Our performance: 2009 financial overview

In 2009, Pearson's **sales increased 4%** at constant exchange rates to £5.6bn and **adjusted operating profit 4%** to £858m. Portfolio changes contributed 2% to sales and 2% to operating profit, largely in our education company. In underlying terms (ie, stripping out the benefit of both portfolio changes and currency movements), sales and operating profits increased by 2%.

Currency movements had a significant impact on reported results in 2009, adding £640m to sales and £69m to operating profit and contributing to headline sales and operating profit growth of 17% and 13% respectively. The currency impact was largely the result of the strengthening of the US dollar against sterling: we generated approximately 60% of our sales and profits in US dollars and the average exchange rate strengthened from £1:$1.85 in 2008 to £1:$1.57 in 2009.

Adjusted earnings per share were 65.4p, up 13% on a headline basis.

Operating cash flow increased by £117m to £913m (headline growth of 15%) and total free cash flow by £92m to £723m, or 90.5p per share (headline growth of 14%). **Cash conversion** was once again strong at 106% of operating profit and our ratio of average working capital to sales improved by a further 1.0% point. Our **tax rate** in 2009 was 25.5%, a little lower than in 2008.

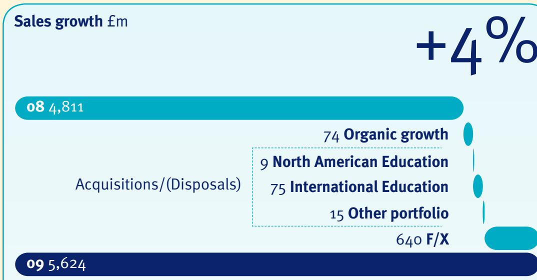
Our **return on average invested capital** showed a headline reduction of 0.3% points to 8.9%, largely due to the impact of transaction foreign exchange on earnings. ROIC remains above our weighted average cost of capital.

Statutory results show an increase of £79m in operating profit to £755m (£676m in 2008). **Basic earnings per share** for continuing businesses were 53.2p in 2009, up from 47.9p in 2008.

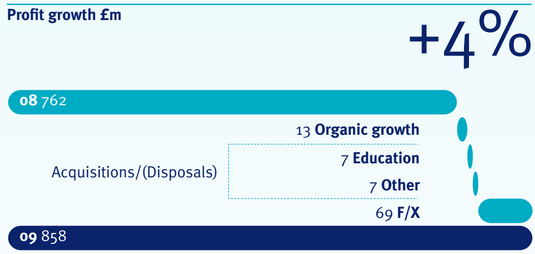
Net debt was £368m lower at £1,092m (£1,460m in 2008). Since 2000, Pearson's net debt/EBITDA ratio has fallen from 3.9x to 1.1x and our interest cover has increased from 3.1x to 8.8x.

Dividend. The board is proposing a dividend increase of 5.0% to 35.5p, subject to shareholder approval. 2009 will be Pearson's 18th straight year of increasing our dividend above the rate of inflation. Over the past five years we have increased our dividend at a compound annual rate of 6%. Our dividend cover is now 1.8x.

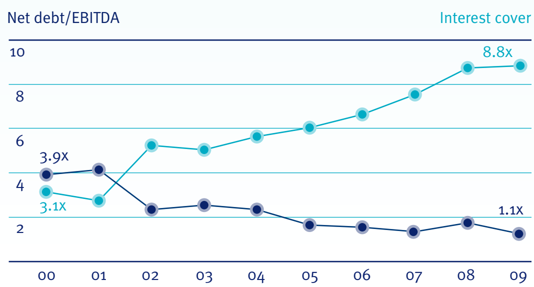
Sales growth £m



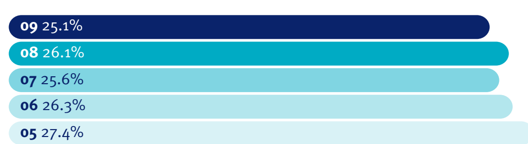
Profit growth £m



Balance sheet strength



Average working capital/sales %



Outlook: 2010

Pearson reported underlying growth in sales and operating profit in 2009, in spite of the exceptionally difficult macroeconomic environment and against record 2008 results. We achieved strong growth in education, helping us to make good financial progress even though our markets in US school publishing, financial advertising and consumer books were especially challenging.

Trading conditions in those tough markets began to ease towards the end of the year, but we are planning on the basis that some of our markets remain subdued throughout 2010. Even so, we expect Pearson to produce another year of underlying profit growth, helped by the overall resilience of our company and good growth prospects for our businesses in digital, services and emerging markets.

In **Education,** we believe that our sustained investment in content and our leadership position in learning services and technologies will enable us to build on our strong market positions. We expect to gain further share in the US School market which will benefit from a stronger adoption opportunity ($850m – $900m) and new federal funds, broadly offset by continued pressure on education funding at the state level. In Higher Education and International Education, we expect to produce further underlying growth and share gains.

At **FT Publishing,** we expect to sustain good renewal rates in our subscription businesses and healthy margins. Advertising revenues (which in 2009 accounted for less than 3% of total Pearson revenues) remain highly unpredictable but we expect to see some stabilisation after the sharp declines across the industry in 2009. **Interactive Data Corporation** expects 2010 revenues to range between $810m to $830m and healthy margins in the 25% to 26% range (guidance under US GAAP). As previously announced, the Board of Interactive Data Corporation is currently undertaking a preliminary review of strategic alternatives for the company.

We expect **Penguin** to post another good competitive performance in the context of a consumer books market that we expect to remain broadly level in 2010. Penguin will benefit from its leading position in the emerging market for eBooks and from the efficiency actions taken in 2009.

Interest and tax. In 2010, we expect our interest charge to adjusted earnings to be broadly level with 2009. We expect our P&L tax charge to be in the 25% to 27% range. We expect our cash tax rate to be around 15%.

Exchange rates. Pearson generates approximately 60% of its sales in the US. In 2009, a 5 cent move in the average £:$ exchange rate for the full year (which in 2009 was £1:$1.57) had an impact of approximately 1.3p on adjusted earnings per share.

North American Education

North American Education is **Pearson's largest business**, with 2009 sales of £2.5bn and operating profit of £403m. Over the past five years, it has increased both sales and profits at a compound annual growth rate of 8%. Building on our roots as a leading publisher of educational materials and provider of assessment services, we have made significant investments and change to transform Pearson into a world-leading provider of learning technologies for students and enterprise technologies for educational institutions.

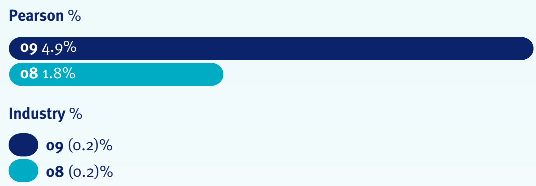
These technology services – including eCollege (3.5m student users in 2009), PowerSchool (8.5m), the MyLabs (6m) and Edustructures (8.1m) – are the backbone of our strategy to help educators raise student performance and institutions to become more effective. We are currently developing a new generation of powerful technologies to integrate student information, assessment, instruction and performance data into connected learning environments, for students and institutions at all levels of education.

In 2009, our combined US school curriculum and higher education businesses grew 5% on an underlying basis, once again outperforming the industry which was flat, according to the Association of American Publishers. We also achieved good margin improvement, benefiting from the growth of our higher education business and the successful integration of the Harcourt Assessment business acquired in 2008.

North American Education: Key performance indicators

£ millions	2009	2008	Headline growth	CER growth	Underlying growth
Sales	2,470	2,002	23%	5%	5%
Adjusted operating profit	403	303	33%	13%	13%

US combined school and college sales growth vs industry



Pearson's total year-on-year sales growth in school and college products in the US versus the year on year sales growth of the total US industry.

Adoption cycle win rates

Pearson's market share by value of new business in the US adoption states. Market share is quoted as a percentage of the total value of adoptions that we participated in.

State and national testing contract win rates

The lifetime value of US school testing contracts won by Pearson this year as a percentage of the total lifetime value of contracts bid for this year.

Online learning users

The number of registrations by students to access one of our US online learning programmes.

The education publishing industry is going through a period of significant structural change driven by the demand for high educational standards and accountability, the shift from print to digital products and a rapidly changing competitive environment.

Though the current economic climate has placed considerable pressure on state and local tax receipts – and therefore education funding – raising student achievement remains a key priority across the political spectrum in the US. In particular, the federal government's education reform proposals contain a range of measures designed to raise standards; use student data to improve classroom instruction; boost the quality of teachers and school leaders; and turn around the lowest-performing schools.

Higher Education Highlights in 2009 include:

The US Higher Education publishing market grew 11.5% in 2009, according to the Association of American Publishers. The industry benefited from strong enrolment growth and federal government action to support student funding.

Pearson grew faster than the industry and outperformed the market for the eleventh straight year, continuing to see strong demand for instructional materials enhanced by technology and customisation.

The MyLabs

Pearson's 'MyLab' digital learning, homework and assessment programmes again grew strongly. Our MyLab products saw **more than 6m student registrations globally, 39% higher than in 2008.** In North America, student registrations grew 37% to more than 5.6m. Evaluation studies show that the use of the MyLab programmes can significantly improve student test scores and institutional productivity.

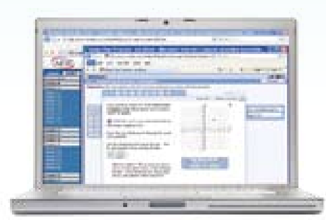
See more at **www.mymathlab.com**

Our sustained investment in content and technology continues to grow existing franchises and build new ones. In Engineering Mechanics, our market leading textbook Hibbeler's *Statics and Dynamics 12th Edition* gained an additional four percentage points of market share with the addition of our newly launched MasteringEngineering digital learning and assessment platform. Pearson became market leader in psychology supported by the recently launched textbook *Psychology 2nd Edition* by Cicarelli with MyPsychLab.

Custom Solutions grew strongly across both bespoke books and customised services including content creation, technology, curriculum, assessments and courseware. We partnered with the Kentucky Virtual Learning Initiative, for example, to deliver personalised mathematics instruction mapped to state college entry standards and have begun to extend this programme into transitional English and Reading.

eCollege

eCollege, our platform for fully-online distance learning in higher education, **increased online enrolments by 36% to 3.5m** and benefited from continued strong renewal rates of approximately 95% by value, new contract wins and strong growth in the usage of the platform, particularly by US for-profit colleges.



Thirteen Pearson higher education and school products in ten categories were nominated as America's best educational software products in the Software & Information Industry Association's 25th Annual CODiE Awards. They include MyMathLab, Miller & Levine Biology, PowerSchool, Prentice Hall Literature, myWorld Geography, MyWritingLab, CourseConnect and eCollege.

North American Education
continued

Assessment and Information
Highlights in 2009 include:

Significant profit increase in Assessment and Information, benefiting from the successful integration of the Harcourt Assessment business acquired in 2008.

Our National Services assessment business renewed its contract with the College Board, worth $210m over 10 years, to process and score the SAT and contracts to support the College Board's new Readi-Step and ACCUPLACER diagnostics programmes.

Our State Services business won a number of significant new contracts including new programmes in Florida and Arizona. We continue to gain share, winning 60% of the contracts bid for by value, and to be a leader in online testing, delivering 9 million secure online assessments in 2009, up more than 100% on 2008.

Our Evaluation Systems teacher certification business secured contract extensions in California, Illinois, Arizona and Washington; won re-bids in Michigan and New York, each for five years; and added new contracts in California and Minnesota.

In Clinical Assessments, our AIMSWeb response-to-intervention data management and progress monitoring service for children who are having difficulty learning, continued to grow and now has more than 3 million students on the system.

Our Edustructures business, which provides interoperable systems to support data collection and reporting between school districts and state governments, doubled the number of students served to 8 million.

Our Student Information Systems (SIS) business continued to grow strongly, benefiting from strong demand for its services that help teachers automate and manage student attendance records, gradebooks, timetables and the like. It supports more than 12 million students – 8 million of them through its flagship PowerSchool product which is now available in more than 50 countries. In 2009 it won contracts for new school districts including Nova Scotia Department of Education (133,000 students), Newark, NJ (45,000 students), and the Hamilton County DOE, TN (40,000 students).

School Curriculum Highlights in 2009 include:

The US School publishing market declined 13.8% in 2009, according to the Association of American Publishers. State budget pressures and a slower new adoption year caused particular weakness in the basal publishing market.

US School publishing

Though Pearson's US School publishing sales declined, **we significantly outperformed the industry and took an estimated 37% of new adoptions competed for** (our highest market share for a decade) and 32% of the total new adoption market.

Pearson's enVisionMATH, an integrated print-and-digital programme, was the **top-selling basal programme in the US in 2009.** It helped Pearson to a market-leading 46% share of all maths adoptions and sold strongly across the open territories.

See more at **www.envisionmath.com**

We successfully launched new blended digital curriculum programmes for the 2010 adoption campaign:

Interactive Science **www.interactivescience.com**

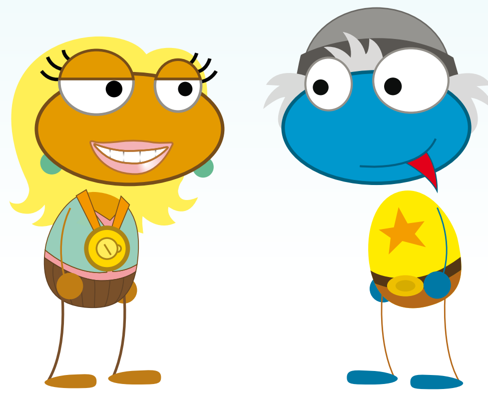
Prentice Hall Mathematics **www.poweralgebra.com/ www.powergeometry.com**

Prentice Hall Literature **www.pearsonschool.com/live/customer_central/microsite/connectedsampling/overview/nat/lit/player.html**

Successnet, our online learning platform for teachers and students which supports Pearson's digital instruction, assessment and remedial programmes, grew strongly, achieving more than 4 million registrations in 2009.

Poptropica

Poptropica became one of the largest virtual worlds for young children in the US, with **unique visitors growing by more than 100%, to almost 70 million,** and the numbers of characters they have created approaching 200m, up 150% on 2008.



See more at **www.poptropica.com**

International Education

Pearson is the **world leader** in education publishing and related services outside North America. Over the past five years, this has been Pearson's fastest-growing business, increasing sales at a headline compound annual growth rate of 17% (from £559m in 2005 to £1,035m in 2009) and operating profit almost three-fold (from £51m in 2005 to £141m in 2009). The business has achieved strong organic growth and successfully integrated a number of acquisitions including Edexcel, Harcourt International and PBM. In 2009 we further extended our international scale, acquiring Wall Street English, a chain of premium English language training centres in China; and investing in vocational training and online learning in India.

Our 2009 results reflect good organic growth, continued investment in bolt-on acquisitions (Maskew Miller Longman, Longman Nigeria and Fronter announced in 2008 and Wall Street English in 2009) and currency movements. Our International Education business operates in 67 countries across the globe and has significant exposure to a wide range of currencies including the US dollar and the euro. In 2009, currency movements boosted revenues by £60m but reduced adjusted operating profits by £17m compared to 2008.

Looking ahead, we expect our International Education businesses to continue to benefit from a series of powerful growth trends: increasing public and private spending on education; growing participation rates in elementary, secondary and higher education; the demand for assessment to provide measures of achievement; the growing technology infrastructure in educational institutions; and the rise of English and other international languages.

International Education: Key performance indicators

£ millions	2009	2008	Headline growth	CER growth	Underlying growth
Sales	1,035	866	20%	13%	4%
Adjusted operating profit	141	135	4%	19%	14%

Online learning users

Registration no.

09 474,068
08 301,931

The number of registrations by students and professors to access one of our International Education online learning programmes.

Online results logins

Logins no.

09 79,751
08 55,244

Number of logins by users of International Education's online results service.

Global Highlights in 2009 include:

'MyLab' digital learning, homework and assessment programmes were used internationally by more than 470,000 students, up almost 60% on 2008, and are now sold in more than 200 countries worldwide.

Pearson Test of English

We launched the Pearson Test of English, our new test of Academic English which will be **delivered in up to 200 Pearson VUE testing centres in 37 countries.** Approximately 1,000 academic programmes worldwide now recognise, or are in the process of recognising, the Pearson Test of English.

Our eCollege learning management system is growing rapidly in international markets, winning new contracts in Australia, Brazil, Mexico, Colombia, Puerto Rico and Saudi Arabia.

Fronter

The Fronter learning management system continued to grow very strongly with **more than 6 million students** in more than 8,000 schools, colleges and Universities around the world.

Our new Pearson Learning Solutions business won its first contracts in the UK, the Gulf and Africa. It combines a broad range of products and services from across Pearson to deliver a systematic approach to improving student performance.

Africa and the Middle East Highlights in 2009 include:

Pearson successfully implemented the Abu Dhabi Education Council's External Measurement of Student Achievement programme covering English, Arabic, Maths and Science in April 2009 and was also contracted by the United Arab Emirates Ministry of Education to deliver the programme in the northern emirates.

In South Africa, Pearson launched Platinum, the first blended print and online course developed for the South African National Curriculum. 7,000 students registered for MyMathLab+, at the University of Witwatersrand, helping raise student pass rates in its initial phase from 31% in the first semester to 60% in the second semester.

Asia and Pacific Highlights in 2009 include:

English language teaching

We acquired Wall Street English, China's leading provider of premium English language training to adults, for $145m. **The combination of Longman Schools and Wall Street English gives Pearson a leading position in the English language teaching market in China,** serving students from elementary school to professional levels.

乐宁教育 Longman Schools

WALL STREET ENGLISH

We stepped up our presence in the Indian education market with two investments totalling $30m: a 50:50 joint-venture with Educomp, called IndiaCan, to offer vocational and skills training through 120 training centres across the country; and a 17.2% stake in TutorVista, which provides online tutoring for K-12 and college students.

International Education
continued

Continental Europe Highlights in 2009 include:

The launch of our digi libre (Content Plus) products helped us to gain share in the lower and upper secondary markets in Italy and positions us well for major curriculum reforms planned for 2010.

In Spain, our sales were down sharply with pressures on central and regional government spending and a worsening retail environment.

Our ELT sales continued to grow in Poland, and across central and Eastern Europe we saw good demand for our publishing and digital resources and our fledgling Language Learning Solutions activities.

Latin America Highlights in 2009 include:

New editions of the proven bestsellers, *BackPack* and *Pockets*, along with the successful launch of two new courses, *CornerStone* and *KeyStone*, helped to deliver strong growth in the sales of ELT materials across Latin America.

In Brazil, which has one of Latin America's largest and fastest-growing university populations, our virtual library now supports 30 post-secondary institutions.

And, in Panama, 75,000 high school students are now learning Biology and Chemistry, using Prentice Hall Virtual Labs.

United Kingdom Highlights in 2009 include:

We received over 3.7 million registrations for vocational assessment and general qualifications. We marked 4.5 million 'A'-level and GCSE scripts on-screen and successfully delivered the 2009 National Curriculum test series and were awarded the contract to administer the 2010 National Curriculum Tests at Key Stage 2.

Our qualifications

We made significant investments in supporting the new Diploma qualification for 14-19 year-olds; the IGCSE qualifications to meet the needs of International schools and colleges; and BTEC, our flagship vocational qualification. **BTEC registrations totalled more than 1 million** for the first time and were up almost 30% on 2008.

Our Higher Education business grew strongly, helped by the success of new first editions, the rapid take up of MyLabs adapted to meet local requirements, and the growing popularity of custom publishing. Sales of UK primary resources fell, on the back of minimal curriculum change and some signs of schools managing their budgets more tightly.

Professional Education

Our Professional Education business is focused on testing and certifying adults to become professionals; and on publishing and other learning programmes for professionals in business and technology. Over the past five years, we have increased sales in this division at a compound annual rate of 8% and operating profit from a profit of £2m in 2005 to a profit of £43m in 2009. Over that period, we significantly re-oriented our professional publishing businesses towards digital products and sales channels and built professional testing into a profitable industry leader. We expect these businesses to benefit from rising demand for work-related skills and qualifications in both developed and developing markets; and from close connections with professional content and customers in other parts of Pearson.

Professional Education: Key performance indicators

£ millions	2009	2008	Headline growth	CER growth	Underlying growth
Sales	275	244	13%	(1)%	(1)%
Adjusted operating profit	43	36	19%	8%	8%

Professional testing and certification

Highlights in 2009 include:

In the UK, we extended our contract with the Driving Standards Agency to deliver the UK drivers theory test until 2014. With the Graduate Management Admissions Test and the recent contract extension for the NCLEX nursing examination, our three largest professional testing contracts now run to 2013 or after. More than seven million secure online tests were delivered in more than 4,000 test centres worldwide in 2009, an increase of 9% over 2008.

Registration volumes for the Graduate Management Admissions Council test rose 8% worldwide in 2009, including a 16% increase outside the US.

In the US, Pearson VUE won a number of new contracts with organisations including Oracle, Citrix, Novell, VMWare, and Adobe, the National Registry of Food Safety Professionals and the National Institute for Certification in Engineering Technologies.

Pearson VUE extended its international reach, signing an agreement with the Dubai Road and Transport Authority to deliver a new, high-tech Driver Testing System and launching the Law School Admission Test in India.

Professional publishing Highlights in 2009 include:

Our Professional education business experienced tough trading conditions in the retail market but benefited from the increased breadth of its publishing and range of revenue streams, from online retail through digital subscriptions.

A best-selling product in 2009 was CCNA Network Simulator, which are digital networking labs designed, developed and published by Pearson, to help candidates successfully pass the Cisco CCNA certification exam.

Pearson launched new learning solutions for IT Professionals preparing for certification accreditation. Cert Flash Card applications were launched for students studying for Cisco CCNA, CompTIA and Microsoft certification exams and are accessible through web browsers and iPhone and iPod Touch devices.

FT Press launched a new e-publishing imprint, FT Press Delivers, providing essential insights from some of its leading business authors including Jim Champy, Brian Solis, Mark Zandi, Jon M. Huntsman, John Kao, Michael Abrashoff, and Seth Goldman.

FT Group

The FT Group is a **leading provider of essential information** in attractive niches of the global business information market. These include insight and analysis through the *Financial Times*, FT.com, Money-Media and *The Economist*, and intelligence, valuations and indices through Mergermarket, Interactive Data and FTSE.

In recent years, the FT Group has significantly shifted its business towards digital and subscription revenues. We have sold our largely print and advertising-based national media companies (Recoletos in Spain, Les Echos in France, FT Deutschland in Germany); acquired digital businesses with international opportunities (Mergermarket, Exec-Appointments.com, Money-Media, Mandate Wire and Medley Global Advisors); and invested steadily in our global and digital businesses including the *Financial Times*, FT.com and Interactive Data.

As a result of this strategy, in 2009 digital products and services accounted for 73% of FT Group revenues, up from 28% in 2000; and in 2009 advertising accounted for 19% of FT Group revenues, down from 52% in 2000. On a continuing business basis, FT Group sales have increased at a headline compound average growth rate of 11% (from £546m in 2005 to £842m in 2009) and profits by 18% (from £97m to £187m).

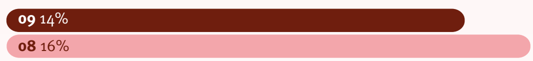
Looking ahead, we believe that the FT Group's premium and global positions, combined with our digital and subscription businesses, put us in a good position to weather tougher economic conditions.

FT Group: Key performance indicators

£ millions	2009	2008	Headline growth	CER growth	Underlying growth
Sales					
FT Publishing	358	390	(8)%	(12)%	(12)%
Interactive Data	484	406	19%	5%	2%
Total	**842**	**796**	**6%**	**(3)%**	**(5)%**
Adjusted operating profit					
FT Publishing	39	74	(47)%	(42)%	(42)%
Interactive Data	148	121	22%	7%	2%
Total	**187**	**195**	**(4)%**	**(12)%**	**(14)%**

FT circulation revenue growth

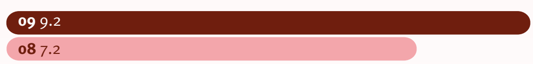
Growth %



The FT Newspaper's year-on-year growth in circulation revenue.

The average monthly number of unique users of FT.com for the year

No. millions



The average monthly number of unique users of FT.com for the year.

Mergermarket renewal rates

Mergermarket %

Debtwire %

The current year value of sales to existing customers as a percentage of their spend in the previous year.

Interactive Data customer retention

Retention %

The number of customers renewing contracts as a percentage of total customer base.

FT Publishing Highlights in 2009 include:

FT Publishing's margins sustained at more than 10%, despite double digit revenue declines caused by tough market conditions for financial and corporate advertising. FT Publishing revenues declined 12% as the impact of advertising revenue declines was partly mitigated by growth in content revenues and the resilience of our subscription businesses.

A growing audience

We continued to see good demand for high-quality analysis of global business, finance, politics and economics resulting in:

A 15% increase in FT.com's paying online subscribers to more than 126,000, and 750 direct corporate licences.

Registered users on FT.com up 85% to 1.8m and up 12% to 1.4m on FTChinese.com.

While *Financial Times* worldwide circulation was 7% lower at 402,799 (for the July – December 2009 ABC period), subscription circulation grew modestly.

Digital publishing

We continued to invest in fast-growing digital formats. We launched a new luxury lifestyle website, to complement our existing *How To Spend It* magazine; a new iPhone application which has received more than 200,000 downloads; and, in association with Longman, Lexicon, an online glossary of economic, financial and business terms.

See more at **www.howtospendit.com**

FT Group
continued

Mergermarket faced challenging conditions in some of its markets with reduced Mergers and Acquisition activity impacting the merger arbitrage sector serviced by dealReporter whilst Debtwire benefited from an increased focus on distressed debt.

Mergermarket

Mergermarket continued to launch new products and expand globally. Our newest product, MergerID, launched in September 2009, provides **a secure online environment for principals and professionals to post and view M&A opportunities** globally and has secured over 1,500 active users in more than 450 companies across the globe.

The Economist, in which Pearson owns a 50% stake, increased global weekly circulation by 2.2% to 1.42m (for the July – December 2009 ABC period).

FTSE, our 50% owned joint-venture with the London Stock Exchange, increased revenues 17% and made a strong improvement in profits.

Interactive Data Highlights in 2009 include:

Interactive Data revenues up 5% and operating profit up 7% to £148m (£121m in 2008) driven by its Institutional Services segment, despite difficult market conditions in the financial services industry. In the fourth quarter we began to see continued signs of trading conditions easing in certain markets that were difficult earlier in the year, principally in our new sales.

Interactive Data continued to benefit from growth trends including: heightened scrutiny around the valuation of securities; increasing regulation and related investment in compliance and risk management processes; increasing adoption of low latency data for algorithmic trading; and continuing need to cost-effectively differentiate wealth management offerings with bespoke web-based client solutions.

Pricing and Reference Data (66% of Interactive Data revenues) continued to generate good growth in North America and Europe. Growth was primarily organic and also benefited from bolt-on acquisitions, most recently NDF, a leading provider of financial pricing and services in Japan, and Kler's Financial Data Service, a leading provider of reference data to the Italian financial industry.

Real-Time Services (19% of Interactive Data revenues) faced challenging market conditions as solid demand for web-based Managed Solutions was more than offset by higher cancellations of real-time market data services. In December 2009, we formed the Real-Time Market Data and Trading Solutions Group which combines the resources of our eSignal, Managed Solutions and Real-Time Services businesses into a single organisation. This initiative supports plans to integrate the company's suite of real-time market data and innovative, hosted technology services and solutions to more effectively capitalize on opportunities in the wealth management and electronic trading sectors. In addition, Interactive Data recently completed two acquisitions, 7ticks and the data and tools assets of Dow Jones' Online Financial Solutions business, that help further strengthen its real-time capabilities in the wealth management and electronic trading sectors.

Interactive Data continued to invest in expanding the breadth and depth of the data covered and products offered. Pricing and Reference Data added new information resources, transparency tools, and broader coverage of hard-to-value instruments. It also introduced new services such as the Business Entity Service and Options Volatility Service aimed at helping firms address risk management and compliance challenges. In Real-Time Services, investments were aimed at expanding market coverage to include a broader range of emerging markets, level 2 data for a variety of global exchanges, and multi-lateral trading facilities. New product launches in this business included PlusBook™, a new consolidated order book service for the European financial industry, and enhancements to the PrimePortal product, which are used to create customised Web solutions for wealth management and infomedia applications. eSignal introduced new services and enhanced existing offerings such as its Market-Q browser-based workstation, which has been well received in the North American wealth management market.

Interactive Data

Interactive Data made a number of bolt-on acquisitions in late 2009 and into early 2010 including: the data and tools assets of Dow Jones and Company's OFS business, which expands the growing web-based solutions business in North America; Dubai-based Telerate Systems Limited (completed on 14 January 2010), a long-time eSignal sales agent; and 7ticks (completed on 15 January 2010), an innovative provider of very fast electronic trading networks and managed services.

Interactive Data's full year earnings announcement and outlook for 2010 is available at: www.interactivedata-rts.com

On 15 January 2010, Pearson and Interactive Data announced that Interactive Data's Board of Directors is conducting a preliminary review of strategic alternatives for the Company. As previously stated, there can be no assurance on the potential outcome or timing of this review process.

Penguin

Penguin is **one of the most famous brands in book publishing**, known around the world for the quality of its publishing and its consistent record of innovation. Over the past five years, Penguin's sales have increased at an average rate of 2% and profits at 5% – the result of a plan to generate significant margin improvement.

That plan has four major parts:

1. Investing consistently and in a disciplined way in **author and product development**;

2. Developing a **globally co-ordinated publishing organisation**, benefiting from worldwide scale and rapid rates of growth in literacy, education and demand for books in emerging markets;

3. Innovating with **digital technologies** to provide new reading experiences, new ways to market, new sales channels, and more efficient means of production, storage and distribution of content;

4. **Becoming a more efficient organisation**, focusing on margin progression, working capital discipline and cash generation. In 2009, Penguin successfully implemented a series of organisational changes in the UK designed to strengthen its publishing, reduce costs and accelerate the transition to digital production, sales channels and formats, and to lower cost markets for design and production. Penguin's 2009 results include approximately £9m of charges relating to these organisational changes.

Penguin operates in 15 countries across the globe and has significant exposure to a wide range of currencies including the US and Australian dollars. In 2009, currency translation boosted revenues by £109m and adjusted operating profits by £13m compared to 2008. Adjusted operating profits were reduced by a transaction exchange loss of £6m.

Looking ahead, Penguin's strategy involves further investment in publishing in both established and emerging markets, in continued digital innovation and in efficiency improvements, as it seeks to build on its strong competitive position and accelerate sales growth.

Penguin Group: Key performance indicators

£ millions	2009	2008	Headline growth	CER growth	Underlying growth
Sales	1,002	903	11%	(1)%	(2)%
Adjusted operating profit	84	93	(10)%	(17)%	(19)%

US bestsellers

Bestsellers no.

The number of Penguin books entering the Top Ten bestseller lists in the US (New York Times).

UK bestsellers

Bestsellers no.

The number of Penguin books entering the Top Ten bestseller lists in the UK (Neilson BookScan Top Ten).

eBook sales

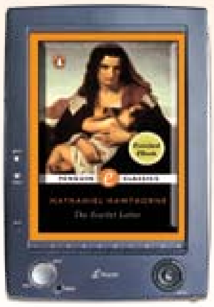
Sales %

Penguin global eBook sales as a percentage of Penguin Group net sales.

Penguin Highlights in 2009 include:

ebooks

eBook sales grew fourfold on the previous year. 14,000 eBook titles are now available. eBook sales are expected to grow rapidly in 2010, benefiting from the popularity of e-readers such as Amazon's Kindle, the Sony Reader and Barnes and Noble's nook as well as new devices such as Apple's iPad.



2009 bestsellers

In the US, Penguin had 30 #1 New York Times bestsellers, Penguin's most ever, and placed 243 bestsellers on New York Times lists. Bestsellers included debut novels such as Kathryn Stockett's *The Help* and Janice Y.K. Lee's *The Piano Teacher,* along with books by established authors such as Charlaine Harris and Nora Roberts.

In the UK, top-selling titles included Marian Keyes' *This Charming Man*, Malcolm Gladwell's *Outliers*, Ant and Dec's *Ooh! What a Lovely Pair* and Antony Beevor's *D-Day*. Penguin Children's list had a very strong year with standout performances from brands such as *The Very Hungry Caterpillar* (which celebrated its 40th anniversary) and *Peppa Pig*. Through an iPhone app, consumers were offered a try-before-you-buy model of Paul Hoffman's *The Left Hand of God*, providing free downloads of the first three chapters.

In Australia, Penguin was named Publisher of the Year for the second year running at the Australian Book Industry Awards. #1 bestselling authors included Bryce Courtenay, Tom Winton, Clive Cussler and Richelle Mead.

In Canada, top-selling local authors included Joseph Boyden and Alice Munro, who was awarded the International Man Booker prize, and our international authors Greg Mortenson and Elizabeth Gilbert led the paperback non-fiction category.

In India, Penguin is the largest English language trade publisher, with bestselling authors in 2009 including Narayana Murthy and Nandan Nilekani.

In South Africa, top-selling Penguin authors included John van de Ruit and Justin Bonello.

2010 highlights

In 2010, Penguin will publish major books including *Our Kind of Traitor* by John le Carre, two books from chef Jamie Oliver (*Jamie Does* and *20 Minute Meals*), *A Passion for Design* by Barbra Streisand, *The Weekend That Changed Wall Street* by CNBC's Maria Bartiromo, and a new series of paperbacks entitled Penguin Decades as part of Penguin's 75th birthday celebration. Penguin China's English language publishing programme will launch in 2010, with books including *Shanghai: A History in Photographs 1842 – Today.*

Other financial information

Net finance costs

£ millions	2009	2008
Net interest payable	(85)	(89)
Net foreign exchange losses reflected in adjusted earnings	–	(7)
Finance (costs)/income in respect of employee benefit plans	(12)	8
Net finance costs reflected in adjusted earnings	(97)	(88)
Other net finance income/(costs)	2	(3)
Total net finance costs	(95)	(91)

Net finance costs reported in our adjusted earnings comprise net interest payable, net finance costs relating to employee benefit plans and certain foreign exchange gains and losses.

Net interest payable in 2009 was £85m, down from £89m in 2008. Although our fixed rate policy reduces the impact of changes in market interest rates, we were still able to benefit from a fall in average US dollar and sterling interest rates during the year. Year-on-year, average three month LIBOR (weighted for the Group's net borrowings in US dollars and sterling at each year end) fell by 2.4% to 0.7%. This reduction in floating market interest rates was partially offset by higher fixed bond coupons prevailing at the time of our 2009 bond issue. The overall result was a decrease in the Group's average net interest rate payable by 0.6% to 5.3%. The Group's average net debt rose by £90m, reflecting the impact of acquisitions and disposals and the weakening of average year-on-year sterling exchange rates relative to the US dollar, in which the majority of our debt is denominated.

Finance charges relating to post-retirement plans were £12m in 2009 compared to an income of £8m in 2008 as a result of lower returns on plan assets. Exchange losses reported in adjusted earnings in 2008 of £7m related to retranslation of foreign currency bank overdrafts. There were no equivalent exchange gains or losses in 2009.

Also included in the statutory definition of net finance costs are foreign exchange and other gains and losses. These are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. These other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity. In 2009 the total of these items excluded from adjusted earnings was a profit of £2m compared to a loss of £3m in 2008.

Funding position and liquid resources

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. Our objective is to secure continuity of funding at a reasonable cost from diverse sources and with varying maturities. The Group does not use off-balance sheet special purpose entities as a source of liquidity or for any other financing purposes.

The net debt position of the Group is set out below.

Net debt

£ millions	2009	2008
Cash and cash equivalents	750	685
Marketable securities	63	54
Net derivative assets	103	164
Bonds	(1,923)	(2,128)
Bank loans and overdrafts	(70)	(228)
Finance leases	(15)	(7)
Net debt	**(1,092)**	**(1,460)**

Reflecting the geographical and currency split of our business, a large proportion of our debt is denominated in US dollars (see note 19 for our policy). The strengthening of sterling against the US dollar during 2009 (from $1.44 to $1.61:£1) is a significant contributor to the decrease in our reported net debt.

The Group's credit ratings remained unchanged during the year. The long-term ratings are Baa1 from Moody's and BBB+ from Standard & Poor's, and the short-term ratings are P2 and A2 respectively. The Group's policy is to strive to maintain a rating of Baa1/BBB+ over the long term.

In March 2009, the Group accessed the capital markets, raising £300m through the sale of notes maturing in 2015 and bearing interest at 6%. Of the £300m issued, £200m was swapped into US dollars for the life of the bond to conform with the policy described in note 19. The proceeds were used to repay floating rate amounts outstanding under our revolving credit facility, as described below.

The Group has in place a $1,750m committed revolving credit facility, of which $92m matures in May 2011 and the balance of $1,658m matures in May 2012. At 31 December 2009 the facility was undrawn.

The facility is intended to be used for short-term drawings and providing refinancing capabilities, including acting as a back-up for our US commercial paper programme. This programme is primarily used to finance our US working capital requirements, in particular our US educational businesses which have a peak borrowing requirement in July. At 31 December 2009, no commercial paper was outstanding.

The Group also maintains other committed and uncommitted facilities to finance short-term working capital requirements in the ordinary course of business.

Further details of the Group's approach to the management of financial risks are set out in note 19 to the financial statements.

Taxation

The effective tax rate on adjusted earnings in 2009 was 25.5% which compares to an effective rate of 26.4% for 2008. Our overseas profits, which arise mainly in the US are largely subject to tax at higher rates than the UK corporation tax rate (an effective rate of 28% in 2009 compared to 28.5% in 2008). Higher tax rates were more than offset by amortisation-related tax deductions and releases from provisions reflecting continuing progress in agreeing our tax affairs with the authorities.

The reported tax charge on a statutory basis was £198m (30.0%) compared to a charge of £172m (29.4%) in 2008. The tax charge relating to the sale of the Data Management business in February 2008 is included in the loss on discontinued businesses. A charge arose on this disposal as although there is a book loss there is a gain for tax purposes. Tax paid in 2009 was £103m compared to £89m in 2008.

Discontinued operations

Discontinued operations in 2008 relates to Data Management business that were sold on 22 February 2008.

Minority interests

Minority interests comprise mainly the 39% share of Interactive Data Corporation, a US listed business.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £388m in 2009 compares to a gain in 2008 of £1,125m and is principally due to movements in the US dollar. A significant proportion of the Group's operations are based in the US and the US dollar strengthened in 2008 from an opening rate of £1:$1.99 to a closing rate at the end of that year of £1:$1.44. At the end of 2009 the US dollar had weakened in comparison to the opening rate moving from £1:$1.44 to £1:$1.61.

Dividends

The dividend accounted for in our 2009 financial statements totalling £273m represents the final dividend in respect of 2008 (22.0p) and the interim dividend for 2009 (12.2p). We are proposing a final dividend for 2009 of 23.3p, bringing the total paid and payable in respect of 2009 to 35.5p, a 5.0% increase on 2008. This final 2009 dividend was approved by the board in February 2010, is subject to approval at the forthcoming AGM and will be charged against 2010 profits. For 2009 the dividend is covered 1.8 times by adjusted earnings.

We seek to maintain a balance between the requirements of our shareholders for a rising stream of dividend income and the reinvestment opportunities which we identify around the Group. The board expects to raise the dividend more in line with earnings growth, above inflation while building our dividend cover towards two times earnings.

Pensions

Pearson operates a variety of pension plans. Our UK Group plan has by far the largest defined benefit section. We have some smaller defined benefit sections in the US and Canada but outside the UK, most of our companies operate defined contribution plans.

The income statement expense for defined benefit plans is determined using annually derived assumptions as to discount rates, investment returns and salary inflation, based on prevailing conditions at the start of the year. The assumptions for 2009 are disclosed in note 25 to our accounts, along with the year end surpluses and deficits in our defined benefit plans.

Other financial information
continued

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £94m in 2009 (2008: £76m) of which a charge of £82m (2008: £84m) was reported in operating profit and the net finance cost of £12m (2008 benefit: £8m) was reported against net finance costs.

The overall surplus on the UK Group plan of £49m at the end of 2008 has become a deficit of £189m at 31 December 2009. This is mainly due to an increase in liabilities as a result of an increase in the expected rate of future inflation, strengthening of mortality assumptions and a decrease in the discount rate used to value the liabilities.

Acquisitions

On 15 April 2009 the Group acquired Wall Street English, China's leading provider of premium English language training to adults. On 15 July 2009 the Group completed the purchase of an additional stake in Maskew Miller Longman, its South African publishing business.

Net cash consideration for all acquisitions made in the year ended 31 December 2009 was £201m and provisional goodwill recognised was £205m.

In total, acquisitions completed in the year contributed an additional £88m of sales and £10m of operating profit.

Return on invested capital (ROIC)

Our ROIC is calculated as adjusted operating profit less cash tax, expressed as a percentage of average gross invested capital. ROIC declined by 0.3% from 9.2% in 2008 to 8.9% in 2009. Transactional exchange gains, reported in adjusted operating profit and caused by the relative weakness of sterling in 2008, helped our ROIC by 0.2% in that year. In 2009 these transactional exchange gains became losses, as sterling strengthened for much of the year, negatively impacting our ROIC by 0.1%. The majority of transactional exchange gains and losses are in our International Education business and to a lesser extent it also impacts Penguin and the FT Group. The movements predominantly arise in trading companies that have significant revenues in multiple currencies. In 2009 transactional exchange recorded in operating profit was £27m lower than in 2008.

Capital expenditure

Net capital expenditure in the year on property, plant equipment and software amounted to £126m. The analysis of capital expenditure and details of capital commitments are shown in notes 10, 11 and 33 of the financial statements.

Transactions with related parties

Transactions with related parties are shown in note 34 of the financial statements.

Post balance sheet events

During January 2010, the Group announced that Interactive Data was undertaking a preliminary review of strategic alternatives for its business. At the date of this report, the outcome of the review is still uncertain.

On 3 February 2010 the FT Publishing business announced the acquisition of Medley Global Advisors LLC a premier provider of macro policy intelligence to the world's top investment banks, hedge funds and asset managers for $15.5m.

Supplier payment policy

Operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. These supplier payment terms vary by operating company reflecting the different industries and countries in which they operate. It is company policy that suppliers are aware of such terms of payment and that payments to them are made in accordance with these, provided that the supplier is also complying with all the relevant terms and conditions. Group trade creditors at 31 December 2009 were equivalent to 32 days of purchases during the year ended on that date. The company does not have any significant trade creditors and therefore is unable to disclose average supplier payment terms.

Principal risks and uncertainties: Group

We conduct regular risk reviews to identify risk factors which may affect our business and financial performance. Our Group internal audit function facilitates risk reviews with each business, shared service operations and corporate functions, identifying measures and controls to mitigate these risks. Management is responsible for considering and executing the appropriate action to mitigate these risks whenever possible. It is not possible to identify every risk that could affect our businesses, and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise and/or adversely affect our business or financial performance

As the current economic environment remains dynamic and challenging, the risk of weak trading conditions continues in 2010 which could adversely impact the company's financial performance. The outlook for the company for 2010 is set out on page 15. The effect of a continued deterioration in the global economy will vary across our businesses and will depend on the depth, length and severity of any economic downturn.

Our principal risks and uncertainties are outlined below.

Risk	Mitigating factors
Principal risks and uncertainties	
A significant deterioration in Group profitability and/or cash flow caused by a severe economic depression could reduce our liquidity and/or impair our financial ratios, and trigger a need to raise additional funds from the capital markets and/or renegotiate our banking covenants.	The Group's approach to funding is described on page 30 and the Group's approach to the management of financial risks is set out in note 19 to the financial statements.
Our US educational solutions and assessment businesses may be adversely affected by changes in state and local educational funding resulting from either general economic conditions, changes in government educational funding, programme and legislation (both at the federal and state level), and/or changes in the state procurement process.	Our customer relationship teams have detailed knowledge of each state market. We are investing in new and innovative ways to expand and combine our product and services to provide a superior customer offering when compared to our competitors, thereby reducing our reliance on any particular funding stream in the US market.
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.	The Group's policy on managing foreign currency risk is described in note 19 to the financial statements.
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.	We seek to mitigate this type of risk through general vigilance, co-operation with other publishers and trade associations, advances in technology, as well as recourse to law as necessary. We take steps to challenge illegal distribution sources.
Our reported earnings and cash flows may be adversely affected by changes in our pension costs and funding requirements.	We review our funding arrangements every three years and will take steps to ensure pension funding plans are sufficient to meet future liabilities without unduly affecting the development of the company.
We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive.	To remain competitive we continue to invest in our authors, products, services, technology and people to take advantage of these opportunities. There is no guarantee that these investments will generate the anticipated returns or protect us from being placed at a competitive disadvantage with respect to scale, resources and our ability to develop and exploit opportunities.

Principal risks and uncertainties: Group continued

Risk	Mitigating factors
Principal risks and uncertainties (continued)	
A major data privacy breach may cause reputational damage to our brands and financial loss.	Through our global security office under the direction of our Chief Security Officer, we have established various data privacy and security programmes. We constantly test and re-evaluate our data security procedures and controls across all our businesses with the aim of ensuring personal data is secured and we comply with relevant legislation and contractual requirements.
Other risks and uncertainties	
At Penguin, changes in product distribution channel and/or customer bankruptcy may restrict our ability to grow and affect our profitability.	We develop new distribution channels by adapting our product offering and investing in new formats. The application of strict credit control policies is used to monitor customer debt and we work with industry groups to minimise exposures (e.g. through retention of title claims) in the event of default.
Reductions in advertising revenues and/or circulation will adversely affect the profitability of our newspaper business.	The diversification of the FT Group into other business models and revenue streams, e.g. subscription based businesses, digital revenues, business to business products, conferences, in addition to its global reach, offsets reliance on newspaper print advertising and circulation revenue streams.
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.	We have developed business continuity arrangements, including IT disaster recovery plans and back-up delivery systems, to minimise any business disruption in the event of a major disaster. The governance structure, overseen by a global coordinator, provides the capability to centrally monitor all related activities. A concerted effort was undertaken to facilitate creation of pandemic plans throughout Pearson. Insurance coverage may minimise any losses in certain circumstances.
A control breakdown or service failure in our school assessment businesses could result in financial loss and reputational damage.	We seek to minimise the risk of a breakdown in our student marking with the use of robust testing procedures and controls, combined with our investment in technology, project management and skills development of our people.
Failure to generate anticipated revenue growth, synergies and/or cost savings from acquisitions could lead to goodwill and intangible asset impairments.	We perform pre-acquisition due diligence and closely monitor the post-integration performance to ensure we are meeting operational and financial targets. Any divergence from these plans will result in management action to improve performance and minimise the risk of any impairments. Executive management and the board receive regular reports on the status of acquisition performance.

Risk	Mitigating factors
Other risks and uncertainties (continued)	
Changes in our tax position can significantly affect our reported earnings and cash flows.	We employ internal tax professionals in the UK and the US who review all significant arrangements around the world and respond to changes in tax legislation. They work closely with local management and external tax advisors.
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 poorly managed.	In addition to the internal business procedures and controls implemented to ensure we successfully deliver on our contractual commitments, we also seek to develop and maintain good relationships with our customers to minimise associated risks. We also look to diversify our portfolio to minimise reliance on any single contract.
We operate in markets which are dependent on Information Technology (IT) systems and technological change.	We mitigate these IT risks by establishing strong IT policies and operational controls, employing project management techniques to manage new software developments and/or system implementations and have implemented an array of security measures to protect our IT assets from attacks or failures that could impact the confidentiality, availability or integrity of our systems.
Investment returns outside our traditional core US and UK markets may be lower than anticipated.	We draw on our experience of developing businesses outside our core markets and our existing international infrastructure to manage specific country risks. We have strengthened our financial control and managerial resources in these markets to mange expansion. The diversification of our international portfolio, and relative size of 'emerging markets' in relation to the Group, further minimises the effect any one territory could have on the overall Group results.
Social, environmental and ethical risk	We consider social, environmental and ethical (SEE) risks no differently to the way we manage any other business risk. Our 2009 risk assessment did not identify any significant under-managed SEE risks, nor have any of our most important SEE risks, many concerned with reputational risks, changed year-on-year. These are: journalistic/author integrity, ethical business behaviour, intellectual copyright protection, compliance with UN Global Compact standards, environmental impact, people and data privacy. For more information, see the Pearson corporate responsibility report Always learning: Our impact on society. The web link is available at www.pearson.com/responsibility/cr_report2009