PEARSON PLC
Form 20-F
April 25, 2008

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON April 25, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2007

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the transition period from to

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report
If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes o No o

Commission file number 1-16055
PEARSON PLC
(Exact name of Registrant as specified in its charter)

England and Wales
(Jurisdiction of incorporation or organization)

80 Strand
London, England WC2R 0RL
(Address of principal executive offices)

Stephen Jones
Telephone: +44 20 7010 2257
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80 Strand
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(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
*Ordinary Shares, 25p par value	New York Stock Exchange
American Depositary Shares, each Representing One Ordinary Share, 25p per Ordinary Share	New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the SEC.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock at the close of the period covered by the annual report:

Ordinary Shares, 25p par value	808,028,141

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes **þ** No **o**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes **o** No **þ**

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes **þ** No **o**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer , in Rule 12b-2 of the Exchange Act. (Check one):
þ Large accelerated filer **o** Accelerated filer **o** Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing

o US GAAP	**þ** International financial Reporting Standards as Issued by the International Accounting Standards Board	**o** Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 **o** Item 18 **o**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes **o** No **þ**

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INTRODUCTION

In this Annual Report on Form 20-F (the Annual Report) references to Pearson , the Company or the Group are references to Pearson plc, its predecessors and its consolidated subsidiaries, except as the context otherwise requires. Ordinary Shares refer to the ordinary share capital of Pearson of par value 25p each. ADSs refer to American Depositary Shares which are Ordinary Shares deposited pursuant to the Deposit Agreement dated March 21, 1995, amended and restated as of August 8, 2000 among Pearson, The Bank of New York as depositary (the Depositary) and owners and holders of ADSs (the Deposit Agreement). ADSs are represented by American Depositary Receipts (ADRs) delivered by the Depositary under the terms of the Deposit Agreement.

We have prepared the financial information contained in this Annual Report in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) which in respect of the accounting standards applicable to the Group do not differ from IFRS as adopted by the European Union (EU). Unless we indicate otherwise, any reference in this Annual Report to our consolidated financial statements is to the consolidated financial statements and the related notes, included elsewhere in this Annual Report.

We publish our consolidated financial statements in sterling. We have included, however, references to other currencies. In this Annual Report:

references to sterling , pounds , pence or £ are to the lawful currency of the United Kingdom,

references to euro or are to the euro, the lawful currency of the participating Member States in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Commission, and

references to US dollars , dollars , cents or $ are to the lawful currency of the United States.

For convenience and except where we specify otherwise, we have translated some sterling figures into US dollars at the rate of £1.00 = $1.98, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on December 31, 2007, the last business day of 2007. We do not make any representation that the amounts of sterling have been, could have been or could be converted into dollars at the rates indicated. On March 31, 2008 the noon buying rate for sterling was £1.00 = $1.99.

FORWARD-LOOKING STATEMENTS

You should not rely unduly on forward-looking statements in this Annual Report. This Annual Report, including the sections entitled Item 3. Key Information Risk Factors , Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects , contains forward-looking statements that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terms such as may , will , should expect , intend , plan , anticipate , believe , estimate , predict , potential , continue or the negative of these comparable terminology. Examples of these forward-looking statements include, but are not limited to, statements regarding the following:

operations and prospects,

growth strategy,

funding needs and financing resources,

expected financial position,

market risk,

currency risk,

US federal and state spending patterns,

debt levels, and

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general market and economic conditions.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In evaluating them, you should consider various factors, including the risks outlined under Item 3. Key Information Risk Factors , which may cause actual events or our industry s results to differ materially from those expressed or implied by any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

PART I

ITEM 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS*

Not applicable.

ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

Selected consolidated financial data

Following the publication of SEC Release No 33-8879 Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP , the Group no longer provides a reconciliation between IFRS and U.S. GAAP.

The tables below shows selected consolidated financial data under IFRS as issued by the IASB. The selected consolidated profit and loss account data for the years ended December 31, 2007, 2006 and 2005 and the selected consolidated balance sheet data as at December 31, 2007 and 2006 have been derived from our audited consolidated financial statements included in Item 18. Financial Statements in this Annual Report.

The selected consolidated financial information should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report. The information provided below is not necessarily indicative of the results that may be expected from future operations.

For convenience, we have translated the 2007 amounts into US dollars at the rate of £1.00 = $1.98, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on December 31, 2007.

	Year Ended December 31					
	2007	2007	2006	2005	2004	2003
	$	£	£	£	£	£
	(In millions, except for per share amounts)					
IFRS information:						
Consolidated Income Statement data						
Total sales	8,241	4,162	3,990	3,662	3,340	3,510
Total operating profit	1,137	574	522	497	359	386
Profit after taxation from continuing operations	667	337	444	319	232	239
Profit for the financial year	614	310	469	644	284	275
Consolidated Earnings data per share						
Basic earnings per equity share(1)	$ 0.70	35.6p	55.9p	78.2p	32.9p	31.7p

Diluted earnings per equity share(2)	$	0.70	35.6p	55.8p	78.1p	32.9p	31.7p
Basic earnings from continuing operations per equity share(1)	$	0.77	39.0p	52.7p	37.5p	26.4p	27.2p
Diluted earnings from continuing operations per equity shares	$	0.77	39.0p	52.6p	37.4p	26.3p	27.2p
Dividends per ordinary share	$	0.63	31.6p	29.3p	27.0p	25.4p	24.2p
Consolidated Balance Sheet data at period end							
Total assets (non-current assets plus current assets)		14,438	7,292	7,213	7,600	6,578	6,736
Net assets		7,671	3,874	3,644	3,733	3,014	3,161
Long-term obligations(3)		(3,328)	(1,681)	(1,853)	(2,500)	(2,403)	(1,982)
Capital stock		400	202	202	201	201	201
Number of equity shares outstanding (millions of ordinary shares)		808	808	806	804	803	802

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Notes:

(1) Basic earnings per equity share is based on profit for the financial period and the weighted average number of ordinary shares in issue during the period.

(2) Diluted earnings per equity share is based on diluted earnings for the financial period and the diluted weighted average number of ordinary shares in issue during the period. Diluted earnings comprise earnings adjusted for the tax benefit on the conversion of share options by employees and the weighted average number of ordinary shares adjusted for the dilutive effect of share options.

(3) Long-term obligations comprise any liabilities with a maturity of more than one year, including medium and long-term borrowings, derivative financial instruments, pension obligations and deferred income tax liabilities.

(4) The results of Government Solutions (disposed in February 2007), Les Echos (disposed in December 2007) and Data Management (disposed in February 2008) have been included in discontinued operations for all years presented.

Dividend information

We pay dividends to holders of ordinary shares on dates that are fixed in accordance with the guidelines of the London Stock Exchange. Our board of directors normally declares an interim dividend in July or August of each year to be paid in September or October. Our board of directors normally recommends a final dividend following the end of the fiscal year to which it relates, to be paid in the following May or June, subject to shareholders approval at our annual general meeting. At our annual general meeting on April 25, 2008 our shareholders will be asked to approve a final dividend of 20.5p per ordinary share for the year ended December 31, 2007.

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 2007 fiscal year will be paid on May 9, 2008.

Fiscal year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
	(Pence per ordinary share)			**(Cents per ordinary share)**		
2007	11.1	20.5	31.6	22.4	40.6*	63.0
2006	10.5	18.8	29.3	20.0	31.4	51.4
2005	10.0	17.0	27.0	17.8	29.8	47.6
2004	9.7	15.7	25.4	17.4	26.4	43.8
2003	9.4	14.8	24.2	15.6	25.5	41.1

* As the 2007 final dividend had not been paid by the filing date, the dividend was translated into cents using the noon buying rate for sterling at December 31, 2007.

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, 2007, the noon buying rate for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes for sterling was £1.00 = $1.98. On March 31, 2008 the noon buying rate for sterling was £1.00 = $1.99.

Month	High	Low
March 2008	$ 2.03	$ 1.98
February 2008	$ 1.99	$ 1.94
January 2008	$ 1.99	$ 1.95
December 2007	$ 2.07	$ 1.98
November 2007	$ 2.11	$ 2.05
October 2007	$ 2.08	$ 2.03

Year Ended December 31	Average rate
2007	$ 2.01
2006	$ 1.84
2005	$ 1.81
2004	$ 1.83
2003	$ 1.63

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 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 largely comprise 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.

We cannot be sure that our proprietary rights will not be challenged, invalidated or circumvented. Our intellectual property rights in countries such as the US and UK, jurisdictions covering the largest proportion 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 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. In that regard, Penguin Group (USA) Inc. and Pearson Education have joined three other major US publishers in a suit brought under the auspices of the Association of American Publishers to challenge Google s plans to copy the full text of all books ever published without permission from the publishers or authors. This lawsuit seeks to demarcate the extent to which search engines, other internet operators and libraries may rely on the fair-use doctrine to copy content without authorization from the copyright proprietors, and may give publishers and authors more control over online users of their intellectual property. If the lawsuit is unsuccessful, publishers and authors may be unable to control copying of their content for purposes of online searching, which could have an adverse impact on our business and financial performance.

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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 all operate in highly competitive markets, which are constantly changing in response to competition, technological innovations and other factors. A common trend facing all our businesses is the digitization of content and proliferation of distribution channels, either over the internet, or via other electronic means, replacing traditional print formats. If we do not adapt rapidly to these changes we may lose business to faster more agile competitors, who increasingly are nontraditional competitors, making their identification all the more difficult.

Illustrations of the competitive threats we face at present include:

Students seeking cheaper sources of content, e.g. online, used books or re-imported textbooks.

Competition from major publishers and other educational material and service providers, including not for profit organizations, in our US educational textbook and assessment businesses.

Penguin: authors advances in consumer publishing. We compete with other publishing businesses to purchase the rights to author manuscripts. Our competitors may bid to a level at which we could not generate a sufficient return on our investment, and so, typically, we would not purchase these rights.

FT: we face competitive threats both from large media players and from smaller businesses, online portals and news redistributors operating in the digital arena and providing alternative sources of news and information.

People: the investments we make in our employees, combined with our employment policies and practices, we believe are critical factors enabling us to recruit and retain the very best people in our business sectors.

Our US educational textbook and assessment businesses may be adversely affected by changes in state educational funding resulting from either general economic conditions, changes in government educational funding, programs and legislation (both at the federal and state level), and/or changes in the state procurement process.

The results and growth of our US educational textbook and assessment business is dependent on the level of federal and state educational funding, which in turn is dependent on the robustness of state finances and the level of funding allocated to educational programs. State finances could be adversely affected by a US recession and/or fallout from the sub-prime mortgage crisis reducing property values and hence state property tax receipts.

Federal and/or state legislative changes can also affect the funding available for educational expenditure, e.g. the No Child Left Behind Act.

Similarly changes in the state procurement process for textbooks, learning material and student tests, particularly in the adoptions market can also affect our markets. 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.

There are multiple competing demands for educational funds and there is no guarantee that states will fund new textbooks or testing programs, or that we will win this business.

Failure to generate anticipated revenue growth, synergies and/or costs savings from recent acquisitions could lead to goodwill and intangible asset impairments.

We continually acquire and dispose of businesses to achieve our strategic objectives. We recently completed two relatively large acquisitions, i.e. the Harcourt Assessment and Harcourt Education International business for $950m and the acquisition of eCollege for $491m. If we are unable to generate the anticipated revenue growth, synergies and/or cost savings associated with these acquisitions there is a risk the goodwill and intangible assets acquired (estimated at £430m) could be impaired in future years.

Our newspaper businesses may be adversely affected by reductions in advertising revenues and/or circulation either because of competing news information distribution channels, particularly online and digital formats, or due to weak general economic conditions.

Changes in consumer purchasing habits, as readers look to alternative sources and/or providers of information, such as the internet and other digital formats, may change the way we distribute our content. We might see a decline in print circulation in our more mature markets as readership habits change and readers migrate online, although we see further opportunities for growth in our less mature markets outside Europe. If the migration of readers to new digital formats occurs more quickly than we expect, this is likely to affect print advertising spend by our customers, adversely affecting our profitability.

Our newspaper businesses are operationally highly geared and still rely significantly on print advertising revenue despite moves to other business models; relatively small changes in revenue, positive or negative, have a disproportionate effect on profitability; therefore any downturn in corporate and financial advertising spend would negatively impact our results.

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

There are inherent risks associated with our school assessment businesses, both in the USA and the UK. A breakdown in our testing and assessment products and processes could lead to a mis-grading of student tests and/or late delivery of test results to students and their schools. In either event we may be subject to legal claims, penalty charges under our contracts, non-renewal of contracts and/or the suspension or withdrawal of our accreditation to conduct tests. It is also possible that such events would result in adverse publicity, which may affect our ability to retain existing contracts and/or obtain new customers.

Our professional services and school assessment businesses involve complex contractual relationships with both government agencies and commercial customers for the provision of various testing services. Our financial results, growth prospects and/or reputation may be adversely affected if these contracts and relationships are not managed.

These businesses are characterized by multi-million pound sterling contracts spread over several years. As in any contracting business, there are inherent risks associated with the bidding process, start-up, operational performance and contract compliance (including penalty clauses) which could adversely affect our financial performance and/or reputation. Failure to retain these contracts at the end of the contract term could adversely impact our future revenue growth.

At Edexcel, our UK Examination board and testing business, any change in UK Government policy to examination marking for example, introduction of new qualifications could have a significant impact on our present business model.

At Penguin, changes in product distribution channels, increased book returns and/or customer bankruptcy may restrict our ability to grow and affect our profitability.

New distribution channels, e.g. digital format, the internet, used books, combined with the concentration of retailer power pose multiple threats (and opportunities) to our traditional consumer publishing models, potentially impacting both sales volumes and pricing.

Penguin s financial performance can also be negatively affected if book return rates increase above historical average levels. Similarly, the bankruptcy of a major retail customer would disrupt short-term product supply to the market as well as result in a large debt write off.

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

All our businesses, to a greater or lesser extent, are dependent on information technology. We either provide software and/or internet services to our customers or we use complex IT systems and products to support our business activities, particularly in business information publishing, 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. The failure to recruit and retain staff with relevant skills may constrain our ability to grow as we combine traditional publishing products with online and service offerings.

Operational disruption to our business caused by a major disaster and/or external threats could restrict our ability to supply products and services to our customers.

Across all our businesses, we manage complex operational and logistical arrangements including distribution centers, data centers and large office facilities as well as relationships with third party print sites. Failure to recover from a major disaster, e.g. fire, flood etc, at a key facility or the disruption of supply from a key third party vendor could restrict our ability to service our customers. Similarly external threats, such as a pandemic, terrorist attacks, strikes etc, could all affect our business and employees, disrupting our daily business activities.

A major data privacy breach may cause reputational damage to our brands and financial loss.

Across our businesses we hold increasingly large volumes of personal data including that of employees, customers and, in our assessment businesses, students and citizens. Failure to adequately protect personal data could lead to penalties, significant remediation costs, reputational damage, potential cancellation of some existing contracts and inability to compete for future business.

Investment returns outside our traditional core US and UK markets may be lower than anticipated.

To minimize dependence on our core markets, particularly the US, we are seeking growth opportunities outside these markets, building on our existing substantial international presence. Certain markets we may target for growth are inherently more risky than our traditional markets. Political, economic, currency and corporate governance risks (including fraud) as well as unmanaged expansion are all factors which could limit our returns on investments made in these markets.

Our reported earnings and cash flows may be adversely affected by changes in our pension costs and funding requirements.

We operate a number of pension plans throughout the world, the principal ones being in the UK and US. The major plans are self-administered with the plans assets held independently of the Group. Regular valuations, conducted by independent qualified actuaries, are used to determine pension costs and funding requirements.

It is our policy to ensure that each pension plan is adequately funded, over time, to meet its ongoing and future liabilities. Our earnings and cash flows may be adversely affected by the need to provide additional funding to eliminate pension fund deficits in our defined benefit plans. Our greatest exposure relates to our UK defined benefit pension plan. Pension fund deficits may arise because of inadequate investment returns, increased member life expectancy, changes in actuarial assumptions and changes in pension regulations, including accounting rules and minimum funding requirements.

The latest valuation of our UK defined benefit pension plan has been completed and future funding arrangements have been agreed between the Company and the pension fund trustee. Additional payments amounting to £100m were made by the Company in 2007. We review these arrangements every three years.

We generate a substantial proportion of our revenue in foreign currencies particularly the US dollar, and foreign exchange rate fluctuations could adversely affect our earnings and the strength of our balance sheet.

As with any international business our earnings can be materially affected by exchange rate movements. We are particularly exposed to movements in the US dollar to sterling exchange rate as approximately 60% of our revenue is generated in US dollars. Sales for 2007, translated at 2006 average rates, would have been £223m or 6% higher.

This is predominantly a currency translation risk (i.e. non-cash flow item), and not a trading risk (i.e. cash flow item) as our currency trading flows are relatively limited.

Pearson generates about 60% of its sales in the US and each 5¢ change in the average £:$ exchange rate for the full year (which in 2007 was £1:$2.00) would have an impact of 1p on adjusted earnings per share and affect shareholders funds by approximately £55m.

Changes in our tax position can significantly affect our reported earnings and cash flows.

Changes in corporate tax rates and/or other relevant tax laws in the UK and/or the US could have a material impact on our future reported tax rate and/or our future tax payments.

ITEM 4. *INFORMATION ON THE COMPANY*

Pearson

Pearson is an international media and education company with its principal operations in the education, business information and consumer publishing markets. We create and manage intellectual property, which we promote and sell to our customers under well-known brand names, to inform, educate and entertain. We deliver our content in a variety of forms and through a variety of channels, including books, newspapers and online services. We increasingly offer services as well as content, from test creation, administration and processing to teacher development and school software. Though we operate in 60 countries around the world, today our largest markets are the US (59% of sales) and Europe (26% of sales) on a continuing basis.

Pearson was incorporated and registered in 1897 under the laws of England and Wales as a limited company and re-registered under the UK Companies Act as a public limited company in 1981. We conduct our operations primarily through our subsidiaries and other affiliates. Our principal executive offices are located at 80 Strand, London WC2R 0RL, United Kingdom (telephone: +44 (0) 20 7010 2000).

Overview of operating divisions

Pearson consists of three major worldwide businesses:

Pearson Education is the world s leading education company. We are a leading publisher of textbooks, supplementary learning materials and electronic education programs for teachers and students of all ages, and we play a major role in the testing and certification of school students and professionals. In 2007, Pearson Education operated through three worldwide segments, which we refer to as School , Higher Education and Professional :

The FT Group is a leading provider of international business and financial news, data, comment and analysis, in print and online. It has two major parts:

FT Publishing includes the *Financial Times* and FT.com, one of the world s premier sources of business information, alongside a portfolio of financial magazines. It also includes an online financial information business Mergermarket, which provides early stage intelligence to financial institutions and corporates, as well as several joint ventures and associates including 50% of both The Economist Group and the FTSE index business.

Interactive Data provides specialist financial data to financial institutions and retail investors. Pearson owns a 62% interest in Interactive Data, which is publicly listed on the New York Stock Exchange (NYSE:IDC).

The Penguin Group is one of the world s foremost English language publishers. We publish the works of many authors in an extensive portfolio of fiction, non-fiction and reference titles under imprints including Penguin, Hamish Hamilton, Putnam, Berkley, Viking and Dorling Kindersley.

Our strategy

Over the past decade we have transformed Pearson by focusing on companies which provide education in the broadest sense of the word: companies that educate, inform and entertain. Through a combination of organic investment and acquisitions, we have built each one of our businesses into a leader in its market, and we have integrated our operations so that our businesses can share assets, brands, processes, facilities, technology and central services.

Our goal is to produce sustainable growth on our three key financial measures adjusted earnings per share, cash flow and return on invested capital which we believe are, together, good indicators that we are building long-term value of Pearson.

We do this by investing consistently in four areas, which are common to all our businesses:

Content: We invest steadily in unique, valuable publishing content and keep replenishing it. Over the past five years, for example, we have invested $1.7bn in new content in our education business alone.

Technology and services: We invested early and consistently in technology, believing that, in the digital world, content alone would not be enough. We now generate more than $1bn in sales from technology products and services, and our testing and assessment businesses, serving school students and professionals, make more than $1.2bn of sales, up from around $200m eight years ago.

International markets: Though we currently generate approximately 60% of our sales in the US, our brands, content and technology plus-services models work around the world. All parts of Pearson are investing in selected emerging markets, where the demand for information and education is growing particularly fast.

Efficiency: We ve invested to become a leaner, more efficient company, through savings in our individual businesses and through a strong centralized operations structure. Over the past three years, we have increased our operating profit margins from 10.8% to 15.0% and reduced average working capital as a percentage of sales in Pearson Education and Penguin from 29.4% to 25.6%, freeing up cash for further investment.

We believe this strategy can create a virtuous circle efficiency, investment, market share gains and scale which in turn can produce sustainable growth on our financial goals and in the value of the Company.

Operating divisions

Pearson Education

Pearson Education is one of the largest publishers of textbooks and online teaching materials. It serves the growing demands of teachers, students, parents and professionals throughout the world for stimulating and effective education programs in print and online.

We report Pearson Education s performance by the three market segments it serves: School, Higher Education and Professional. In 2007, Pearson Education had sales of £2,628m or 63% of Pearson s total. Of these, £1.9bn (70%) were generated in North America and £0.8bn (30%) in the rest of the world. Pearson Education generated 63% of Pearson s operating profit.

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School

Our School business contains a unique mix of publishing, testing and technology products for the elementary and secondary school markets, which are increasingly integrated. It generates around two-thirds of its sales in the US. The major customers of our School business are state education boards and local school districts.

In the US, we publish high quality curriculum programs for school students covering subjects such as reading, literature, math, science and social studies. We publish under a range of well-known imprints that include Scott Foresman in the elementary school market and Prentice Hall in secondary.

Our school testing business is the leading provider of test development, processing and scoring services to US states and the federal government, processing approximately 40 million tests each year. Its capabilities will be further enhanced through the integration of the recently acquired Harcourt Assessment business. We are also a leading provider of electronic learning programs for schools, and of Student Information Systems technology which enables elementary and secondary schools and school districts to record and manage information about student attendance and performance.

Outside the US, we publish elementary and secondary school materials in local languages in a number of countries. We are one of the world s leading provider of English Language Teaching materials for children and adults, published under the well-known Longman imprint. We bolstered our position further in international markets through the recent acquisition of Harcourt Education International business. We are also a leading provider of testing, assessment and qualification services. Our key markets outside the US include Canada, the UK, Australia, New Zealand, Italy, Spain, South Africa, Hong Kong and the Middle East.

Higher Education

Pearson is the largest publisher of textbooks and related course materials for colleges and universities in the US. We publish across all of the main fields of study with imprints such as Prentice Hall, Addison Wesley, Allyn & Bacon and Benjamin Cummings. Typically, professors or other instructors select or adopt the text books and online resources they recommend for their students, which students then purchase either in a bookstore or online. Today the majority of our textbooks are accompanied by online services which include homework and assessment tools, study guides and course management systems that enable professors to create online courses. We have also introduced new formats such as downloadable audio study guides and electronic textbooks which are sold on subscription. In addition, we have a fast-growing custom publishing business which works with professors to produce textbooks and online resources specifically adapted for their particular course. In 2007, our Higher Education business generated approximately 77% of its sales in the US. Outside the US, we adapt our textbooks and technology services for individual markets, and we have a growing local publishing program. Our key markets outside the US include Canada, the UK, Benelux, Mexico, Germany, Hong Kong, Korea, Taiwan and Malaysia.

Professional

Our Professional education business publishes educational materials and provides testing and qualifications services for adults. Our publishing imprints include Addison Wesley Professional, Prentice Hall PTR, and Cisco Press (for IT professionals), Peachpit Press and New Riders Press (graphics and design professionals), Que/Sams (consumer and professional imprint) and Prentice Hall Financial Times and Wharton School Publishing (for the business education market). We have a fast-growing professional testing business, Pearson VUE, which manages major long-term contracts to provide qualification and assessment services through its network of test centers around the world. Key customers include major technology companies, the Graduate Management Admissions Council, the Financial Industry Regulatory Authority and the UK s Driving Standards Agency. With the sale of Government Solutions in

2007 and Data Management in 2008, our Professional business is focused on publishing for professionals in businesses and technology, and on testing and certifying professionals.

The FT Group

The FT Group provides a broad range of data, analysis and services to an audience of internationally-minded business people and financial institutions. In 2007, the FT Group had sales of £688m, or 16% of Pearson s total sales (15% in 2006), and contributed 24% of Pearson s operating profit.

It has two major parts: FT Publishing, a combination of the *Financial Times*, FT.com and a portfolio of financial magazines and online financial information companies; and Interactive Data, our 62%-owned financial information company.

FT Publishing

The *Financial Times* is one of the world s leading international daily business newspapers. Its six month average circulation of approximately 440,000 copies at December 2007, as reported by the Audit Bureau of Circulation, is split as follows:

United Kingdom	31%
Europe, Middle East and Africa	29%
US	30%
Asia	10%

Its main sources of revenue are from sales of the newspaper, advertising and conferences. The FT also sells content and advertising online through FT.com, which charges subscribers for detailed industry news, comment and analysis, while providing general news and market data to a wider audience. The new FT.com access model was successfully introduced in 2007 and is based on frequency of use and is intended to drive usage and accelerate advertising growth, while providing greater value and services to its premium paying customers.

FT Publishing also includes: FT Business, which publishes specialist information on the retail, personal and institutional finance industries through titles including *Investors Chronicle*, *Money Management*, *Financial Adviser* and *The Banker;* and Mergermarket, our online financial data and intelligence provider.

Mergermarket provides early stage proprietary intelligence to financial institutions and corporates. Its key products include *Mergermarket*, *Debtwire*, *dealReporter*, *Wealthmonitor* and *Pharmawire* (which was launched in 2007).

Interactive Data

Interactive Data is a leading provider of financial market data, analytics and related services to financial institutions, active traders and individual investors. The company s customers use its offerings to support their portfolio management and valuation, research and analysis, trading, sales and marketing, and client service activities. We own 62% of Interactive Data; the remaining 38% is publicly traded on the NYSE.

Les Echos

The sale of Les Echos to LVMH for 240m (£174m) was completed in December 2007.

Joint Ventures and Associates

The FT Group also has a number of associates and joint ventures, including:

50% interest in The Economist Group, publisher of one of the world s leading weekly business and current affairs magazines.

50% interest in FTSE International, a joint venture with the London Stock Exchange, which publishes a wide range of global indices, including the FTSE index.

50% interest in *Business Day* and *Financial Mail*, publishers of one of South Africa s leading financial newspapers and magazines.

33% interest in *Vedomosti,* a leading Russian business newspaper.

14% interest in *Business Standard*, one of India s leading business newspapers.

On March 27, 2008, Financial Times International Publishing Ltd sold its 50% partnership interest in Financial Times Deutschland GmbH & Co KG to Gruner & Jahr AG & Co KG.

The Penguin Group

Penguin is one of the world s premier English language book publishers. It publishes an extensive backlist and frontlist of titles, including fiction and non-fiction, literary prize winners, commercial bestsellers, classics and children s titles. It ranks in the top three consumer publishers, based upon sales, in all major English speaking and related markets the US, the UK, Australia, New Zealand, Canada, India and South Africa.

Penguin publishes under many imprints including, in the adult market, Allen Lane, Avery, Berkley, Dorling Kindersley (DK), Dutton, Hamish Hamilton, Michael Joseph, Plume, Putnam, Riverhead and Viking. Its leading children s imprints include Puffin, Ladybird, Warne and Grosset & Dunlap. In 2007, Penguin had sales of £846m, representing 21% of Pearson s total sales (22% in 2006) and contributed 12% of Pearson s operating profit. Its largest market is the US, which generated around 55% of Penguin s sales in 2007. The Penguin Group earns around 99% of its revenues from the sale of hard cover and paperback books. The balance comes from audio books and e-books.

Penguin sells directly to bookshops and through wholesalers. Retail bookshops normally maintain relationships with both publishers and wholesalers and use the channel that best serves the specific requirements of an order. It also sells through online retailers such as Amazon.com, as well as Penguin s own website.

Operating cycles

Pearson determines a normal operating cycle separately for each entity/cash generating unit within the Group with distinct economic characteristics. The normal operating cycle for each of the Group s education businesses is primarily based on the expected period over which the educational programs and titles will generate cash flows, and also takes account of the time it takes to produce the educational programs.

Particularly for the US School and Higher Education businesses, which represent more than 50% (by sales) of our education publishing businesses, there are well established cycles operating in the market:

The School market is primarily driven by an adoption cycle in which major state education boards adopt programs and provide funding to schools for the purchase of these programs. There is an established and published adoption cycle with new adoptions taking place on average every 5 years for a particular subject. Once adopted, a program will typically sell over the course of the subsequent 5 years. The Company renews its pre-publication assets to meet the market adoption cycles. Therefore the operating cycle naturally follows the market cycle.

The Higher Education market has a similar pattern, with colleges and professors typically refreshing their courses and selecting revised programs on a regular basis, often in line with the release of new editions or new technology offerings. The Company renews its pre-publication assets to meet the typical demand for new editions of, or revisions to, educational programs. Analysis of historical data shows that the average life cycle of Higher Education content is 5 years. Again the operating cycle mirrors the market cycle.

A development phase of typically 12 to 18 months for Higher Education and up to 24 months for School precedes the period during which the Company receives and delivers against orders for the products it has developed for the program. Non-US markets operate in a similar way although often with less formal adoption processes.

The operating cycles in respect of Professional and the Penguin segment are more specialized in nature as they relate to educational or heavy reference products released into smaller markets (e.g. the financial training, IT and travel sectors). Nevertheless, in these markets, there is still a regular cycle of product renewal, in line with demand which management monitor. Typically the life cycle is 5 years for Professional content and 4 years for Penguin content.

Competition

All of Pearson s businesses operate in highly competitive environments.

Pearson Education competes with other publishers and creators of educational materials and services. These companies include large international companies, such as McGraw-Hill and Houghton Mifflin Harcourt, alongside smaller niche players that specialize in a particular academic discipline or focus on a learning technology. Competition is based on the ability to deliver quality products and services that address the specified curriculum needs and appeal to the school boards, educators and government officials making purchasing decisions.

FT Publishing competes with newspapers and other information sources, such as The Wall Street Journal, by offering timely and expert journalism. It competes for advertisers with other forms of media based on the ability to offer an effective means for advertisers to reach their target audience. Interactive Data competes with Bloomberg, Reuters and Thomson Financial on a global basis for the provision of financial data to the back office of financial institutions. In Europe, Telekurs is also a direct competitor for these services. Smaller, more specialized vendors also compete with Interactive Data in certain market segments and in certain geographic areas.

The Penguin Group competes with other publishers of fiction and non-fiction books. Principal competitors include Random House, HarperCollins, and Hachette Group. Publishers compete by developing a portfolio of books by established authors and by seeking out and promoting talented new writers.

Intellectual property

Our principal intellectual property assets consist of our trademarks and other rights in our brand names, particularly the *Financial Times* and the various imprints of Penguin and Pearson Education, as well as all copyrights for our content and our patents held in the testing business in the name of Pearson NCS. We believe we have taken all appropriate available legal steps to protect our intellectual property in all relevant jurisdictions.

Raw materials

Paper is the principal raw material used by each of Pearson Education, the FT Group and the Penguin Group. We purchase most of our paper through our Global Sourcing department located in the United States. We have not experienced and do not anticipate difficulty in obtaining adequate supplies of paper for our operations, with sourcing available from numerous suppliers. While local prices fluctuate depending upon local market conditions, we have not experienced extensive volatility in fulfilling paper requirements. In the event of a sharp increase in paper prices, we have a number of alternatives to minimize the impact on our operating margins, including modifying the grades of paper used in production.

Government regulation

The manufacture of certain of our products in various markets is subject to governmental regulation relating to the discharge of materials into the environment. Our operations are also subject to the risks and uncertainties attendant to doing business in numerous countries. Some of the countries in which we conduct these operations maintain controls on the repatriation of earnings and capital and restrict the means available to us for hedging potential currency fluctuation risks. The operations that are affected by these controls, however, are not material to us. Accordingly, these controls have not significantly affected our international operations. Regulatory authorities may have enforcement powers that could have an impact on us. We believe, however, that we have taken and continue to take measures to comply with all applicable laws and governmental regulations in the jurisdictions where we operate so that the risk of these sanctions does not represent a material threat to us.

Licenses, patents and contracts

We are not dependent upon any particular licenses, patents or new manufacturing processes that are material to our business or profitability. Likewise, we are not materially dependent upon any contracts with suppliers or customers, including contracts of an industrial, commercial or financial nature.

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Recent developments

On January 2, 2008, the Group completed its acquisition of Money-Media, a US-based company offering online news and commentary for the money management industry, for $64m.

On January 30, 2008, the Group completed its $647m acquisition of Harcourt Assessment from Reed Elsevier, after receiving clearance from the US Department of Justice. On March 27, 2008, the Group disposed of its 50% interest in Financial Times Deutschland to its joint venture partner, Gruner + Jahr.

On February 22, 2008, the Group completed the sale of its Data Management (Scanners) business to M & F Worldwide Corp. for $225m.

Organizational structure

Pearson plc is a holding company which conducts its business primarily through subsidiaries and other affiliates throughout the world. Below is a list of our significant subsidiaries as at December 31, 2007, including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

Name	Country of incorporation/residence	Percentage interest/voting power
Pearson Education		
Pearson Education Inc.	United States (Delaware)	100%
Pearson Education Ltd.	England and Wales	100%
Edexcel Ltd.	England and Wales	100%
NCS Pearson Inc.	United States (Minnesota)	100%
FT Group		
The Financial Times Limited	England and Wales	100%
Mergermarket Ltd.	England and Wales	100%
Interactive Data	United States (Delaware)	62%
The Penguin Group		
Penguin Group (USA) Inc.	United States (Delaware)	100%
The Penguin Publishing Co Ltd.	England and Wales	100%
Dorling Kindersley Holdings Ltd	England and Wales	100%

Property, plant and equipment

Our headquarters are located at leasehold premises in London, England. We own or lease approximately 650 properties in more than 50 countries worldwide, the majority of which are located in the United Kingdom and the United States.

All of the properties owned and leased by us are suitable for their respective purposes and are in good operating condition. These properties consist mainly of offices, distribution centers and computer centers.

The vast majority of our printing is carried out by third party suppliers. We operate two small digital print operations as part of our Pearson Assessment & Testing businesses, one of which was sold as part of the February 2008 Data Management sale. These operations provide short-run and print-on-demand products, typically custom client applications.

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We own the following principal properties at December 31, 2007:

General use of property	Location	Area in square feet
Warehouse/Office	Kirkwood, New York, USA	524,000
Warehouse/Office	Pittston, Pennsylvania, USA	406,000
Office	Iowa City, Iowa, USA	310,000
Warehouse/Office	Old Tappan, New Jersey, USA	210,112
Warehouse/Office	Cedar Rapids, Iowa, USA	205,000
Office	Southwark, London, UK	155,000
Office	Hadley, Massachusetts, USA	136,570
Printing	Owatonna, Minnesota, USA	128,000
Printing	Columbia, Pennsylvania, USA	121,370*
Office	Eagan, Minnesota, USA	109,500

* Sold subsequently to year-end.

We lease the following principal properties at December 31, 2007:

General use of property	Location	Area in square feet
Warehouse/Office	Lebanon, Indiana, USA	1,091,435
Warehouse/Office	Cranbury, New Jersey, USA	886,747
Warehouse/Office	Indianapolis, Indiana, USA	737,850
Warehouse/Office	Newmarket, Ontario, Canada	518,128
Office	Upper Saddle River, New Jersey, USA	474,801
Warehouse/Office	Rugby, UK	446,077
Office	New York City, New York, USA	430,738
Office	London, UK	282,917
Warehouse/Office	Austin, Texas, USA	226,076
Office	Boston, Massachusetts, USA	225,299
Warehouse	Scoresby, Victoria, Australia	215,820
Office	Boston, Massachusetts, USA	191,360
Office	Glenview, Illinois, USA	187,500
Office	Bloomington, Minnesota, USA	153,240
Office	Parsippany, New Jersey, USA	143,777
Office	Harlow, UK	137,857
Office	Chandler, Arizona, USA	135,460
Warehouse	San Antonio Zomeyucan, Mexico	113,638
Office	London, UK	112,000
Office	New York City, New York, USA	107,939
Call Center	Lawrence Kansas, Kansas, USA	105,000

Capital Expenditures

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for description of the Company s capital expenditure.

ITEM 4A. *UNRESOLVED STAFF COMMENTS*

The Company has not received, 180 days or more before the end of the 2007 fiscal year, any written comments from the Securities and Exchange Commission staff regarding its periodic reports under the Exchange Act which remain unresolved.

ITEM 5. *OPERATING AND FINANCIAL REVIEW AND PROSPECTS*

The following discussion and analysis is based on and should be read in conjunction with the consolidated financial statements, including the related notes, appearing elsewhere in this Annual Report. The financial statements have been prepared in accordance with IFRS as issued by the IASB.

General overview

Introduction

Sales from continuing operations increased from £3,990m in 2006 to £4,162m in 2007, an increase of 4%. The bulk of the increase was in the School business and at FT Publishing due to acquisitions made in both 2006 and 2007. The year on year growth was significantly impacted by exchange rates, in particular the US dollar. The average US dollar exchange rate weakened in 2007, which had the effect of reducing reported sales in 2007 by £223m when compared to the equivalent figure at constant 2006 rates. When measured at constant 2006 exchange rates, all of Pearson s businesses reported year on year growth.

Reported operating profit increased by 10% from £522m in 2006 to £574m in 2007. Reported operating profit in 2007 was £34m lower than the equivalent figure reported at constant 2006 exchange rates. When measured at constant rates, all parts of the Group contributed to the operating profit increase through a combination of good sales growth and improved margins which more than offset an increased charge for intangible amortization.

Profit before taxation in 2007 of £468m compares to a profit before taxation of £448m in 2006. The increase of £20m reflects the improved operating performance offset by an increase in net finance costs. Net finance costs increased from £74m in 2006 to £106m in 2007. The Group s net interest payable increased by only £1m in 2007 but exchange losses of £17m in 2007 compare to a net exchange gain of £19m in 2006. The losses in 2007 principally relate to exchange losses on legacy euro denominated debt held to hedge euro denominated proceeds from the sale of Les Echos. In 2006, euro borrowings and cross currency swaps that were not designated as net investment hedges contributed to overall net exchange gains. Partially offsetting this effect was finance income relating to post retirement plans of £10m in 2007 compared to an income of £4m in 2006.

On February 22, 2008 the Group completed the sale of its Data Management (Scanners) business and this business has been included in discontinued operations for the full year in 2007, 2006 and 2005.

On December 24, 2007, the Group completed the sale of its French newspaper business, Les Echos. Pearson s Government contracting business, Government Solutions, was disposed of on February 15, 2007. The results of Les Echos and Government Solutions have been included in discontinued operations for 2007, 2006 and 2005 and have been consolidated up to the date of sale.

In 2005 the Group sold its 79% interest in Recoletos Grupo de Comunicacion S.A. The results of Recoletos have been consolidated for the period to February 28, 2005 and have been shown as discontinued operations in the consolidated income statement for 2005.

Net cash generated from operating activities increased to £659m in 2007 from £621m in 2006. The improved cash generation in 2007 was in spite of a special contribution of £100m to the UK Group pension plan. On an average basis, the use of working capital continued to improve. Average working capital comprises the average of the monthly carrying values over the relevant 12 month period for inventory, pre-publication costs, debtors and creditors. Net interest paid increased by £8m to £90m in 2007 compared to £82m in 2006. Tax paid in 2007 was £87m compared to £59m in 2006, the bulk of the increase was due to payments relating to the sale of Government Solutions. Net capital expenditure after proceeds from sales increased from £63m in 2006 to £74m in 2007. The net cash outflow in respect of businesses acquired increased from £363m in 2006 to £472m in 2007 whilst net proceeds from the disposal of businesses increased from £10m in 2006 to £469m in 2007. Dividends from joint ventures and associates decreased by £13m largely due to smaller special dividends received from the Economist in 2007 compared to 2006. Dividends paid of £248m in 2007 (including £10m paid to minority interests) compares to £235m in 2006. After a favorable currency movement of £11m, overall net borrowings decreased by 8% from £1,059m at the end of 2006 to £973m at the end of 2007.

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Outlook

In recent years we have significantly changed the shape of Pearson, building and diversifying our education company, shifting our financial information businesses towards recurring revenue streams and becoming more efficient through a centralized operations organization. These moves have made Pearson a more profitable, more cash generative and more resilient company, and we expect to make further progress on our financial goals in 2008.

At this stage, our outlook for 2008 is:

Pearson Education

We expect another year of good profit growth, benefiting once again from the unique breadth of our education business from pre-school to adult learning; across publishing, testing and technology; and in the US and around the world.

In our School business, integration of our recently-acquired Harcourt businesses is progressing well. In 2008, we expect School margins to be similar to 2007, after expensing integration costs relating to the acquisition. In 2009, we expect School margins to rise to around 15% as the majority of the integration costs fall away and as we realize the financial benefits of the acquisition. Including the Harcourt contribution, we expect our School business to grow sales well into double digits in 2008 at constant currency. Excluding Harcourt, we expect underlying sales growth in the low single digits, as US market growth of 3-4% is partly offset by our lower participation rate in new US adoptions and the conclusion of our UK key stage testing contract.

In Higher Education, we expect our underlying sales to grow in the mid single digits, a little ahead of the industry. We expect margins to be stable, as we continue to invest in expanding our adaptive learning technologies and in taking our recently-acquired eCollege platform into new segments and geographic markets.

In Professional, we expect sales to increase in the low single digits in underlying terms with underlying margins improving once again.

FT Group

The FT Group is expected to continue its profit growth. We have substantially increased our digital and subscription revenues and reduced our exposure to print advertising in recent years. At FT Publishing, advertising revenues have continued to grow in the early part of the year, but future advertising trends remain difficult to predict. However, as a result of our revenue diversification and cost actions we expect further profit improvement at FT Publishing this year, even without any growth in advertising revenues. We expect Interactive Data to achieve its forecast revenue growth in the 7-9% range and operating profit growth in the 9-11% range (headline growth under US GAAP).

The Penguin Group

The Penguin Group is expected to improve margins further and into double digits. Penguin s good publishing and trading performance has continued into the early part of 2008.

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Sales information by operating division

The following table shows sales information for each of the past three years by operating division:

	Year Ended December 31		
	2007	2006	2005
	£m	£m	£m
Education:			
School	1,537	1,455	1,295
Higher Education	793	795	779
Professional	298	280	238
FT Group:			
FT Publishing	344	280	249
Interactive Data	344	332	297
Penguin	846	848	804
Total	4,162	3,990	3,662

Sales information by geographic market supplied

The following table shows sales information for each of the past three years by geographic region:

	Year Ended December 31		
	2007	2006	2005
	£m	£m	£m
European countries	1,102	1,003	868
North America	2,591	2,585	2,388
Asia Pacific	351	295	300
Other countries	118	107	106
Total	4,162	3,990	3,662

Exchange rate fluctuations

We earn a significant proportion of our sales and profits in overseas currencies, principally the US dollar. Sales and profits are translated into sterling in the consolidated financial statements using average rates. The average rate used for the US dollar was $2.00 in 2007, $1.84 in 2006 and $1.81 in 2005. Fluctuations in exchange rates can have a significant impact on our reported sales and profits. In 2007, Pearson generated 59% of its sales in the US (2006: 61%; 2005: 62%). We estimate that a five cent change in the closing exchange rate between the US dollar and sterling in any year could affect our reported earnings per share by 1p and shareholders funds by approximately £55m. See Item 11. Quantitative and Qualitative Disclosures About Market Risk for more information. The year-end US dollar rate for 2007 was £1:$1.99 compared to £1:$1.96 for 2006. In terms of the year end rate, the weakening of the US dollar in 2007 was not as significant as in previous years and although the weaker US dollar had the effect of decreasing shareholders funds this was outweighed by strength in other currencies, principally the Canadian dollar and the Euro. The net effect of movement in all currencies in 2007 was an increase in our shareholders funds of £25m (see also note 29 of Item 18. Financial Statements). The year-end rate for the US dollar in 2006 was £1:$1.96 compared to £1:$1.72 for 2005 which was the main reason for a decrease in shareholders funds due to exchange movements of £417m in 2006.

Critical accounting policies

Our consolidated financial statements, included in Item 18. Financial Statements , are prepared based on the accounting policies described in note 1 to the consolidated financial statements.

Certain of our accounting policies require the application of management judgment in selecting assumptions when making significant estimates about matters that are inherently uncertain. Management bases its estimates on historical experience and other assumptions that it believes are reasonable. These policies are described in note 1a(3) in Item 18. Financial Statements .

Results of operations

Year ended December 31, 2007 compared to year ended December 31, 2006

Consolidated results of operations

Sales

Our total sales from continuing operations increased by £172m, or 4%, to £4,162m in 2007, from £3,990m in 2006. The increase reflected growth, on a constant exchange rate basis, across all the businesses together with additional contributions from acquisitions made in both 2006 and 2007. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2007 sales, translated at 2006 average exchange rates, would have been £4,385m.

Pearson Education had another year of growth with an increase in sales of 4%. The School business was the biggest contributor to this growth with an increase of 6%. Some of the School increase was due to a full year contribution from acquisitions made in 2006 and to additional contribution from the Harcourt acquisition in 2007. We estimate that after excluding these acquisitions the growth would have been 6% at constant last year exchange rates. US School publishing sales were up 3.5% compared to an industry increase of 2.7% (source: Association of American Publishers) as the business benefited from sustained investment in new basal programs and innovative digital services. There was also faster growth in international school publishing. School testing sales increased in double digits both in the US and UK benefiting from further contract wins, market share gains and strength in on-line assessment. Higher Education sales were flat year on year on a headline basis, but would have been 5% ahead of the previous year at constant last year exchange rates and after taking account of portfolio changes. Pearson s US Higher Education business grew faster than the industry for the ninth successive year with growth of 6% in US dollar terms. In the Professional business, Professional testing sales were up by 10% in 2007 as approximately 5.8m secure online tests were delivered in more than 5,000 testing centers worldwide. Professional publishing sales increased in 2007 by 7%, after a number of years of decline in the professional publishing markets, as it benefited from a focused and refreshed front list, a favorable software release schedule and sales from Safari Books Online, our electronic publishing platform (a joint venture with O Reilly Media).

The FT Group sales were 12% ahead of last year with a full year contribution from Mergermarket acquired in the second half of 2006. FT Publishing sales were up by 23% or 12% after excluding the contribution from acquisitions made in 2006 and 2007. FT Publishing growth was driven by a 10% increase in advertising revenues, circulation up 2% and a strong contribution from FT.com. Interactive Data sales were up by 4% (8% at constant last year exchange rates and before the contribution from acquisitions) driven by strong sales to both existing and new institutional customers and a renewal rate of approximately 95% within the institutional services sector.

Penguin s sales were flat year on year but would have increased by 3% translated at 2006 average exchange rates as a result of its successful global publishing performance and another outstanding year for bestsellers in the US and UK.

Pearson Education, our largest business sector, accounted for 63% of our continuing business sales in both 2007 and 2006. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 62% in 2007 and 65% in 2006.

Cost of goods sold and operating expenses

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

	Year Ended December 31	
	2007	2006
	£m	£m
Cost of goods sold	1,910	1,841
Distribution costs	264	288
Administration and other expenses	1,538	1,462
Other operating income	(101)	(99)
Total	1,701	1,651

Cost of goods sold. Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs and royalty charges. Our cost of sales increased by £69m, or 4%, to £1,910m in 2007, from £1,841m in 2006. The increase corresponds to the increase in sales with cost of sales at 45.9% of sales in 2007 compared to 46.1% in 2006.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing and are typically a fairly constant percentage of sales.

Administration and other expenses. Our administration and other expenses increased by £76m, or 5%, to £1,538m in 2007, from £1,462m in 2006. As a percentage of sales they remained at 37% in both 2007 and 2006.

Other operating income. Other operating income mainly consists of freight recharges, sub-rights and licensing income and distribution commissions together with income from sale of assets. Other operating income increased marginally by 2% to £101m in 2007 from £99m in 2006.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates decreased slightly from £24m in 2006 to £23m in 2007. Our share of profit from the Economist in 2006 included a one-off gain of £4m from the sale of its interest in Commonwealth Business Media Inc which was not repeated in 2007.

Operating profit

The total operating profit increased by £52m, or 10%, to £574m in 2007 from £522m in 2006. 2007 operating profit, translated at 2006 average exchange rates, would have been £34m higher.

Operating profit attributable to Pearson Education increased by £9m, or 3%, to £361m in 2007, from £352m in 2006. The increase was due to continued improvement in School and Professional margins, but was offset by an increase in intangible amortization from £18m in 2006 to £31m in 2007. Operating profit attributable to the FT Group increased by £28m, or 25%, to £140m in 2007, from £112m in 2006. The increase reflects the increase in revenues from both established businesses and an increased contribution from new acquisitions but also reflects improvements in margins particularly at FT Publishing. Operating profit attributable to the Penguin Group increased by £15m, or 26%, to £73m in 2007, from £58m in 2006 although the 2006 result included a one off goodwill charge of £7m relating to the recognition of pre-acquisition tax losses at Dorling Kindersley.

Net finance costs

Net finance costs increased from £74m in 2006 to £106m in 2007. Net interest payable in 2007 was £95m, up from £94m in 2006. Although we were partly protected by our fixed rate policy, the strong rise in average 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, euros and sterling at the year end) rose by 0.5% to 5.4%, reflecting a rise in interest rates and a change in the currency mix of year end debt. These two factors, partly offset by a decrease in the Group s average net debt of £90m, increased the Group s average net interest rate payable by 0.3% to 7.3%. In 2007 the net finance income relating to post-retirement plans was an income of £10m compared to an income of £4m in the previous year.

Other net finance income relating to foreign exchange and short-term fluctuations in the market value of financial instruments included a net foreign exchange loss of £17m in 2007 compared to a gain of £19m in 2006. In 2007 the loss mainly related to losses on Euro denominated debt used to hedge the receipt of proceeds from the sale of Les Echos. In 2006 the exchange gains mainly relate to the unhedged exposure on Euro borrowings and swaps that could not be designated as a net investment under IAS 39. For a more detailed discussion of our borrowings and interest expenses see Liquidity and Capital Resources Capital Resources and Borrowings below and Item 11. Quantitative and Qualitative Disclosures About Market Risk .

Taxation

The total tax charge in 2007 of £131m represents 28% of pre-tax profits compared to a charge of just £4m or less than 1% of pre-tax profits in 2006. The low tax rate in 2006 was mainly accounted for by two factors. First, in anticipation of the disposal of Government Solutions, we recognized a deferred tax asset in relation to capital losses in the US where previously we were not confident that the benefit of the losses would be realized prior to their expiry. Second, in the light of our trading performance in 2006 and our strategic plans, together with the expected utilization of US net operating losses in the Government Solutions sale, we re-evaluated the likely utilization of operating losses both in the US and the UK; this enabled us to increase the amount of the deferred tax asset carried forward in respect of such losses. The combined effect of these two factors was to create a non-recurring credit of £127m in 2006 which was not repeated in 2007.

Minority interests

This comprises mainly the minority share in Interactive Data. Our share of Interactive Data remained at 62% throughout 2007, leaving the minority interest unchanged at 38%.

Discontinued operations

Discontinued operations relate to the disposal of Government Solutions (in February 2007), Les Echos (in December 2007), Datamark (in July 2007) and the Data Management (Scanners) business (in February 2008). The results of Government Solutions and Les Echos have been included in discontinued operations for 2007 and 2006 and have been consolidated up to the date of sale. Operating profit for Government Solutions in 2007 was £2m compared to £22m in 2006 and the loss on disposal after tax recorded in 2007 was £112m after a tax charge of £93m. Les Echos operating profit in 2007 amounted to £1m compared to £5m in 2006 and the profit on sale recorded in 2007 was £165m. There was no tax payable on the Les Echos sale. Datamark was bought with the eCollege acquisition and immediately sold. The only profit or loss recognized relating to Datamark was a £7m tax benefit arising from the loss on sale. The Data Management business was held throughout 2006 and 2007 and the operating profit before impairment charges in 2007 was £12m compared to £13m in 2006. The Data Management business was formerly part of the Group s Other Assessment and Testing cash-generating unit (CGU) and was carved out of this CGU in preparation for disposal. As a result, the Group has recognized a goodwill impairment charge of £97m in 2007 in anticipation of the loss on disposal.

Profit for the year

The total profit for the financial year in 2007 was £310m compared to a profit in 2006 of £469m. The overall decrease of £159m was mainly due to the absence of the non-recurring tax credit of £127m recorded in 2006, the decrease in contribution from discontinued businesses of £52m and the increase in net finance costs of £32m, largely due to exchange losses. These items more than offset the increase in operating profit in 2007.

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 35.6p in 2007 compared to 55.9p in 2006 based on a weighted average number of shares in issue of 796.8m in 2007 and 798.4m in 2006. The decrease in earnings per share was

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due to the decrease in profit for 2007 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 35.6p in 2007 and 55.8p in 2006 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 2007 compared to 2006. 2007 sales, translated at 2006 average exchange rates, would have been higher by £223m and operating profit, translated at 2006 average exchange rates, would have been higher by £34m. 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 tables summarize our sales and operating profit for each of Pearson s divisions. Adjusted operating profit is a non-statutory measure and is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments. See also note 2 of Item 18. Financial Statements .

In our adjusted operating profit we have excluded amortization and adjustment of acquired intangibles, other gains and losses and other net finance costs of associates. The amortization and adjustment of acquired intangibles is the amortization or subsequent adjustment of intangible assets acquired through business combinations. The charge 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 for continuing operations is included in the tables below:

	Year Ended December 31, 2007						
£m	**School**	**Higher Education**	**Professional**	**FT Publishing**	**Interactive Data**	**Penguin**	**Total**
Sales	1,537	793	298	344	344	846	4,162
	37%	*19%*	*7%*	*8%*	*8%*	*21%*	*100%*
Total operating profit	175	159	27	50	90	73	574
	30%	*28%*	*4%*	*9%*	*16%*	*13%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	28	2	1	6	7	1	45
Adjusted operating profit: continuing operations	203	161	28	56	97	74	619
Adjusted operating profit: discontinued operations			14	1			15

Total adjusted operating profit	203	161	42	57	97	74	634
	32%	*25%*	*7%*	*9%*	*15%*	*12%*	*100%*

	Year Ended December 31, 2006						
£m	School	Higher Education	Professional	FT Publishing	Interactive Data	Penguin	Total
Sales	1,455	795	280	280	332	848	3,990
	36%	*20%*	*7%*	*7%*	*8%*	*22%*	*100%*
Total operating profit	167	161	24	30	82	58	522
	32%	*31%*	*4%*	*6%*	*16%*	*11%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	17		1	2	7	8	35
Other net gains and losses including associates				(4)			(4)
Other net finance costs of associates				(1)			(1)
Adjusted operating profit: continuing operations	184	161	25	27	89	66	552
Adjusted operating profit: discontinued operations			35	5			40
Total adjusted operating profit	184	161	60	32	89	66	592
	31%	*27%*	*10%*	*6%*	*15%*	*11%*	*100%*

School

School business sales increased by £82m, or 6%, to £1,537m in 2007, from £1,455m in 2006 and adjusted operating profit increased by £19m, or 10%, to £203m in 2007 from £184m in 2006. In addition to strong underlying growth in sales and profits, the School results in 2006 benefited from a full year contribution from the acquisitions of National Evaluation Systems (NES), Paravia Bruno Mondadori (PBM), Chancery and PowerSchool in 2006 together with a contribution in 2007 from the acquisition of Harcourt International. Offsetting these factors was the effect of the weakening of the US dollar, which we estimate reduced sales by £91m when compared to the equivalent figures at constant 2006 exchange rates.

In the US school market, Pearson s school publishing revenues grew 3.5% against the Association of American Publishers estimate of an increase for the industry of 2.7%. New adoption market share was 31% in the adoptions where Pearson competed (and 30% of the total new adoption market). The School business now has the number one or number two market share in reading, math, science and social studies. US School testing sales were up in double digits after high single digit growth in 2006 and growth in excess of 20% in 2005. School testing benefited from further contract wins, market share gains and strength in online assessment.

The international School business, outside the US, continued to grow with strong performances from the publishing businesses in South Africa and Australia. In Italy, the integration of PBM was completed and produced integration savings, margin improvement and market share gains in 2007. In School publishing, the acquisition of Harcourt International increased scale in our international education businesses bringing leading content for school and vocational customers in many markets including the UK, South Africa, Australia and New Zealand. The international testing business was again able to benefit from technology leadership. In the UK, we marked 9.6 million GCSE, AS and A-Level scripts, 4.6 million of which were on screen. Successful global English Language Teaching franchises in all major market franchises (primary, secondary, adult, business and exam preparation) drove strong growth. *English Adventure*, developed with Disney, grew successfully and has sold more than six million units in less than three years since launch.

School margins improved again in 2007, increasing from 12.6% to 13.2% due to improved gross margins, savings from integration of acquired businesses and efficiency gains from the use of software platforms.

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Higher Education

Sales in Higher Education decreased slightly by £2m to £793m in 2007, from £795m in 2006. Adjusted operating profit remained flat at £161m. Both sales and adjusted operating profit were affected by the weakening of the US dollar which we estimate reduced sales by £57m and profits by £12m when compared to the equivalent figures at constant 2006 exchange rates.

In the US, the Higher Education sales were up by 6% (in US dollars) ahead of the Association of American Publishers estimate of industry growth for the ninth year in succession with rapid growth in online learning and custom publishing. In the US, investment in established and new author franchises, such as Campbell s *Biology*, Kotler s *Marketing Management*, Hubbard s *Economics* and Cicarrelli s *Psychology*, continued to underpin the strong performance. The MyLab digital homework and assessment programs were launched in 22 new subject disciplines in 2007, increasing the total number of disciplines covered to 38. These programs support over 2,000 textbooks and were used globally by 2.9 million students in 2007 (up more than 30% on 2006). In corporate finance, one of the largest global markets in business education, Pearson published the successful first edition bestseller, Berk/DeMarzo s *Corporate Finance*, together with MyFinanceLab and Pearson s share of this market increases from 4% to 11% in the US and from 39% to 48% in the UK. It is the most successful launch of a first edition in this discipline in more than a decade and one of Pearson s most successful global launches ever, winning university adoptions in 22 countries. In World History, the first edition of Fernandez-Armesto s *The World: A History* with MyHistoryLab increased Pearson s market share from 25% to 35%. In July 2007, we acquired eCollege which builds on Pearson s position as an education services provider. eCollege works with partner educational institutions to design, build and support online degree, certificate, diploma and professional development programs. Student enrollments increased by 44% in 2007 to 1.9 million. There was continued strong double digit growth in our custom solutions business which builds customized textbooks and online services and has become a leader in the creation of courseware and curricula for e-learning institutions.

International Higher Education publishing sales grew by 2%, benefiting from organic and acquisition investment. Particular areas of strength included local language editions of our major authors and custom publishing including the successful launch of local language science publishing in Germany. The MyLab and Mastering technology platforms are being successfully adapted for international markets and the MyLab programs are now being used in almost 50 countries with almost 160,000 student registrations for online courses in Europe, the Middle East and Africa.

Higher Education margins remained constant year on year at 20.3% with a slight reduction in US margins being compensated by improvement in international margins.

Professional

After excluding sales and adjusted operating profit from Government Solutions and the Data Management businesses (reported as discontinued), Professional sales increased by £18m, or 6%, to £298m in 2007 from £280m in 2006. Adjusted operating profit increased by £3m or 12% to £28m in 2007, from £25m in 2006. Sales were affected by the weakening US dollar, which reduced sales by £16m when compared to the equivalent figures at constant 2006 exchange rates.

Professional Testing sales were up by 10% in 2007. Approximately 5.8 million secure online tests were delivered in more than 5,000 test centers across the world in 2007. There was strong margin improvement as test volumes rose, driven by higher demand from existing customers such as GMAC (for business school applicants), NCLEX (for nurses) and the DSA/DVTA driving theory test. Additional contributions from new contracts included the American Board of Internal Medicine and the National Association Boards of Pharmacy. There were also strong renewals, including the Institute of Financial Services and the American Registry of Radiological Technologists.

Technology Publishing achieved good sales growth and significantly improved profitability, benefiting from a focused and refreshed front list, a favorable software release schedule and Safari Books Online, our electronic publishing platform (a joint venture with O Reilly Media). Scott Kelby, a Peachpit author, is the top-selling US computer book author for the fourth consecutive year with titles including *The iPod Book; The Digital Photography Book;* and *The Adobe Photoshop Lightroom Book for Digital Photographers*. Good growth in Europe

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was helped by publishing for the new Windows Vista launch, a new partnership with Microsoft Press in the Netherlands and a successful move into digital publishing and training in Germany. Our business imprints Wharton School Publishing and FTPress, aided by Pearson s global distribution and strong retail relationships, had a successful year. Wharton School Publishing was recognized by the Amazon.com Best Business Books of 2007 with *We Are Smarter Than Me: How to Unleash the Power of Crowds in Your Business*, by Barry Libert and Jon Spector, and *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose*, by Rajendra S. Sisodia, David B. Wolfe and Jaqdish N. Sheth.

Overall margins in the Professional business were higher at 9.4% in 2007 compared to 8.9% in 2006 as margins continued to improve in both the testing and professional publishing businesses.

FT Publishing

Sales at FT Publishing increased by £64m or 23%, from £280m in 2006 to £344m in 2007. Adjusted operating profit from continuing operations increased by £29m, from £27m in 2006 to £56m in 2007. The sales and profit increase benefits from a full year contribution from Mergermarket, acquired in the second half of 2006.

After excluding additional sales from a full year of ownership of Mergermarket, FT Publishing sales were up by 12% with advertising revenues up by 10%. FT newspaper circulation was up 2% to almost 440,000 (for the July-December 2007 Audit Bureau of Circulation, or ABC, measuring period), with a 19% increase in subscriptions. Digital subscribers to the FT were up 13% to 101,000 and monthly unique users were up 30% to 5.7 million. Monthly page views were up 33% to 48.2 million. FT.com attracted 150,000 new registered users since the launch of its innovative new access model in October 2007. There was a strong trading performance at FT Business as integration with the FT Newspaper helped to generate additional revenue and reduce costs. Mergermarket experienced rapid revenue growth with 90%+ subscription renewal rates and a series of new product launches around the world including *Pharmawire*, *Debtwire* in Asia Pacific and *dealReporter* in emerging markets in Europe, Middle East and Africa.

The Economist, in which Pearson owns a 50% stake, increased its circulation by 9% to 1.3 million (for the July-December 2007 ABC period). FTSE, in which Pearson also owns a 50% stake, achieved double digit sales growth, benefiting from a strong new business performance, a joint venture with Xinhua Finance in China and strong growth in Exchange Traded Fund (ETF) licenses.

Small acquisitions of complementary subscription-based and digital businesses made their first contribution to FT Publishing s results including: Infinata, a provider of research and business information to life science and financial services companies; and Exec-Appointments, a well-established global job site that focuses on the high-earning executive sector with approximately 200,000 registered executive users.

Overall margins at FT Publishing continued to increase as the newspaper becomes more profitable and in 2007 were 16.3% compared to 9.6% in 2006.

Interactive Data

Interactive Data, grew its sales by 4% from £332m in 2006 to £344m in 2007. Adjusted operating profit grew by 9% from £89m in 2006 to £97m in 2007. Interactive Data margins increased from 26.8% in 2006 to 28.2% in 2007. Both sales and adjusted operating profit were affected by the weakening US dollar, which we estimate reduced sales by £20m and adjusted operating profit by £6m when compared to the equivalent figures at constant 2006 exchange rates.

Sales growth at Interactive Data was driven primarily by strong sales to both existing and new institutional customers and a renewal rate of approximately 95% within the Institutional Services business. The business continued to focus on high value services and the Pricing and Reference Data business continued to generate good growth in North America and Europe. The business continues to broaden its coverage of complex securities by expanding its universe of European asset-backed and mortgage-backed securities. The business also launched a new web-based offering, the Basket Calculation Service, designed to provide clients with the indicative optimized portfolio value for equity and fixed income exchange traded funds. The Real-Time Services business achieved strong growth with new institutional sales in its two core product areas of real-time data feeds and managed solutions. There was growing adoption of the PlusFeed data service for algorithmic trading applications, a successful introduction of DirectPlus, a new ultra low latency direct exchange data service and excellent sales momentum for managed solutions in North America with new customers including media companies, online brokerages, stock exchanges and financial institutions. Fixed Income Analytics completed 30 new BondEdge® installations during the year and made good progress in the development of its next-generation BondEdge® platform. In the Active Trader Services business, eSignal experienced modest expansion of its direct subscriber base, delivered numerous innovations across its suite of Active Trader Services, and added new content and capabilities on its financial websites.

The Penguin Group

Penguin Group sales decreased slightly to £846m in 2007 from £848m in 2006 and adjusted operating profit up 12% to £74m in 2007 from £66m in 2006. Both sales and adjusted operating profit were affected by the weakening US dollar which we estimate reduced sales by £37m and adjusted operating profit by £4m when compared to the equivalent figures at constant 2006 exchange rates.

Penguin maintained its competitive performance in major markets with a successful global publishing performance led by Alan Greenspan s *The Age of Turbulence*, with almost 1 million hard cover copies shipped worldwide, and Kim Edwards first novel, *The Memory Keeper s Daughter*, a global #1 bestseller for Penguin in the US, UK, Australia and Canada. It was an outstanding year for bestsellers in the US with titles including Elizabeth Gilbert s *Eat, Pray, Love* (4.4 million copies shipped); Khaled Hosseini s *A Thousand Splendid Suns* (2.2 million); and Ken Follett s *World Without End* (almost 1 million). UK bestsellers included Marian Keyes *Anybody Out There?*, Jamie Oliver s *Jamie at Home*, Jeremy Clarkson s *Don t Stop Me Now* and Charlie Higson s *Double or Die*. Also in the UK, it was a strong year for the Brands & Licensing division driven by *The Dr Who Annual* (the second bestselling children s book of 2007) and bestselling *In the Night Garden* titles. DK delivered a strong global performance in traditional, custom and digital publishing, benefiting from innovative formats including *The Human Body Book*, personalized travel guides via traveldk.com and the first DK textbooks for higher education markets.

In Australia, sales growth was generated from a publishing schedule including Bryce Courtenay with *The Persimmon Tree* and Dr. Manny Noakes with *CSIRO Total Wellbeing Diet Book 2*. In India, Penguin India celebrated its 20th anniversary in 2007 with continued rapid growth. Penguin authors won all the major English language prizes in India s national book awards: Vikram Chandra in fiction for *Sacred Games*, Vikram Seth in non-fiction for *Two Lives* and Kiran Desai in readers choice for *The Inheritance of Loss*. In China, Jiang Rong and Howard Goldblatt won the inaugural Man Asian Literary prize for *Wolf Totem*, to be published in English around the world by Penguin in 2008, and in South Africa, another strong year was led by John van de Ruit s *Spud*: *The Madness Continues*.

Penguin continued to focus on efficiency and improvement in operating margins continues to benefit from the Pearson-wide renegotiation of major global paper, print and binding contracts and the integration of warehouse and back office operations in Australia and New Zealand. These efficiencies together with improved gross margins principally from innovation in formats such as the US premium paperback have helped to improve margins from 7.8% in 2006 to 8.7% in 2007.

Year ended December 31, 2006 compared to year ended December 31, 2005

Consolidated results of operations

Sales

Our total sales from continuing operations increased by £328m, or 9%, to £3,990m in 2006, from £3,662m in 2005. The increase reflected growth across all the businesses together with additional contributions from acquisitions made in both 2005 and 2006. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2006 sales, translated at 2005 average exchange rates, would have been £4,033m.

Pearson Education had another strong year with an increase in sales of 9%. The School business was the biggest contributor to this growth with an increase of 12%. Some of the School increase was due to the contribution from acquisitions made in 2006 and 2005 but we estimate that after excluding these acquisitions and restating at

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constant exchange rates that the growth would have been 6%. US School publishing sales were up 3% compared to an industry decline of 6% (source: Association of American Publishers) and the business took a leading share of the new US adoption market. School testing sales continued to improve even after growth in US school testing revenues of more than 20% in 2005. Higher Education growth was more modest at 2% in total but was up 4% in the US. Pearson s US Higher Education business has grown faster than the industry for eight straight years. In the Professional business, Professional testing sales were up by more than 30% in 2006 following the successful start up of new contracts and a contribution from the newly acquired Promissor business. Professional publishing sales declined again in 2006 due to the continued industry-wide weakness in technology-related publishing.

The FT Group sales were 12% ahead of 2005. FT Publishing sales were up by 12% driven by higher advertising revenues at the *Financial Times* particularly in the online, luxury goods and corporate finance categories. Interactive Data sales were up by 12% with consistent organic growth and aided by contributions from the acquisition of IS.Teledata (re-branded Interactive Data Managed Solutions) and Quote.com.

Penguin s sales grew by 5% with a record number of best sellers in the US and UK, an increase in market share in the UK and continued success with the premium paperback format in the US.

Pearson Education, our largest business sector, accounted for 63% of our continuing business sales in 2006 and 2005. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 65% in both 2006 and 2005.

Cost of goods sold and operating expenses

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

	Year Ended December 31	
	2006	**2005**
	£m	**£m**
Cost of goods sold	1,841	1,713
Distribution costs	288	281
Administration and other expenses	1,462	1,309
Other operating income	(99)	(84)
Total	1,651	1,506

Cost of goods sold. Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs and royalty charges. Our cost of sales increased by £128m, or 7%, to £1,841m in 2006, from £1,713m in 2005. The increase mainly reflected the increase in sales over the period although the overall gross margin also increased slightly from 53% in 2005 to 54% in 2006.

Distribution costs. Distribution costs consisted primarily of shipping costs, postage and packing and are typically a fairly constant percentage of sales.

Administration and other expenses. Our administration and other expenses increased by £153m, or 12%, to £1,462m in 2006, from £1,309m in 2005. As a percentage of sales they increased to 37% in 2006, from 36% in 2005. The increase in administration and other costs came principally from additional employee benefit expense, additional property costs and increased intangible amortization.

Other operating income. Other operating income mainly consisted of freight recharges, sub-rights and licensing income and distribution commissions. Other operating income increased 18% to £99m in 2006 from £84m in 2005, with the increase mainly due to increased freight recharges.

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 2005 the only item in this category was the £40m profit on the sale of our associate interest in MarketWatch. In 2006, there were no similar gains or losses.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased from £14m in 2005 to £24m in 2006. The increase was mainly due to an increase in circulation and revenue at The Economist Group, who also recorded a gain on sale of its investment in Commonwealth Business Media Inc.

Operating profit

The total operating profit increased by £25m, or 5%, to £522m in 2006 from £497m in 2005. This increase was due to increases across all the businesses, after taking account of the one-off gain from the sale of MarketWatch at FT Publishing of £40m in 2005 and a charge of £7m in 2006 at Penguin relating to an adjustment to goodwill following recognition of pre-acquisition tax losses. Operating profit in 2006, translated at 2005 average exchange rates, would have been £7m higher.

Operating profit attributable to Pearson Education increased by £44m, or 14%, to £352m in 2006, from £308m in 2005. The increase was due to continued improvement in School margins, the profit impact of strong sales and cost reductions in technology publishing in Professional testing. Operating profit attributable to the FT Group decreased by £17m, or 13%, to £112m in 2006, from £129m in 2005. This decrease was attributable to the absence in 2006 of the £40m profit from the sale of MarketWatch that was recorded in 2005. After excluding this item profits increased by £23m, £7m at Interactive Data and £16m at FT Publishing. The FT Publishing increase reflected the pick-up in advertising revenues. Operating profit attributable to the Penguin Group decreased by £2m, or 3%, to £58m in 2006, from £60m in 2005. The decrease was attributable to an adjustment to goodwill of £7m caused by the recognition of previously unrecognized tax losses relating to the acquisition of Dorling Kindersley in 2000.

Net finance costs

Net finance costs increased from £70m in 2005 to £74m in 2006. Net interest payable in 2006 was £94m, up from £77m in 2005. Although we were partly protected by our fixed rate policy, the strong rise in average 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, euros and sterling at the year end) rose by 1.5% to 4.9%. Combining the rate rise with an increase in the Group s average net debt of £40m, the Group s average net interest rate payable rose by 1.1% to 7.0%. In 2006 the net finance income relating to post-retirement plans was an income of £4m compared to a cost of £7m in the previous year. Other net finance income relating to foreign exchange and short-term fluctuations in the market value of financial instruments remained fairly constant year on year with a £16m gain in 2006 compared to a £14m gain in 2005.

Taxation

The total tax charge in 2006 of £4m represented just under 1% of pre-tax profits compared to a charge of £108m or 25% of pre-tax profits in 2005. The low tax rate in 2006 was mainly accounted for by two factors. First, in the light of the announcement of the disposal of Government Solutions, we were required to recognize a deferred tax asset in relation to capital losses in the US where previously we were not confident that the benefit of the losses would be realized prior to their expiry. Second, in the light of our trading performance in 2006 and our strategic plans, together with the expected utilization of US net operating losses in the Government Solutions sale, we have re-evaluated the likely utilization of operating losses both in the US and the UK; this has enabled us to increase the amount of the deferred tax asset carried forward in respect of such losses. The combined effect of these two factors was to create a non-recurring credit of £127m.

Minority interests

Following the disposal of our 79% holding in Recoletos and the purchase of the remaining 25% minority stake in Edexcel in 2005, our minority interests comprised mainly the minority share in Interactive Data. In January 2006, we increased our stake in Interactive Data reducing the minority interest from 39% to 38%.

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Discontinued operations

On 22 February 2008 the Group completed the sale of its Data Management (Scanners) business and this business has been included in discontinued operations for the full year in 2006 and 2005. Operating profit for the Scanners business in 2006 was £13m compared to £15m in 2005.

In December 2007 the Group completed the sale of Groupe Les Echos and the results have been included in discontinued operations for 2006 and 2005. Operating profit for Les Echos in 2006 was £5m compared to £4m in 2005.

In December 2006 the Group announced the sale of its Government contracting business, Pearson Government Solutions. The sale was completed in February 2007 and the results of this business have been shown in discontinued operations in the consolidated income statement in both 2006 and 2005. Operating profit for Government solutions in 2006 was £22m compared to £20m in 2005. Following the disposal of Recoletos in 2005 its results were consolidated for the period up to February 28, 2005 and included in discontinued operations in 2005. The results for 2005 include an operating loss for the two months to February 28, 2005 of £3m. The pre-tax profit on disposal of Recoletos reported in 2005 was £306m.

Profit for the year

The total profit for the financial year in 2006 was £469m compared to a profit in 2005 of £644m. The overall decrease of £175m was to the absence of the profits on disposal of Recoletos and MarketWatch reported in 2005. After taking account of these disposals there was an increase in profit in 2006 due to improvement in operating profits and the sharp reduction in tax due to the recognition of losses in 2006.

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 55.9p in 2006 compared to 78.2p in 2005 based on a weighted average number of shares in issue of 798.4m in 2006 and 797.9m in 2005. The decrease in earnings per share was due to the additional profit for 2005 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 55.8p in 2006 and 78.1p in 2005 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 2006 compared to 2005. Sales in 2006, translated at 2005 average exchange rates, would have been higher by £43m and 2006 operating profit, translated at 2005 average exchange rates, would have been higher by £7m.

Sales and operating profit by division

The following tables summarize our sales and operating profit for each of Pearson s divisions. Adjusted operating profit is a non-statutory measure and is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments. See also note 2 of Item 18. Financial Statements .

In our adjusted operating profit we have excluded amortization and adjustment of acquired intangibles, other gains and losses and other net finance costs of associates. The amortization and adjustment of acquired intangibles is the amortization or subsequent adjustment of intangible assets acquired through business combinations. The charge 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.

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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 for continuing operations is included in the tables below:

	Year Ended December 31, 2006						
£m	**School**	**Higher Education**	**Professional**	**FT Publishing**	**Interactive Data**	**Penguin**	**Total**
Sales	1,455	795	280	280	332	848	3,990
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Total operating profit	167	161	24	30	82	58	522
	32%	*31%*	*4%*	*6%*	*16%*	*11%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	17		1	2	7	8	35
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	31%	*27%*	*10%*	*6%*	*15%*	*11%*	*100%*

	Year Ended December 31, 2005						
£m	**School**	**Higher Education**	**Professional**	**FT Publishing**	**Interactive Data**	**Penguin**	**Total**
Sales	1,295	779	238	249	297	804	3,662
	36%	*21%*	*6%*	*7%*	*8%*	*22%*	*100%*
Total operating profit	142	156	10	54	75	60	497
	29%	*31%*	*2%*	*11%*	*15%*	*12%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	5			1	5		11
Other net gains and losses including associates				(40)			(40)
Other net finance costs of associates				2			2

Adjusted operating profit: continuing operations	147	156	10	17	80	60	470
Adjusted operating profit: discontinued operations			35	1			36
Total adjusted operating profit	147	156	45	18	80	60	506
	29%	*31%*	*9%*	*3%*	*16%*	*12%*	*100%*

School

School business sales increased by £160m, or 12%, to £1,455m in 2006, from £1,295m in 2005 and adjusted operating profit increased by £37m, or 25%, to £184m in 2006 from £147m in 2005. In addition to strong underlying growth in sales and profits, the School results in 2006 benefited from the inclusion of National Evaluation Systems (NES), Paravia Bruno Mondadori (PBM), Chancery and PowerSchool together with a number of smaller acquisitions all made in the first half of 2006 and from a full year contribution from AGS Publishing, acquired in July 2005. Offsetting these factors was the effect of the weakening of the US dollar, which we estimate reduced sales by £17m when compared to the equivalent figures at constant 2005 exchange rates.

In the US school market, Pearson s school publishing revenues grew 3% against the Association of American Publishers estimate of a decline in the industry of 6%. New adoption market share was 33% in the adoptions where Pearson competed (and 30% of the total new adoption market). The School business now has the number one or number two market share in reading, math, science and social studies. US School testing sales were up in the high single digits even after growth in excess of 20% in 2005. School testing benefited from further contract wins, market share gains and leadership in onscreen marking, online testing and embedded (formative) assessment. The acquisition of NES providing customized assessments for teacher certification in the US has allowed us to expand in an attractive adjacent market. The School technology business grew both through the acquisitions of Chancery and PowerSchool and through organic growth in the digital curriculum business which continued to grow while investing in a new generation of digital products to meet the demands of school districts for personalized classroom learning.

The international School business, outside the US, continued to grow. The international testing business was again able to benefit from technology leadership. In the UK, we have marked over 9 million GCSE, AS and A-Level scripts, 4.6 million of which were marked on screen. In School publishing, the launch in the UK of ActiveTeach technology providing multimedia teaching resources has brought increased market share in math and science. The acquisition of PBM, one of Italy s leading education publishers, has allowed us to expand our existing Italian business and integrate publishing, sales and marketing, distribution and back office operations. Our market leading school companies in Hong Kong and South Africa both outperformed their respective markets in 2006 and our worldwide English Language Training program for elementary schools, *English Adventure* (with Disney), was successfully launched in Asia and Latin America.

School margins improved again in 2006 and were up by 1.2% points to 12.6% with continued efficiency gains in central costs, production, distribution and software development.

Higher Education

Sales in Higher Education increased by £16m, or 2%, to £795m in 2006, from £779m in 2005. Adjusted operating profit increased by £5m, or 3%, to £161m in 2006 from £156m in 2005. Both sales and adjusted operating profit were affected by the weakening of the US dollar which reduced sales by £8m when compared to the equivalent figures at constant 2005 exchange rates.

In the US, the Higher Education sales were up by 4% (in US dollars) ahead of the Association of American Publishers estimate of industry growth once again. Over the past eight years, Pearson s US Higher Education business has grown at an average annual rate of 7% compared to the industry s average growth rate of 4%. In the US, there was rapid growth in the online learning businesses with approximately 4.5 million US college students using one of our online programs. Of these approximately 2.3 million register for an online course on one of our MyLab online homework and assessment programs, an increase of almost 30% on 2005. In psychology and economics, two of the three largest markets in US higher education, Pearson published successful first edition bestsellers: Cicarrelli s *Psychology* together with MyPsychLab and Hubbard s *Economics* together with MyEconLab. Cicarrelli s *Psychology* increased Pearson s market share in the subject by 3% to 25% and was the bestselling launch of a first edition in the discipline in the past decade. Also in the US, the custom publishing business, which builds customized textbooks and online services around the courses of individual faculties or professors, continued its strong progress with another year of double-digit growth.

International Higher Education publishing sales grew by 3%, benefiting from good growth in local language publishing programs and an increasing focus on custom publishing and technology based assessment services with the MyLab suite of products.

Higher Education margins remained constant year on year with only a small increase of 0.3% points to 20.3% in 2006.

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Professional

After excluding sales and adjusted operating profit from Government Solutions and the Data Management businesses which were reported as discontinued, Professional sales increased by £42m, or 18%, to £280m in 2006 from £238m in 2005. Adjusted operating profit from continuing operations increased by £15m to £25m in 2006, from £10m in 2005. Sales were only slightly affected by the weakening US dollar, which we estimate reduced sales by £1m when compared to the equivalent figures at constant 2005 exchange rates.

Professional testing sales were up more than 30% in 2006 benefiting in particular from the acquisition of Promissor and the successful start-up of the Graduate Management Admissions Test with 220,000 examinations delivered in 400 test centers in 96 countries during the first year of the new contract. Professional Testing has moved into profitability in 2006 compared to a break-even position in 2005. Technology publishing profits were up in 2006 as cost actions offset sales weakness in a market that continues to decline. There was a strong performance in other professional publishing with particular successes in the Wharton School Publishing and FTPress imprints.

Overall margins in the Professional business were significantly higher at 8.9% in 2006 compared to 4.2% in 2005 as the testing business moved into profitability and the technology publishing business took specific cost actions.

FT Publishing

After excluding sales and adjusted operating profit from Les Echos which was reported as discontinued, sales at FT Publishing increased by £31m or 12%, from £249m in 2005 to £280m in 2006. Adjusted operating profit from continuing operations increased by £10m, from £17m in 2005 to £27m in 2006. Much of the sales and profit increase was again at the FT newspaper and FT.com where sales were up 8% and profit increased by £9m to £11m.

The FT newspaper advertising revenues were up 9% for the year with rapid growth in online, luxury goods and corporate finance categories, all up more than 30% on 2005. FT worldwide circulation was up 1% to 430,469 copies per day (Source: ABC, average for six months to December 2006). FT.com s paying subscribers were up 7% to 90,000 while the December audience was up 29% to 4.2 million. The FT continued to benefit from international expansion with approximately three-quarters of the FT s advertising booked in two or more international editions and almost half booked for all four editions worldwide. The FT s new newsroom has created an integrated multi-media newsroom that improves commissioning, reporting, editing and production efficiency and provided further cost savings in 2006.

In September 2006, the FT Publishing business acquired Mergermarket, an online financial data and intelligence provider that contributed additional sales and profit in the last three months of 2006. FT Business showed good growth and improved margins driven by strong performances in events, UK retail financial titles (*Investment Adviser* and *Financial Adviser*) and internationally with *The Banker*. *The Economist*, in which Pearson owns a 50% stake, increased its contribution to FT Publishing s adjusted operating profit with another good year that saw circulation increase by 9% to 1.2 million (for the July-December ABC period).

Overall margins at FT Publishing continued to increase as the newspaper became more profitable and were 9.6% compared to 6.8% in 2005.

Interactive Data

Interactive Data, grew its sales by 12% from £297m in 2005 to £332m in 2006. Adjusted operating profit grew by 11% from £80m in 2005 to £89m in 2006. Both sales and adjusted operating profit were affected by the weakening US dollar, which reduced sales by £4m and adjusted operating profit by £1m when compared to the equivalent figures at constant 2005 exchange rates.

Interactive Data Pricing and Reference Data (formerly FT Interactive Data), Interactive Data s largest business (approximately two-thirds of Interactive Data revenues) generated strong growth in North America and Europe. Growth was driven by sustained demand for fixed income evaluated pricing services and related reference data. Interactive Data Pricing and Reference Data continued to expand its market coverage, adding independent valuations of credit default swaps and other derivative securities. There was improved momentum at Interactive

Data Real-Time Services (formerly Comstock) with new sales to institutional clients and lower cancellation rates and also at eSignal with continued growth in its base of direct subscription terminals. The acquisition of Quote.com in March 2006 has expanded eSignal s suite of real-time market data platforms and analytics and added two financial websites which enabled eSignal to generate strong growth through online advertising in 2006. IS.Teledata, acquired at the end of 2005 and rebranded Interactive Data Managed Solutions, contributed a full year of sales and profit for the first time in 2006.

Interactive Data margins remained roughly constant year on year at 26.8% in 2006 compared to 26.9% in 2005.

The Penguin Group

Penguin Group sales were up 5% to £848m in 2006 from £804m in 2005 and adjusted operating profit up 10% to £66m in 2006 from £60m in 2005. Both sales and adjusted operating profit were affected by the weakening US dollar which reduced sales by £13m and adjusted operating profit by £7m when compared to the equivalent figures at constant 2005 exchange rates.

2006 was a record year for Penguin in terms of literary success and bestseller performance. In the US, Penguin placed 139 books on the *New York Times* bestseller list, 10 more than in 2005, and kept them there for 809 weeks overall, up 119 weeks from 2005. Penguin UK placed 59 titles in the BookScan Top Ten bestseller list, up by 5 from 2005, and kept them there for 361 weeks, up 42 weeks from 2005.

Penguin authors won a large number of prestigious awards during 2006: a Pulitzer Prize for Fiction (*March* by Geraldine Brooks); a National Book Critics Circle Award (*THEM: A Memoir of Parents* by Francine du Plessix Gray); the Michael L. Printz award (*Looking for Alaska* by John Green); the Orange Prize for Fiction (*On Beauty* by Zadie Smith); and the Man Booker Prize (*The Inheritance of Loss* by Kiran Desai).

Penguin UK s focus on fiction in 2006 was rewarded with a substantial increase in market share, led by Marina Lewycka s *A Short History of Tractors in Ukrainian.* In the US, the premium paperback format accelerated revenue growth and increased profitability in the important mass-market category. In India, Penguin continued its rapid growth and extended its market leadership and there was also strong growth and increased market share for Penguin in South Africa. 2006 also saw strong growth in online revenues and unique visitors to the Penguin and DK websites.

Penguin continued to focus on efficiency and improvement in operating margins and has benefited from the Pearson-wide renegotiation of major global paper, print and binding contracts, the integration of warehouse and back office operations in Australia and New Zealand and is investing in India as a pre-production and design center for reference titles.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations increased by £38m (or 6%), to £659m in 2007 from £621m in 2006, even after a one-off special contribution of £100m to our UK pension fund (over and beyond the normal funding requirement). This increase reflected stronger cash contributions from all businesses, together with further improvements in working capital management. In 2007, the average working capital to sales ratio for our book publishing businesses improved to 25.6% from 26.3% in 2006. Average working capital is the average month end balance in the year of inventory (including pre-publication), receivables and payables. In 2006, the net cash generated from operations decreased by £32m, or 5%, to £621m, from £653m in 2005. This reduction was entirely due to the weakening of the US dollar compared to sterling. The majority of the Group s cash flows arise in US dollars, so any weakening of the US dollar reduces the Group s cash flows in sterling terms. The closing rate for translation of dollar cash flows was $1.99 in 2007, $1.96 in 2006 ($1.72 in 2005). Underlying working capital efficiency continued to improve. On an average basis, the working capital to sales ratio for our book publishing businesses improved from 27.4% in 2005 to 26.3% in 2006.

Net interest paid was £90m in 2007 compared to £82m in 2006 and £72m in 2005. The 10% increase in 2007 over 2006 was primarily due to higher average interest rates in the UK and US. The 14% increase in 2006 over 2005

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reflected the higher average debt resulting from the acquisitions made in the year and higher interest rates (particularly in the US).

Capital expenditure on property, plant and equipment was £86m in 2007 compared to £68m in 2006 and £76m in 2005. The increase in 2007 over 2006 reflects investment to update infrastructure, particularly at Penguin and FT Group. The reduction in 2006 compared to 2005 was due to the movement in US dollar exchange rates.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £476m in 2007 against £367m in 2006 and £253m in 2005. The principal acquisitions in 2007 were Harcourt Education International for £155m and eCollege for £266m. In 2006, the principal acquisition was of Mergermarket for £109m. The balance related to various smaller bolt-on acquisitions (primarily in the school segment) including those of National Evaluation Systems and Paravia Bruno Mondadori. The principal acquisitions in 2005 were of AGS for £161m within the School business and IS. Teledata for £29m by Interactive Data.

The sale of subsidiaries and associates produced a cash inflow of £469m in 2007 against £10m in 2006 and £430m in 2005. The principal disposals in 2007 were of Government Solutions for £278m and Les Echos for £156m. The disposal in 2006 relates entirely to the proceeds from the take-up of share options issued to minority shareholders. The principal disposals in 2005 were of Recoletos for net cash proceeds of £371m and MarketWatch for net cash proceeds of £54m.

The cash outflow from financing activities of £444m in 2007 represented the higher Group dividend (as the Group sought to match dividend growth more closely with earnings growth) and the repayment of one 591m bond, offset in part by drawings on the Group s revolving credit facility. The cash outflow from financing of £348m in 2006 primarily reflects the payment of the Group dividend (at a higher dividend per share than 2005) and the repayment of a $250m bond at its maturity date. The cash outflow from financing of £321m in 2005 reflects the improved Group dividend (compared to 2004) and the repayment of bank borrowings following the sale of Recoletos.

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, 2007, our net debt was £973m compared to net debt of £1,059m at December 31, 2006. Net debt is defined as all short-term, medium-term and long-term borrowing (including finance leases), less all cash, cash equivalents and liquid resources. Cash equivalents comprise short-term deposits with a maturity of up to 90 days, while liquid resources comprise short-term deposits with maturities of more than 90 days and other marketable instruments which are readily realizable and held on a short-term basis. Short-term, medium-term and long-term borrowing amounted to £1,608m at December 31, 2007, compared to £1,743m at December 31, 2006. At December 31, 2007, cash and liquid resources were £560m, compared to £592m at December 31, 2006.

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Contractual obligations

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

	At December 31, 2007				
	Total £m	Less than one year £m	One to two years £m	Two to five years £m	After five years £m
Gross borrowings:					
Bank loans, overdrafts and commercial paper	444	444			
Variable rate loan notes					
Bonds	1,150	105	176	264	605
Lease obligations	1,353	123	116	280	834
Total	**2,947**	**672**	**292**	**544**	**1,439**

At December 31, 2007 the Group had capital commitments for fixed assets, including finance leases already under contract, of £3m (2006: £nil). 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

The Group finances its 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 have in place two committed revolving credit facilities. The first is a $1.75bn revolving credit facility, of which $92m matures in May 2011 and the balance of $1.658bn matures in May 2012. The second facility is a $975m revolving credit facility, which has been amended since the balance sheet date and, assuming the company exercises its extension option, matures in December 2008. The company has a further option to extend $300m of the $975m facility to September 2009. At December 31, 2007, approximately $1.31bn and $695m were available under these facilities respectively. This included allocations to refinance short-term borrowings not directly drawn under the facility. Both credit facilities contain the same 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, tax and amortization 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.

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Treasury policy

Our treasury policy is described in note 15 of Item 18. Financial Statements . 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 2007, 2006 or 2005. Refer to note 36 in Item 18. Financial Statements .

Accounting principles

For a description of our principal accounting policies used refer to note 1 in Item 18. Financial Statements .

ITEM 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

Directors and senior management

We are managed by a board of directors and a chief executive who reports to the board and manages through a management committee. We refer to the board of directors and the chairman of the board of directors as our senior management .

The following table sets forth information concerning senior management, as of April 2008.

Name	Age	Position
Glen Moreno	64	Chairman
Marjorie Scardino	61	Chief Executive
David Arculus	61	Non-executive Director
David Bell	61	Director for People
Terry Burns	64	Non-executive Director
Patrick Cescau	59	Non-executive Director
Rona Fairhead	46	Chairman and Chief Executive, The FT Group
Robin Freestone	49	Chief Financial Officer
Susan Fuhrman	64	Non-executive Director
Ken Hydon	63	Non-executive Director
John Makinson	53	Chairman and Chief Executive, Penguin Group

Glen Moreno was appointed chairman of Pearson on October 1, 2005. He is the senior independent director of Man Group plc and a director of Fidelity International Limited.

Marjorie Scardino joined the board and became chief executive in January 1997. She is a member of Pearson s nomination committee. She trained and practiced as a lawyer and was chief executive of The Economist Group from 1993 until joining Pearson. She is also a non-executive director of Nokia Corporation and a director of several charitable organizations.

David Arculus became a non-executive director in February 2006 and currently serves on the audit and nomination committees and as chairman of the personnel committee. He is a non-executive director of Telefonica SA, and was previously chairman of O2 plc from 2004 until it was acquired by Telefonica at the beginning of 2006. His previous roles include chairman of Severn Trent plc and IPC Group, chief operating officer of United Business Media plc and group managing director of EMAP plc.

David Bell became a director in March 1996. He was appointed Pearson s director for people with responsibility for finding, keeping, rewarding and inspiring our employees across the Pearson Group. He is chairman of the *Financial Times* and Sadler s Wells Theatre. He is also chairman of Crisis, a charity for the homeless and The Institute for War and Peace Reporting.

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Terry Burns became a non-executive director in May 1999 and the senior independent director in February 2004. He currently serves on the nomination and personnel committees. He was the UK government s chief economic advisor from 1980 until 1991 and Permanent Secretary of HM Treasury from 1991 until 1998. He is chairman of Abbey National plc and Glas Cymru Limited and a non-executive director of Banco Santander Central Hispano. He has been chairman of Marks and Spencer Group plc since July 2006, having previously been deputy chairman from October 1, 2005.

Patrick Cescau became a non-executive director in April 2002. He joined the audit committee in January 2005, and is also a member of the nomination committee. He is currently group chief executive of Unilever.

Rona Fairhead became a director and was appointed chief financial officer of Pearson in June 2002, having previously served as deputy finance director from October 2001. She was appointed chief executive of the FT Group on June 12, 2006 and chairman of Interactive Data in September 2007. From 1996 until 2001, she worked at ICI plc, where she served as executive vice president, group control and strategy, and as a member of the executive committee from 1998. Prior to that, she worked for Bombardier Inc. in finance, strategy and operational roles. She is a non-executive director of HSBC Holdings plc and chairs the HSBC audit committee.

Robin Freestone became a director of Pearson and was appointed chief financial officer on June 12, 2006, having previously served as deputy chief financial officer since 2004. He was previously group financial controller of Amersham plc (now part of GE), having joined Amersham as chief financial officer of their health business in 2000. He is also a non-executive director and founder shareholder of eChem Limited.

Susan Fuhrman became a non-executive director in July 2004. She is a member of the audit and nomination committees. She is president of Teachers College at Columbia University, America s oldest and largest graduate school of education having previously been Dean of the Graduate school of Education at the University of Pennsylvania. She is a member of the Board of Trustees of the Carnegie Foundation for the Advancement of Teaching and an officer of the National Academy of Education.

Ken Hydon became a non-executive director in February 2006 and currently serves on the nomination committee and as chairman of the audit committee. He is a non-executive director of Tesco plc, Reckitt Benckiser plc and Royal Berks NHS Foundation Trust. He was previously finance director of Vodafone Group plc and of subsidiaries of Racal Electronics.

John Makinson became chairman of the Penguin Group in May 2001 and its chief executive officer in June 2002. He served as Pearson s finance director from March 1996 until June 2002. He is also chairman of the Institute of Public Policy Research and a director of The International Rescue Committee (UK).

New Appointments

Effective May 1, 2008, Pearson is making the following appointments to the board:

Coimbatore Krishnarao Prahalad is the Paul and Ruth McCracken distinguished University Professor of Corporate Strategy at the University of Michigan Ross School of business. He will serve as a non-executive director.

Will Ethridge is the chief executive of Pearson s North American education business, spanning School, Higher Education and Professional publishing, assessment, technology and services. He will serve as an executive director.

Compensation of senior management

It is the role of the personnel committee (the Committee) to approve the remuneration and benefits packages of the executive directors, the chief executives of the principal operating companies and other members of the Pearson Management Committee. The Committee also takes note of the remuneration for those executives with base pay over a certain level, representing approximately the top 50 executives of the company.

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Remuneration policy

Pearson seeks to generate a performance culture by operating incentive programs that support its business goals and reward their achievement. It is the company s policy that total remuneration (base compensation plus short and long-term incentives) should reward both short and long-term results, delivering competitive rewards for target performance, but outstanding rewards for exceptional company performance. Performance conditions for the company s various performance-related annual or long-term incentive plans are linked to the company s strategic objectives and aligned with the interests of shareholders. Share ownership is encouraged throughout the company.

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different objectives. Base salary reflects competitive market level, role and individual contribution. Annual incentives motivate the achievement of annual strategic goals. Bonus share matching encourages executive directors and other senior executives to acquire and hold Pearson shares and aligns executives and shareholders interests. Long-term incentives drive long-term earnings and share price growth and value creation and align executives and shareholders interests.

Consistent with its policy, the Committee places considerable emphasis on the performance-linked elements i.e. annual incentives, bonus share matching and long-term incentives.

The Committee will continue to review the mix of fixed and performance-linked remuneration on an annual basis, consistent with its overall philosophy.

Our policy is that the remuneration of the executive directors should be competitive with those of directors and executives in similar positions in comparable companies. We use a range of UK companies in different sectors including the media sector. Some are of a similar size to Pearson, while others are larger, but the method which the Committee s independent advisers use to make comparisons on remuneration takes this into account. All have very substantial overseas operations. We also use selected media companies in North America. We use these companies because they represent the wider executive talent pool from which we might expect to recruit externally and the pay market to which we might be vulnerable if our remuneration was not competitive.

Base salary

Our normal policy is to review salaries annually, taking into account the remuneration of directors and executives in similar positions in comparable companies, individual performance and levels of pay and pay increases throughout the company.

Allowances and benefits

It is the company s policy that its benefit programs should be competitive in the context of the local labor market, but as an international company we require executives to operate worldwide and recognize that recruitment also operates worldwide.

Annual incentives

The Committee establishes the annual incentive plans for the executive directors and the chief executives of the company s principal operating companies, including performance measures and targets.

The financial performance measures relate to the company s main drivers of business performance at both the corporate and operating company level. Performance is measured separately for each item. For each performance measure, the Committee establishes thresholds, target and maximum levels of different levels of payout.

With the exception of the chief executive, 10% of the total annual incentive opportunity for the executive directors and other members of the Pearson Management Committee is based on performance against personal objectives as agreed with the chief executive.

For 2008, the financial performance measures for Pearson plc are sales, growth in underlying adjusted earnings per share for continuing operations at constant exchange rates, average working capital as a ratio to sales and operating cash flow. For subsequent years, the measures will be set at the time.

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For 2008, the Committee has reviewed the structure for annual incentives for executive directors other than the chief executive. Previously, this has expressed individual annual incentive opportunities by reference to base salary. In future, starting in 2008, these incentive opportunities will be expressed as absolute cash amounts. The Committee with the advice of the chief executive will determine the aggregate level of annual incentives and individual incentive opportunities taking into account all relevant factors. These factors may include the profitability of the company, individual roles and responsibilities, market annual incentive levels, and the performance required to achieve the maximum payout. In aggregate, the target individual incentive opportunities for the chief executive will be up to 0.4% of operating profit in the company s operating plan each year.

For 2008, there is no change to the incentive opportunity for the chief executive which remains at 100% of base salary and 150% of salary at maximum. The average target individual incentive opportunity for the other executive directors is £381,000 (compared to £345,000 in 2007) and the maximum is twice target (as in 2007).

The annual incentive plans are discretionary and the Committee reserves the right to make adjustments to payouts up or down taking into account exceptional factors in line with the Committee s existing policy.

The Committee will continue to review the annual incentive plans each year and to revise the performance measures, targets and individual incentive opportunities in light of current conditions.

Annual incentive payments do not form part of pensionable earnings.

For 2007, annual incentives for Marjorie Scardino, David Bell and Robin Freestone were based on the financial performance of Pearson plc. In the case of John Makinson, 60% of his annual incentive was based on the performance of Penguin Group and 30% on the financial performance of Pearson plc. In the case of Rona Fairhead, 60% of her annual incentive was based on the financial performance of FT Group and 30% on the financial performance of Pearson plc. In the case of David Bell, Rona Fairhead, Robin Freestone and John Makinson, 10% of their annual incentives was based on performance against personal objectives.

For Pearson plc, the performance measures were adjusted sales, earnings per share growth, average working capital to sales ratio and operating cash flow. Adjusted sales at £4,218m were above target but below maximum. Average working capital as a ratio to sales, operating cash flow of £684m and underlying growth in adjusted earnings per share at constant exchange rates consistent with reported adjusted earnings per share of 46.7p were all above maximum.

For FT Group, the performance measures were sales, operating profit and operating cash flow. Sales were above target but below maximum. Operating profit and operating cash flow were above maximum.

For Penguin Group, the performance measures were sales, operating margin, average working capital as a ratio to sales and operating cash flow. Performance across all measures was above maximum.

None of the executive directors was directly covered by the plans for the education businesses where the same performance measures applied.

Bonus share matching

We are asking shareholders by separate resolution to approve the renewal of the annual bonus share matching plan first approved by shareholders in 1998. The Committee has reviewed the operation of this plan since its introduction. Taking into account how plans of this type have evolved, we are seeking to renew the plan on broadly similar terms. We are proposing certain changes that we think are consistent with market practice, will simplify the plan and enhance take-up, particularly in our key market.

Subject to shareholders approval, the renewed annual bonus share matching plan will operate in 2008 in respect of annual incentives for 2007. The plan will continue to permit executive directors and senior executives around the company to invest up to 50% of any after-tax annual bonus in Pearson shares.

If the participant s invested shares are held, they will be matched subject to earnings per share growth over the three-year performance period on a gross basis up to a maximum of one matching share for every one held i.e. the number of matching shares will be equal to the number of shares that could have been acquired with the amount of the pre-tax annual bonus taken in invested shares.

One matching share for every two invested shares held i.e. 50% of the maximum matching award, will be released if the company s adjusted earnings per share increase in real terms by 3% per annum compound over the three-year performance period. One matching share for every one invested share held i.e. 100% of the maximum matching award, will be released if the company s adjusted earnings per share increase in real terms by 5% per annum compound over the same period.

For real growth in adjusted earnings per share of between 3% and 5% per annum compound, the rate at which the participant s invested shares will be matched will be calculated according to a straight-line sliding scale.

Real growth is calculated by reference to the UK Government s Index of Retail Prices (All Items). We choose to test our earnings per share growth against UK inflation over three years to measure the company s financial progress over the period to which the entitlement to matching shares relates.

Where matching shares vest in accordance with the plan, a participant will also receive dividend shares representing the gross value of dividends that would have been paid on the matching shares during the holding period and re-invested.

The long-term incentive plan

At the annual general meeting in April 2006, shareholders approved the renewal of the long-term incentive plan first introduced in 2001.

Executive directors, senior executives and other managers are eligible to participate in the plan which can deliver restricted stock and/or stock options. The aim is to give the Committee a range of tools with which to link corporate performance to management s long-term reward in a flexible way. It is not the Committee s intention to grant stock options in 2008.

Restricted stock granted to executive directors vests only when stretching corporate performance targets over a specified period have been met. Awards vest on a sliding scale based on performance over the period. There is no retesting. The Committee determines the performance measures and targets governing an award of restricted stock prior to grant.

The performance measures that have applied since 2006 and that will apply for 2008 and subsequent awards for the executive directors are focused on delivering and improving returns to shareholders. These are relative total shareholder return, return on invested capital and earnings per share growth.

Pearson wishes to encourage executives and managers to build up a long-term holding of shares so as to demonstrate their commitment to the company. To achieve this, for awards of restricted stock that are subject to performance conditions over a three-year period, 75% of the award vests at the end of the three-year period. The remaining 25% of the award only vests if the participant retains the after-tax number of shares that vest at year three for a further two years.

Restricted stock may be granted without performance conditions to satisfy recruitment and retention objectives. Restricted stock awards that are not subject to performance conditions will not be granted to any of the current executive directors.

Where shares vest, participants receive additional shares representing the gross value of dividends that would have been paid on these shares during the performance period and reinvested. The expected value of awards made on this basis take this into account.

The Committee establishes each year the expected value of individual awards taking into account assessments by the Committee s independent advisers of market practice for comparable companies, directors total remuneration relative to the market. In establishing the expected value of individual awards, the Committee also has regard to the face value of the awards and their potential value should the performance targets be met in full.

In any rolling 10-year period, no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson s share plans, and no more than 5% of Pearson equity will be issued, or be capable of being issued, under executive or discretionary plans.

Shareholding policy

As previously noted, in line with the policy of encouraging widespread employee ownership, the company encourages executive directors to build up a substantial shareholding in the company.

Given the share retention features of the annual bonus share matching and long-term incentive plans and the volatility of the stock market, we do not think it is appropriate to specify a particular relationship of shareholding to salary.

Service agreements

In accordance with long established policy, all continuing executive directors have rolling service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues until retirement. These service agreements provide that the company may terminate these agreements by giving 12 months notice, and in some instances they specify the compensation payable by way of liquidated damages in circumstances where the company terminates the agreements without notice or cause. We feel that these notice periods and provisions for liquidated damages are adequate compensation for loss of office and in line with the market. The compensation payable in these circumstances is typically 100% of annual salary, 100% of other benefits and a proportion of potential bonus.

Retirement benefits

Executive directors participate in the pension arrangements set up for Pearson employees. Marjorie Scardino, John Makinson, Rona Fairhead and Robin Freestone will also have other retirement arrangements because of the cap on the amount of benefits that can be provided from the arrangements in the US and the UK.

The pension arrangements for all the executive directors include life insurance cover while in employment, and entitlement to a pension in the event of ill-health or disability. A pension for their spouse and/or dependants is also available on death.

In the US, the defined benefit arrangement is the Pearson Inc. Pension Plan. This plan provides a lump sum convertible to a pension on retirement. The lump sum accrued at 6% of capped compensation until December 31, 2001 when further benefit accruals ceased. Normal retirement is age 65 although early retirement is possible subject to a reduction for early payment. No increases are guaranteed for pensions in payment. There is a spouse s pension on death in service and the option to provide a death in retirement pension by reducing the member s pension.

The defined contribution arrangement in the US is a 401(k) plan. At retirement, the account balances will be used to provide benefits. In the event of death before retirement, the account balances will be used to provide benefits for dependants.

In the UK, the pension plan is the Pearson Group Pension Plan and executive directors participate in either the Final Pay or the Money Purchase 2003 section. Normal retirement age is 62 but, subject to company consent, retirement is currently possible after age 50. The accrued pension is reduced on retirement prior to age 60. Pensions in payment are guaranteed to increase each year at 5% or the increase in the Index of Retail Prices, if lower. Pensions for a member s spouse, dependant children and/or nominated financial dependant are payable in the event of death.

Members of the Pearson Group Pension Plan who joined after May 1989 are subject to an upper limit of earnings that can be used for pension purposes, known as the earnings cap. This limit, £108,600 as at April 6, 2006, was abolished by the Finance Act 2004. However the Pearson Group Pension Plan has retained its own cap , which will increase annually in line with the UK Government s Index of Retail Prices (All Items). The cap was £112,800 as at April 6, 2007.

In response to the UK Government s plans for pensions simplification and so-called A-Day effective from April 2006, UK executive directors and other members of the Pearson Group Pension Plan who are, or become, affected by the lifetime allowance were offered a cash supplement as an alternative to further accrual of pension benefits on a basis that is broadly cost neutral to the company.

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Marjorie Scardino

Marjorie Scardino participates in the Pearson Inc. Pension Plan and the approved 401(k) plan.

Additional pension benefits will be provided through an unfunded unapproved defined contribution plan and a funded defined contribution plan approved by HM Revenue and Customs as a corresponding plan to replace part of the unfunded plan. The account balance of the unfunded unapproved defined contribution plan is determined by reference to the value of a notional cash account that increases annually by a specified notional interest rate. This plan provides the opportunity to convert a proportion of this notional cash account into a notional share account reflecting the value of a number of Pearson ordinary shares. The number of shares in the notional share account is determined by reference to the market value of Pearson shares at the date of conversion.

David Bell

David Bell is a member of the Pearson Group Pension Plan. He is eligible for a pension of two-thirds of his final base salary at age 62 due to his long service but early retirement before that date is possible, subject to company consent.

Rona Fairhead

Rona Fairhead is a member of the Pearson Group Pension Plan. Her pension accrual rate is 1/30th of pensionable salary per annum, restricted to the plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on her behalf. Since April 2006, she has received a taxable and non-pensionable cash supplement in replacement of the FURBS.

Robin Freestone

Robin Freestone is a member of the Money Purchase 2003 section of the Pearson Group Pension Plan. Company contributions are 16% of pensionable salary per annum, restricted to the plan earnings cap.

Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on his behalf. Since April 2006, he has received a taxable and non-pensionable cash supplement in replacement of the FURBS.

John Makinson

John Makinson is a member of the Pearson Group Pension Plan under which his pensionable salary is restricted to the plan earnings cap. The company ceased contributions on December 31, 2001 to his FURBS arrangement. During 2002 it set up an Unfunded Unapproved Retirement Benefits Scheme (UURBS) for him. The UURBS tops up the pension payable from the Pearson Group Pension Plan and the closed FURBS to target a pension of two-thirds of a revalued base salary on retirement at age 62. The revalued base salary is defined as £450,000 effective at June 1, 2002, increased at January 1 each year by reference to the increase in the UK Government s Index of Retail Prices (All Items). In the event of his death a pension from the Pearson Group Pension Plan, the FURBS and the UURBS will be paid to his spouse or nominated financial dependant. Early retirement is possible from age 50, with company consent. The pension is reduced to reflect the shorter service, and before age 60, further reduced for early payment.

Executive directors non-executive directorships

Our policy is that executive directors may, by agreement with the board, serve as non-executives of other companies and retain any fees payable for their services.

The following executive directors served as non-executive directors elsewhere for the period covered by this report as follows: Marjorie Scardino (Nokia Corporation and MacArthur Foundation); David Bell (VITEC Group plc); Rona Fairhead (HSBC Holdings plc); Robin Freestone (eChem) and John Makinson (George Weston Limited).

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Chairman s remuneration

Our policy is that the chairman s pay should be set at a level that is competitive with those of chairmen in similar positions in comparable companies. He is not entitled to any annual or long-term incentive, retirement or other benefits.

In accordance with the terms of his appointment, the Committee reviewed the chairman s remuneration in 2007. In the light of this review, including a market assessment by Towers Perrin, the board approved the Committee s recommendation that the chairman s remuneration be increased to £450,000 per year with effect from January 1, 2007.

Non-Executive directors

Fees for non-executive directors are determined by the full board having regard to market practice and within the restrictions contained in Pearson s articles of association. Non-executive directors receive no other pay or benefits (other than reimbursement for expenses incurred in connection with their directorship of Pearson) and do not participate in the Pearson s equity-based incentive plans.

In 2007, the board reviewed the level and structure of non-executive directors fees which had last been reviewed with effect from January 1, 2005. In the light of this review, which included a market assessment by Towers Perrin, the board agreed an increase in the basic fee, an increase in the fees for Committee chairmanship, audit committee membership, and the senior independent director and the removal of the previous separate fee for overseas meetings.

The level and structure of non-executive directors fee effective from July 1, 2007 is as follows:

	Fees payable from July 1, 2007 (£)
Non-executive director fee	60,000
Chairmanship of audit committee	20,000
Chairmanship of personnel committee	15,000
Membership of audit committee	10,000
Membership of personnel committee	5,000
Senior independent director	15,000

A minimum of 25% of the basic fee is paid in Pearson shares that the non-executive directors have committed to retain for the period of their directorships.

Non-executive directors serve Pearson under letters of appointment and do not have service contracts. There is no entitlement to compensation on the termination of their directorships.

Remuneration of senior management

Excluding contributions to pension funds and related benefits, senior management remuneration for 2007 was as follows:

	Salaries/ Fees £000	Annual incentive £000	Allowances(1) £000	Benefits(2) £000	Total(3) £000
Chairman					
Glen Moreno	450				450
Executive directors					
Marjorie Scardino	900	1,341	52	39	2,332
David Bell	442	650		19	1,111
Rona Fairhead	487	693		27	1,207
Robin Freestone	405	597		15	1,017
John Makinson	507	743	169	29	1,448
Senior management as a group	3,191	4,024	221	129	7,565

Notes:

(1) Allowances for Marjorie Scardino include £41,760 in respect of housing costs and a US payroll supplement of £10,446. John Makinson is entitled to a location and market premium in relation to the management of the business of the Penguin Group in the US and received £168,545 for 2007.

(2) Benefits include company car, car allowance, health care and, for Marjorie Scardino, pension planning and financial advice. Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur.

(3) No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Share options of senior management

This table sets forth for each director the number of share options held as of December 31, 2007 as well as the exercise price, rounded to the nearest whole pence/cent, and the range of expiration dates of these options.

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Director	Number of Options	(1)	Exercise Price	Earliest Exercise Date	Expiry Date
Marjorie Scardino(2)	176,556	a*	973.3p	09/14/01	09/14/08
	5,660	a*	1090.0p	09/14/01	09/14/08
	37,583	c*	1372.4p	06/08/02	06/08/09
	37,583	c*	1647.5p	06/08/02	06/08/09
	41,550	d*	1421.0p	05/09/02	05/09/11
	41,550	d*	1421.0p	05/09/03	05/09/11
	41,550	d*	1421.0p	05/09/04	05/09/11
	41,550	d*	1421.0p	05/09/05	05/09/11
Total	**423,582**				
David Bell	20,496	a*	973.3p	09/14/01	09/14/08
	373	b	507.6p	08/01/08	02/01/09
	297	b	629.6p	08/01/09	02/01/10
	821	b	690.4p	08/01/10	02/01/11
	18,705	c*	1372.4p	06/08/02	06/08/09
	18,705	c*	1647.5p	06/08/02	06/08/09
	16,350	d*	1421.0p	05/09/02	05/09/11
	16,350	d*	1421.0p	05/09/03	05/09/11
	16,350	d*	1421.0p	05/09/04	05/09/11
	16,350	d*	1421.0p	05/09/05	05/09/11
Total	**124,797**				
Rona Fairhead	1,904	b*	494.8p	08/01/07	02/01/08
	2,371	b	690.4p	08/01/12	02/01/13
	20,000	d*	822.0p	11/01/02	11/01/11
	20,000	d*	822.0p	11/01/03	11/01/11
	20,000	d*	822.0p	11/01/04	11/01/11
Total	**64,275**				
Robin Freestone	1,866	b	507.6p	08/01/08	02/01/09
Total	**1,866**				
John Makinson	30,576	a*	973.3p	09/14/01	09/14/08

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