 against £51 million in 2004 and £65 million in 2003. The principal acquisitions in 2005 were of AGS for £161 million within the School business and IS. Teledata for £29 million by Interactive Data. The principal acquisitions in 2004 were of KAT and Dominie Press for £10 million within our education businesses and FutureSource by Interactive Data for £9 million. The principal acquisition in 2003 was of ComStock by Interactive Data for net cash of £68 million. The sale of subsidiaries and associates produced a cash inflow of £430 million in 2005 against £31 million in 2004 and £56 million in 2002. The principal disposals in 2005 were of Recoletos for net cash proceeds of £371 million and MarketWatch for net cash proceeds of £54 million. The proceeds in 2004 relate primarily to the sale of Argentaria Cartera by Recoletos. The principal disposal in 2003 was the sale of Unedisa by Recoletos.

The cash outflow from financing of £321 million in 2005 reflects the improved group dividend and the repayment of bank borrowings following the sale of Recoletos. The cash outflow from financing of £261 million in 2004 reflects the payment of the group dividend and the repayment of one €550 million bond offset by the proceeds from the issue of new $350 million and $400 million bonds. The cash outflow from financing of £142 million in 2003 again reflects the group dividend and the issue in the year of a $300 million bond as we took advantage of favorable market conditions, offset by the repayment of a € 250 million bond. Bonds are issued as part of our overall financing program to support general corporate expenditure.

Capital Resources

Our borrowings fluctuate by season due to the effect of the school year on the working capital requirements in the educational materials business. Assuming no acquisitions or disposals, our maximum level of net debt normally occurs in July, and our minimum level of net debt normally occurs in December. Based on a review of historical trends in working capital requirements and of forecast monthly balance sheets for the next 12 months, we believe that we have sufficient funds available for the group’s present requirements, with an appropriate level of headroom given our portfolio of businesses and current plans. Our ability to expand and grow our business in accordance with current plans and to meet long-term capital requirements beyond this 12-month period will depend on many factors, including the rate, if any, at which our cash flow increases and the availability of public and private debt and equity financing, including our ability to secure bank lines of credit. We cannot be certain that additional financing, if required, will be available on terms favorable to us, if at all.

At December 31, 2005, our net debt was £996 million compared to net debt of £1,221 million at December 31, 2004. Net debt is defined as all short-term, medium-term and long-term borrowing (including finance leases), less all cash and liquid resources. Liquid resources comprise short-term deposits of 90 days and investments that are readily realizable and held on a short-term basis. Short-term, medium-term and long-term borrowing amounted to £1,959 million at December 31, 2005, compared to £1,823 million at December 31, 2004. At December 31, 2005, cash and liquid resources were £902 million, compared to £461 million at December 31, 2004.

Contractual Obligations

The following table summarizes the maturity of our borrowings and our obligations under non-cancelable operating leases.

	At December 31, 2005				
	Total	Less Than One Year	One to Two Years	Two to Five Years	After Five Years
	£m	£m	£m	£m	£m
Gross borrowings:					
Bank loans, overdrafts and commercial paper	102	102	—	—	—
Variable rate loan notes	—	—	—	—	—
Bonds	1,854	152	436	310	956
Lease obligations	1,395	129	115	288	863
Total	**3,351**	**383**	**551**	**598**	**1,819**

The group had capital commitments for fixed assets, including finance leases already under contract, of £1 million. There are contingent liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities in respect of legal claims. None of these claims or guarantees is expected to result in a material gain or loss.

The group is committed to a quarterly fee of 0.125% on the unused amount of the group’s bank facility.

Off-Balance Sheet arrangements

The Group does not have any off-balance sheet arrangements, as defined by the SEC Final Rule 67 (FR-67), *“Disclosure in Management’s Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations”,* that have or are reasonably likely to have a material current or future effect on the Group’s financial position or results of operations.

Borrowings

We have in place a $1.35 billion term revolving credit facility, which matures in July 2009. At December 31, 2005, approximately $1.35 billion was available under this facility. This included allocations to refinance short-term borrowings not directly drawn under the facility. The credit facility contains two key covenants measured for each 12 month period ending June 30 and December 31:

We must maintain the ratio of our profit before interest and tax to our net interest payable at no less than 3:1; and

We must maintain the ratio of our net debt to our EBITDA, which we explain below, at no more than 4:1.

"EBITDA" refers to earnings before interest, taxes, depreciation and amortization. We are currently in compliance with these covenants.

Treasury Policy

We hold financial instruments for two principal purposes: to finance our operations and to manage the interest rate and currency risks arising from our operations and from our sources of financing.

We finance our operations by a mixture of cash flows from operations, short-term borrowings from banks and commercial paper markets, and longer term loans from banks and capital markets. We borrow principally in US dollars, sterling and euro at both floating and fixed rates of interest, using derivatives, where appropriate, to generate the desired effective currency profile and interest rate basis. The derivatives used for this purpose are principally interest rate swaps, interest rate caps and collars, currency swaps and forward foreign exchange contracts. For a more detailed discussion of our borrowing and use of derivatives, see "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

Related Parties

There were no significant or unusual related party transactions in 2005, 2004 or 2003. Refer to note 32 in "Item 17. Financial Statements".

Accounting Principles

The following summarizes the principal differences between IFRS and US GAAP in respect of our financial statements. For further details refer to note 35 in "Item 17. Financial Statements".

Before the adoption of IFRS 3 on 1 January 2003 and before the adoption of FAS 142 on 1 January 2002, goodwill was recognized as an asset and amortization expense was recorded over useful lives ranging between 3 and 20 years. Under IFRS 3 and FAS 142 goodwill is no longer amortized but tested annually for impairment. Before the adoption of IFRS, the Group's intangible assets were not recognized as they did not meet the requirements under UK GAAP. Under IFRS and US GAAP, intangible assets are recognized separately from goodwill when they arise from separate contractual or legal rights or can be separately identified and be sold, transferred, licensed, rented or exchanged regardless of intent. Therefore, intangible assets such as publishing rights, non-compete agreements, software, databases, patents and non-contractual customer relationships such as advertising relationships have been recognized and are being amortized over a range of useful lives between 2 and 25 years. A difference between US GAAP and IFRS arises in goodwill and intangible assets due to the different adoption dates of IFRS 3 and FAS 142 as well as the impact of foreign exchange on the translation of those underlying assets that are denominated in a foreign currency. This difference also creates a difference in the gain or loss recognized on the disposal of a business.

Under IFRS, the Group reviews the recoverability of goodwill annually. These reviews are based on comparing the fair value of the Group's cash-generating units determined by discounting future cash flows to their carrying value. Under US GAAP, a two stage impairment test is required at least annually under FAS 142. The Group performed the transitional impairment test under FAS 142 by comparing the carrying value of each reporting unit with its fair value as determined by discounted future cash flows. The Group also completed the annual impairment tests required by FAS 142 in 2005, 2004 and 2003. The Group has determined that its reporting units under FAS 142 are consistent with its cash-generating units under IAS.

IAS 12 *"Income Taxes"* requires a full provision to be made for deferred taxes. Deferred taxes are to be accounted for on all temporary differences, with deferred tax assets recognized to the extent that they are more likely than not recoverable against future taxable profits. Under US GAAP, deferred tax assets not considered recoverable are adjusted through a separate valuation allowance in the balance sheet. There are no separate valuation allowances under IFRS. Under US GAAP, deferred taxes are accounted for in accordance with FAS 109, *"Accounting for Income Taxes,"* with a full provision also made for deferred taxes on all temporary differences and a valuation allowance is established when it is more likely than not that they will not be realised. This is similar to the treatment required under IAS 12.

Using the transitional exceptions of IAS 39, derivatives were accounted for in accordance with UK GAAP for the years ended 31 December 2003 and 2004. Under UK GAAP, there are no specific criteria, which must be fulfilled in order to record derivative contracts such as interest rate swaps, currency swaps and forward currency contracts as a hedging instrument. Accordingly, based upon our intention and stated policy with respect to entering into derivative transactions, they have been recorded as hedging instruments for UK GAAP. This means that unrealized gains and losses on these instruments are typically deferred and recognized when realized. From 1 January 2005, the Group has adopted IAS 39 *"Financial Instruments: Recognition and Measurement"* and IAS 32 *"Financial Instruments: Disclosure and Presentation".* Under US GAAP, we have adopted FAS 133, *"Accounting for Derivative Instruments and Hedging Activities"* and its related guidance. In 2003, our derivative contracts did not meet the prescribed criteria for hedge accounting, and have been recorded at market value at each period end, with changes in their fair value being recorded in the profit and loss account. In 2004 the Group met the prescribed designation requirements and hedge effectiveness tests under US GAAP for certain of its derivative contracts. As a result, the movements in the fair value of the effective portion of fair value hedges and net investment hedges have been offset in earnings and other comprehensive income respectively by the corresponding movement in the fair value of the underlying bond or asset.

Finance lease rentals are capitalized at the net present value of the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated over the period of the lease (if in respect of property) or the useful economic life of the asset (if in respect of plant and equipment). Finance charges are written off over the period of the lease in reducing amounts in relation to the written down carrying cost. Operating lease rentals are charged to the profit and loss on a straight-line basis over the duration of each lease term.

Under IFRS and US GAAP, the annual pension is determined in accordance with IAS 19 “Employee Benefits” and FAS 87 “Employers Accounting for Pensions”. Actuarial assumptions are adjusted annually to reflect current market and economic conditions. Under IFRS the difference between the fair value of the assets and the defined benefit obligation is recognized as a prepayment/ liability. Actuarial gains and losses are recognized in the statement of recognized income and expenses. Under US GAAP, if the fair value of a pension plan’s assets is below the plan’s accumulated benefit obligation, a minimum pension liability is required to be recognized in the balance sheet. Unrecognized gains or losses outside the 10% corridor are spread over the employees’ remaining service lifetimes.

Under IFRS and US GAAP, we account for options and restricted shares granted to employees using their fair value. Compensation expense is determined based upon the fair value at the grant date, and has been estimated using the Black Scholes, Binomial or Monte Carlo model as appropriate. Compensation cost is recognized over the service life of the awards, which is normally equal to the vesting period. Differences between the US GAAP and IFRS charges are mainly due to the different treatment of options with graded vesting features. Under IFRS, the charge is recognized as the options gradually vest. Under US GAAP, the charge is recognized on a straight line basis over the vesting period. Other noteable differences include the treatment of forfeitures.

For a further explanation of the differences between IFRS and US GAAP see note 35 to the consolidated financial statements.

Recent U.S. Accounting Pronouncements

In November 2004, the FASB issued FASB Statement No. 151 *"Inventory Costs — An Amendment of ARB No. 43, Chapter 4"* (“FAS 151”). FAS 151 amends the guidance in ARB No. 43, Chapter 4 “Inventory Pricing,” to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. Additionally, FAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. FAS 151 is effective for fiscal years beginning after June 15, 2005.

The Group will adopt FAS 151 in 2006 but does not expect the adoption of the new standard to have a material impact.

In December 2004, the FASB issued FASB Statement No. 153 *"Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions"* ("FAS 153"). FAS 153 eliminates the exception from fair value measurement for non monetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. FAS 153 specifies that a non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS 153 is effective for the fiscal periods beginning after June 15, 2005. The Group will adopt FAS 153 in 2006 but does not expect the adoption of the new standard to have a material impact.

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004) *"Share-Based Payment"* ("FAS 123(R)"), which replaces FAS No. 123 *"Accounting for Stock-Based Compensation"* ("FAS 123") and supersedes APB Opinion No. 25 *"Accounting for Stock Issued to Employees."* FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under FAS 123 no longer will be an alternative to financial statement recognition. The Group will adopt FAS 123(R) in 2006 but does not expect the adoption of the new standard to have a material impact as it already recognizes share-based payment cost in its income statement in accordance with FAS 123.

In March 2005, the FASB issued FASB Interpretation No. 47 *"Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143"* ("FIN 47"). FIN 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or settlement are conditional on a future event. FIN 47 is effective for the fiscal periods ending after December 15, 2005. The adoption of FIN 47 did not have a material impact on the Group.

In May 2005, the FASB issued Statement No. 154, *"Accounting Changes and Error Corrections — A replacement of APB Opinion No. 20 and FASB Statement No. 3"* ("FAS 154"). This statement requires retrospective application to prior periods' financial statements of changes in accounting principles unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement that does not include specific transition provisions. FAS 154 is required to be adopted in fiscal years beginning after December 15, 2005. FAS 154 would not have had a material effect on the financial position, results of operations or cash flows of the Group under US GAAP as at December 31, 2005.

In October 2005, the FASB issued FASB Staff Position (FSP) 13-1 *"Accounting for Rental Costs Incurred during a Construction Period"* ("FSP 13-1"). FSP 13-1 requires rental costs associated with ground or building operating leases that are incurred during a construction period to be recognized as rental expense and included in income from continuing operations. FSP 13-1 is effective for the fiscal periods beginning after December 15, 2005. The Group will adopt FSP 13-1 in 2006 but does not expect the adoption of the new standard to have a material impact.

In January 2006 the FASB issued FASB Statement No. 155 *"Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140"* ("FAS 155"). FAS 155 provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract. FAS 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Group is currently evaluating the impact the adoption of FAS 155 will have, but does not expect it to have a material impact.

Recent International Accounting Pronouncements

IFRS 7 "Financial Instruments: Disclosures". IFRS 7 introduces new disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. IFRS 7 is effective for accounting