Pearson at a glance

Pearson is an international company with market-leading businesses in education, business information and consumer publishing. We are 37,000 people in more than 60 countries, helping children and adults to learn, business people to make informed decisions and readers of all ages to wind down or wise up with a good book.

Overview | **People** | **Proportion of Pearson revenue**

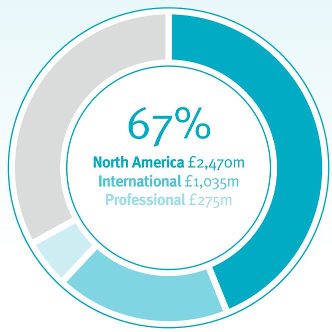
Education

Pearson is the world's leading education company. We provide learning materials, technologies, assessments and services to teachers and students of all ages and in more than 60 countries.

PEARSON

27,000

US 16,400
UK 3,000
RoW 7,600



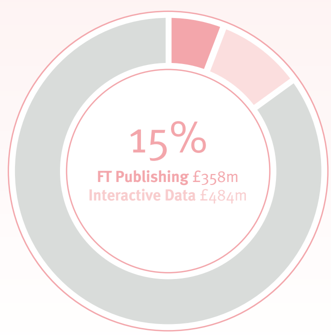
Business information

The FT Group provides news, data, comment and analysis to the international business community. It is known around the world for its independent and authoritative information.

FT

4,800

US 1,900
UK 2,000
RoW 900

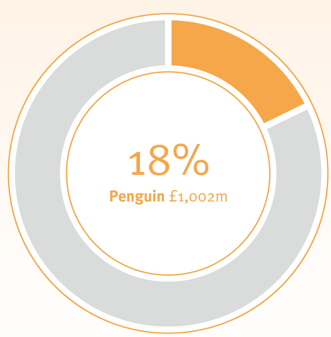


Consumer publishing

Penguin publishes more than 4,000 fiction and non-fiction books each year – on paper, on screens and in audio formats – for readers of all ages. It is one of the world's leading consumer publishing businesses and an iconic global brand.

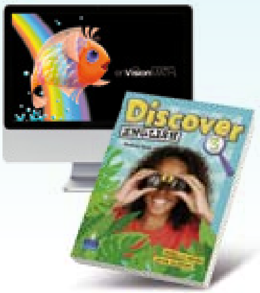
4,200

US 1,900
UK 800
RoW 1,500



Learn more at
www.pearson.com/aboutus

Businesses	**Markets**
We are a leading provider of educational material and learning technologies. We provide test development, processing and scoring services to educational institutions, corporations and professional bodies around the world. We publish across the curriculum under a range of respected imprints including: Scott Foresman, Prentice Hall, Addison-Wesley, Allyn and Bacon, Benjamin Cummings and Longman.	For some years, Pearson has been a leader in education, with leading positions in large developed markets and local publishing centres in more than 30 countries. More recently we have significantly accelerated our international expansion, investing in new education operations in countries including China, India, Southern Africa and Latin America.



See more on **page 16** and at **pearsoned.com**

FT Publishing includes: the *Financial Times* and FT.com; a range of specialist financial magazines and online services; and Mergermarket. Interactive Data is Pearson's 61%-owned provider of specialist financial data to financial institutions and retail investors. The FT Group also has a stake in a number of joint ventures, including those with FTSE International, Vedomosti in Russia, BDFM in South Africa and a 50% stake in The Economist Group.	The *Financial Times* has a network of approximately 600 journalists in 40 countries and a unique model of producing distinctive newspaper editions for Europe, the UK, the US, Asia and the Middle East. FT.com, with nine million unique users and 1.8 million registered users around the world, makes the FT even more widely available.

See more on **page 24** and at **ft.com**

Penguin operates around the world through a series of connected national publishing houses. It publishes under a number of well-known imprints including Putnam, Viking, Allen Lane, Hamish Hamilton, Berkley, the Penguin Press, Puffin and Dorling Kindersley.	Penguin combines a longstanding commitment to local publishing with a determination to benefit from its worldwide scale, a globally recognised brand and growing demand for books in emerging markets. Its largest businesses are in the US, the UK, Australia, Canada, Ireland, India, South Africa and New Zealand.

See more on **page 28** and at **penguin.com**

Financial highlights

In financial terms, Pearson's goal is to achieve sustainable growth on three key financial goals – earnings, cash and return on invested capital – and reliable cash returns to our investors through healthy and growing dividends. In 2009, we reported underlying growth in sales and operating profit, in spite of the exceptionally difficult macroeconomic environment and against record 2008 results. We achieved significant profit growth in education, helping us to grow even though our markets in US school publishing, financial advertising and consumer books were especially challenging.

	2009 £m	2008 £m	Headline growth	CER growth	Underlying growth
Business performance					
Sales	5,624	4,811	17%	4%	2%
Adjusted operating profit	858	762	13%	4%	2%
Adjusted profit before tax	761	674	13%		
Adjusted earnings per share	65.4p	57.7p	13%		
Operating cash flow	913	796	15%		
Total free cash flow	723	631	15%		
Total free cash flow per share	90.5p	79.2p	14%		
Return on invested capital	8.9%	9.2%	(0.3)%pts		
Net debt	1,092	1,460	25%		
Statutory results					
Operating profit	755	676	12%		
Profit before tax	660	585	13%		
Basic earnings per share – continuing	53.2p	47.9p	11%		
Cash generated from operations	1,012	894	13%		
Dividend per share	35.5p	33.8p	5%		

Note Throughout this document (unless otherwise stated), sales and adjusted operating profit growth rates are stated on a constant exchange rate (CER) basis. Where quoted, underlying growth rate exclude both currency movements and portfolio changes. The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes 2, 8 and 31 to the annual report. Adjusted operating profit is stated on a continuing basis.

2009 Sales

£5.6bn

+4%

2009 Adjusted operating profit

£858m

+4%

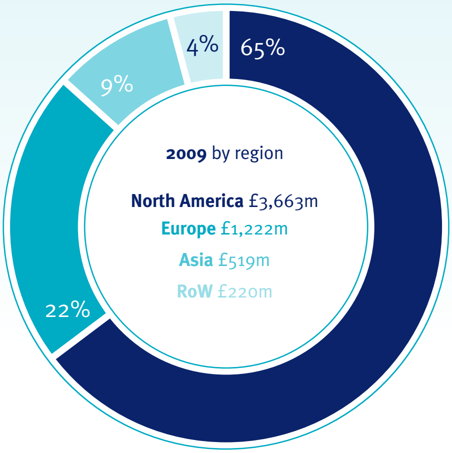
Our record
Average annual growth in headline terms
2004-2009

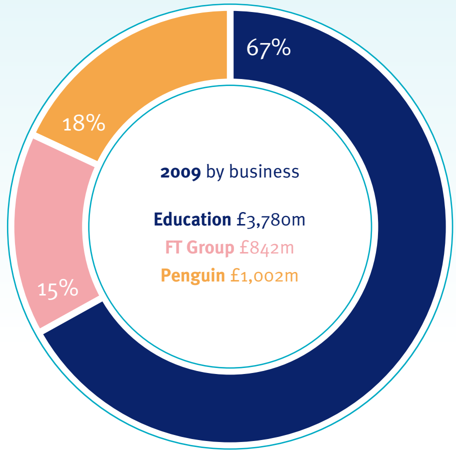
Sales

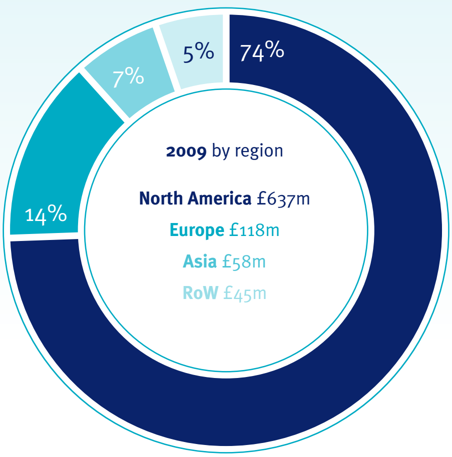
+11%

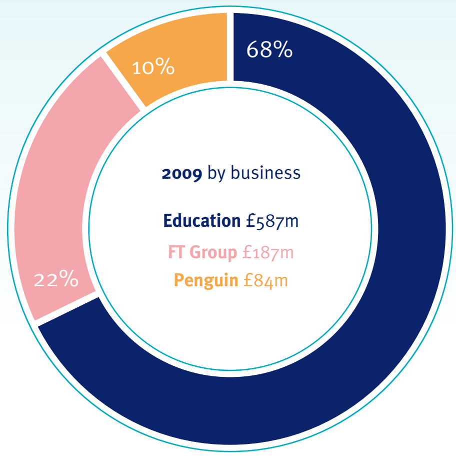
Adjusted operating profit

+19%

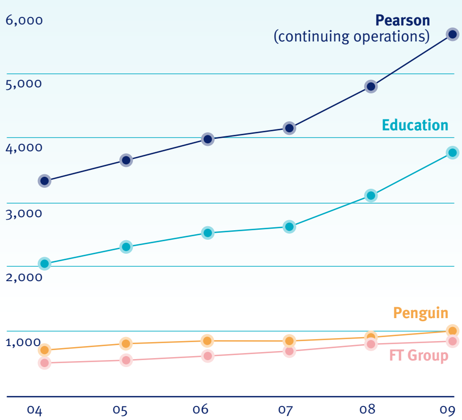




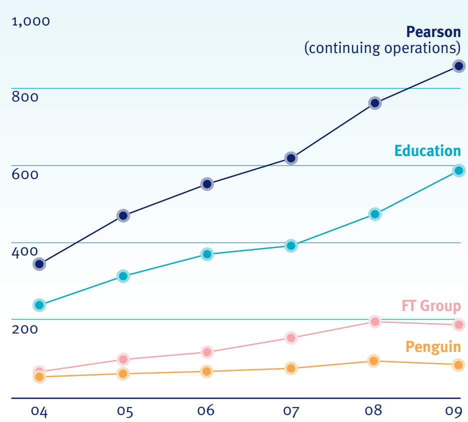




Sales £m



Adjusted operating profit £m



Chairman's statement

Glen Moreno Chairman

Twelve months ago I wrote to you with this very sober assessment:

"None of us is under any illusion: the short-term outlook is tough and 2009 will be a difficult year. All kinds of companies, including our own, will be affected."

In the event, economic conditions were every bit as bad as we feared. But in that challenging environment, **Pearson turned in an excellent performance by any measure.** I attribute this to two things:

Our people, who stayed close to their customers, anticipated significant changes in our markets and worked their socks off;

Our strategy, which we have patiently developed, implemented and invested in over a number of years.

It is worth recalling that, only a decade ago, Pearson was a completely different company. We were the publisher of general interest and sports newspapers in Spain; we were the TV production company behind *The Price is Right* and *Baywatch*; we were a part-owner of the Lazard banking houses. Marjorie and her colleagues had just begun the major move into the global education industry, but had barely articulated the strategy of investing in testing and technology to make learning more personal and more effective.

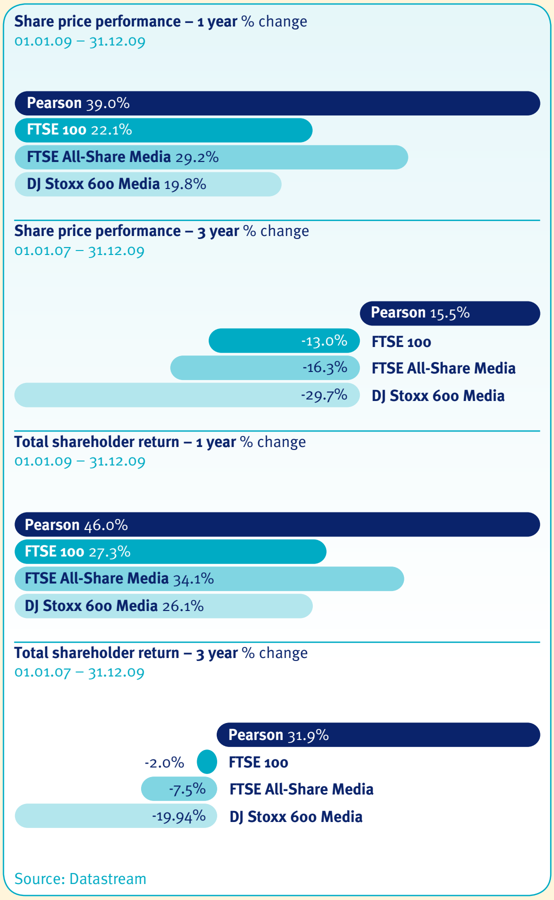
That year, a 'boom' period in the industry, our operating profits were £490m and our education revenues a little over £2bn; last year, in a deep recession, our operating profits were £858m and our education revenues approaching £4bn. The scale of our transformation is striking. It shows that sometimes it pays to take a long-term view.

But more important than our scale alone, we have once again demonstrated our credentials as both a *durable* company and a *growth* company. The financial results for 2009 that are set out elsewhere in this report paint a picture of remarkable performance and resilience in an extremely difficult economic environment.

There is evidence that those qualities were recognised by the market over the course of the past year, and that those who held their Pearson shares through a turbulent period were rewarded. Our shares began 2009 at 641p, and ended the year 39% higher, at close to nine pounds. That increase was well ahead of both the major market indices (the FTSE 100 was up 22%) and the media sector (FTSE All-Share Media index up 29% and DJ Stoxx 600 Media up 20%).

The second element of our return to shareholders – the dividend – was further increased in 2009. So our total shareholder return (which combines both the share price movement and dividends paid) was up 46%. Again, this was significantly ahead of the FTSE 100 (up 27%), the DJ Stoxx 600 Media (up 26%) and the FTSE media sector (up 34%).

Our decade-long transformation was partly the result of some extensive portfolio changes. Over those ten years, we made $4.1bn of disposals and $6.3bn of acquisitions. But underneath those very visible changes, there were some deeply held principles at work. Those are important to understand, because they tell you as much about our future as they do about our past.



First, every part of Pearson has **a relentless focus on the value we provide to our customers** – the learner, the teacher, the reader, the investor, the business person. We know that the ultimate measure of our performance is shareholder value; but we understand we can best deliver shareholder value through helping our customers make progress in their lives.

Second, one driver of our transformation has been to make Pearson **a reliable and resilient company**. Proud as we are of our performance in 2009, what's even more important to us is the long-term *consistency* of our growth. For each of the past six years, we have delivered growth in sales, earnings and cash, through both good markets and bad.

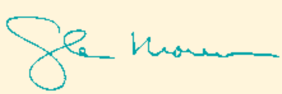
Third, companies can sometimes be defined by what they *don't* do: by **what they choose to avoid**. Because our strategy is about long-term value creation for customers and shareholders, Pearson did not engage in short-term financial engineering. During the credit bubble, we resisted calls to load up our balance sheet with cheap debt and reduce our equity capital. I believe you can attribute a good deal of our financial stability and competitive strength to our determination to stick to the fundamentals and to take a long-term view.

Fourth, that long-term view is accompanied by **a commitment to constant innovation and change**. As you'll read elsewhere in this report, Pearson has become a major innovator and investor in digital technologies – new reading experiences, new learning platforms, applications for new devices, new ways of communicating with and selling to our customers. This represents a profound and disruptive structural change in all our industries; we are encouraged by our progress so far but if we are to remain successful in this new world, we will need to continue to transform ourselves. And we will.

So, the story of 2009 is of a strong business, resolutely pursuing a successful strategy through tough markets and disruptive change.

My personal view is that the prospects for a sustained economic recovery remain fragile. We have to expect a prolonged period of severely restrained government and consumer spending. It's going to be a battle, but one we intend to keep fighting and winning. Pearson is prepared for it, and ready to help people carry on learning whatever the economic weather.

For that, I have to thank our people for their dedication and ingenuity; and our investors for their commitment to the company. As always, I look forward to seeing many of you at our annual meeting.



Glen Moreno Chairman