



trough in the US state textbook adoption cycle and some adoption deferrals due to the pressures on state budgets. This was compensated by good growth in backlist sales and sales to open territories in both elementary and secondary schools markets. Overall revenues were however held back by weakness in the supplemental business ahead of new publishing that addresses federally funded programmes. Underlying operating profits were up 2%, reflecting the significant cost savings achieved through supply chain rationalisation and further integration of the supplemental businesses.

The Harcourt Assessment businesses saw underlying revenues down 5%, reflecting the loss of the California state testing contract which was announced in 2002. Without this, underlying revenue growth would have been over 15%. This has been primarily driven by strong new publishing in the clinical testing market. The new edition of the Stanford Achievement Test, which combines the power of the well established norm-reference test with the flexibility to test state-specific criteria, has been well received in the market and has been instrumental in winning a number of new state contracts, including Nevada, New Mexico and Minnesota, which will impact in 2004. Underlying operating profits were up 10% due to the strong growth in higher margin product and the actions

taken to improve operational efficiency. Increased investment is being put into classroom-based assessment to improve individual educational outcomes, linking assessment to reinforcement of learning through linked curriculum and remediation products.

The Harcourt Education International businesses saw revenues 5% ahead and adjusted operating profits 1% ahead, with strong growth in academic publishing and the global library business offset by a marked reduction in the UK schools market due to shortfalls in governmental funding.

In 2004, the US schools market is expected to decline further as the low point is reached in the three year trough in the adoptions cycle combined with continuing state budget pressures. Harcourt expects to perform well in the new 2004 adoptions and the early market reaction to new publishing programmes has been encouraging. The assessment business will benefit from the recent state contract wins and the International business is expected to recover from the UK funding constraints seen last year. 2005 and the following years are expected to see a significant recovery in US market growth given the much stronger adoption calendar and Harcourt should be well placed to perform strongly.