



PEARSON



2006 results

26 February 2007



Record results

£m	2006	2005	Headline growth	Underlying growth
Sales	4,423	4,096	8%	4%
Operating profit	592	506	17%	15%
Margin	13.4%	12.4%	1.0 <i>ppts</i>	
Adjusted eps	40.2p	34.1p	18%	
Free cash flow	433	431	-	
ROIC	8.0%	6.7%	1.3 <i>ppts</i>	
Dividend	29.3p	27.0p	8.5%	

PEARSON

The word "PEARSON" is written in a white, bold, sans-serif font. Below the text is a white, curved line that arches over the letters, resembling a stylized underline or a bridge.

Market leadership

Sustainable growth

PEARSON

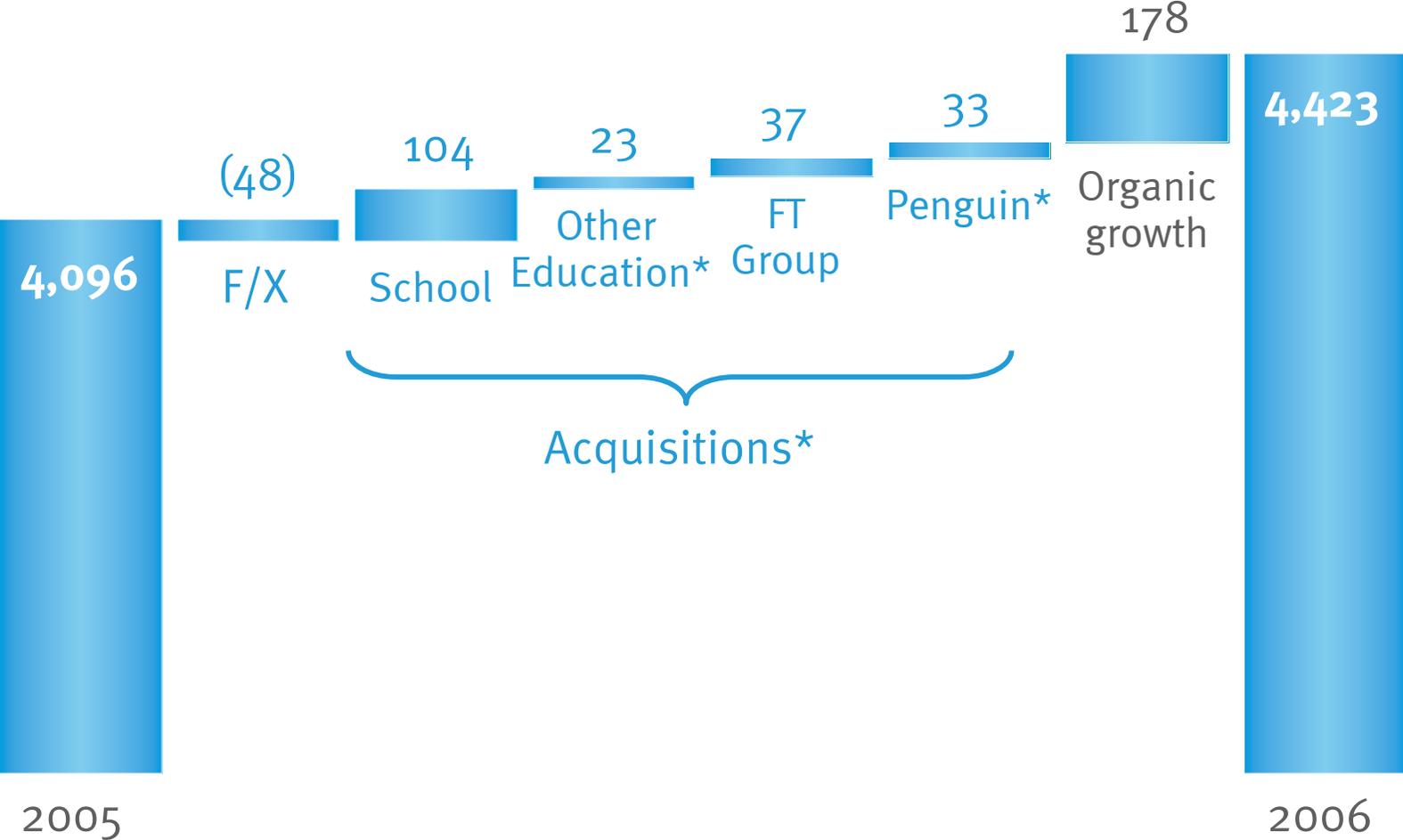


Financial performance

Sales growth

£m	2006	2005	Underlying growth
School	1,455	1,295	6%
Higher Education	795	779	4%
Professional	627	589	3%
Pearson Education	2,877	2,663	4%
FT Publishing	366	332	8%
IDC	332	297	4%
FT Group	698	629	6%
Penguin	848	804	3%
Total	4,423	4,096	4%

Sales growth, £m



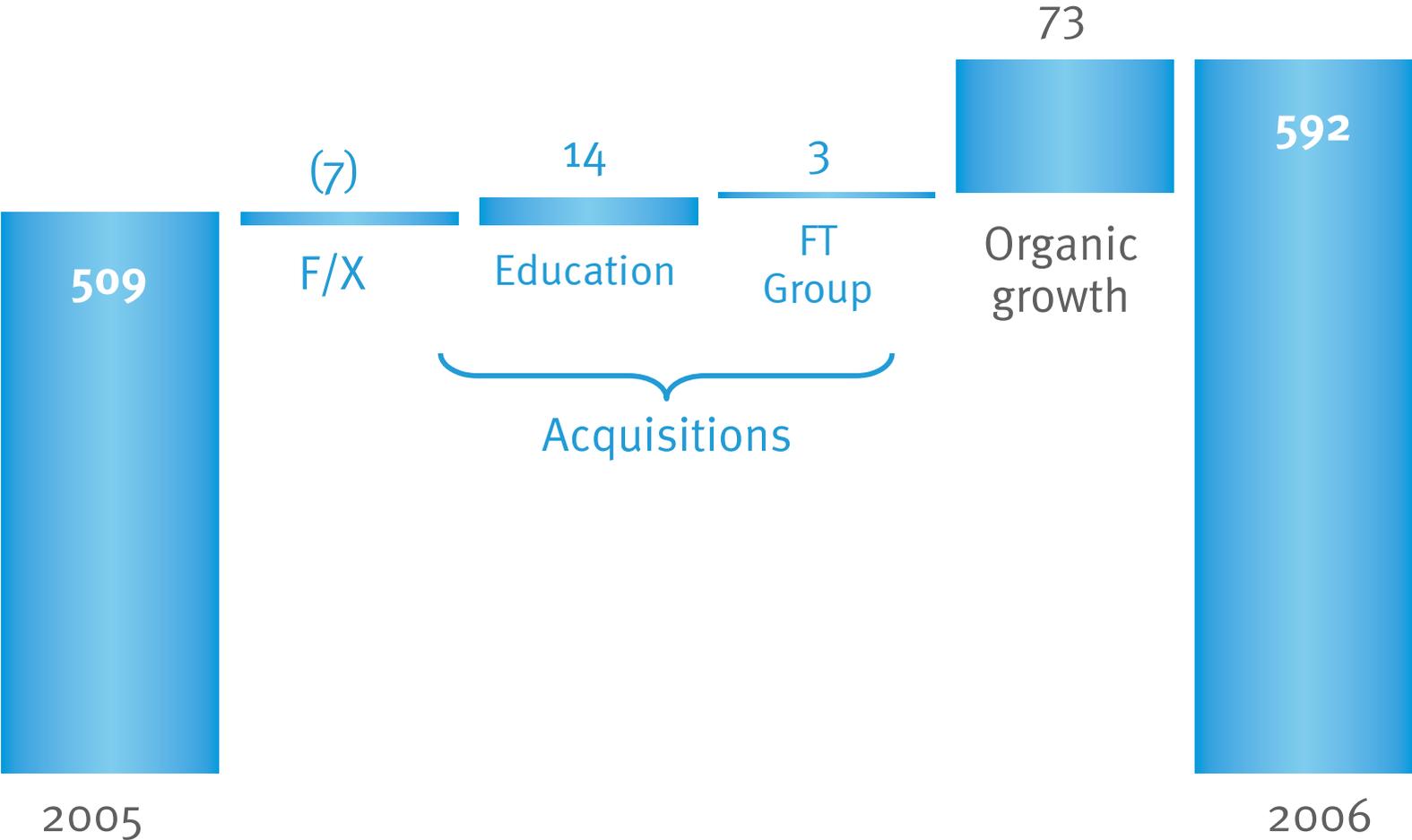
* Brady reclassified from Professional to Penguin (£16m)

Profit growth

£m	2006	2005	Underlying growth
School	184	147	17%
Higher Education	161	156	3%
Professional	60	45	29%
Pearson Education	405	348	12%
FT Publishing	32	21	52%
IDC	89	80	9%
FT Group*	121	101	18%
Penguin	66	60	22%
Total	592	509	15%

*FT Group excludes £3m loss from Recoletos in 2005

Profit growth, £m



Adjusted EPS

£m	2006	2005	Headline growth
Operating profit	592	506	17%
Interest	(90)	(84)	(7%)
Taxation	(155)	(128)	(21%)
<i>Tax rate</i>	<i>30.9%</i>	<i>30.3%</i>	
Profit after tax	347	294	18%
Minorities	(26)	(22)	(18%)
Adjusted earnings	321	272	
<i>Shares in issue</i>	<i>798.4</i>	<i>797.9</i>	
Adjusted eps	40.2p	34.1p	18%

Before amortisation of intangibles and non-operating items

Statutory P&L

£m	2006	2005	Headline growth
Operating profit	540	516	5%
Interest	(90)	(84)	(7%)
Finance costs – IAS39 / IAS21	16	14	14%
Profit before tax	466	446	4%
Taxation	(11)	(116)	91%
Profit after tax	455	330	38%
Discontinued operations	14	314	(96%)
Profit for the period	469	644	(27%)
Basic EPS (total)	55.9p	78.2p	(29%)
Basic EPS (continuing)	54.1p	38.9p	39%

Operating cash flow

£m	2006	2005	var
Operating profit	592	506	86
Working capital	(25)	20	(45)
Net capital expenditure	(92)	(100)	8
Depreciation	100	98	2
Other movements	-	46	(46)
Operating cash flow	575	570	5
Cash conversion %	97%	113%	

Working capital includes pre-publication

Free cash flow

£m	2006	2005	var
Operating cash flow	575	570	5
Operating tax paid	(59)	(65)	6
<i>Cash tax %</i>	<i>10%</i>	<i>11%</i>	
Operating finance charges	(82)	(65)	(17)
Operating free cash flow	434	440	(6)
Non-operating	-	(7)	7
Integration	(1)	(2)	1
Total free cash flow	433	431	2
Free cash flow / share	54p	54p	

Balance sheet – total business

£m	2006	2005	var
Goodwill / intangible assets	3809	3854	(45)
Tangible fixed assets	357	384	(27)
Pre-publication	402	426	(24)
Working capital	323	385	(62)
Other net liabilities	(58)	(48)	(10)
Net trading assets	4833	5001	(168)
Shareholders' funds	3476	3564	(88)
Deferred tax asset	(172)	(181)	9
Provisions	302	453	(151)
Minorities	168	169	(1)
Net debt	1059	996	63
Capital employed	4833	5001	(168)

All balances include Government Solutions

2006 financial priorities

Earnings growth

Cash and working capital discipline

Significant ROIC improvement

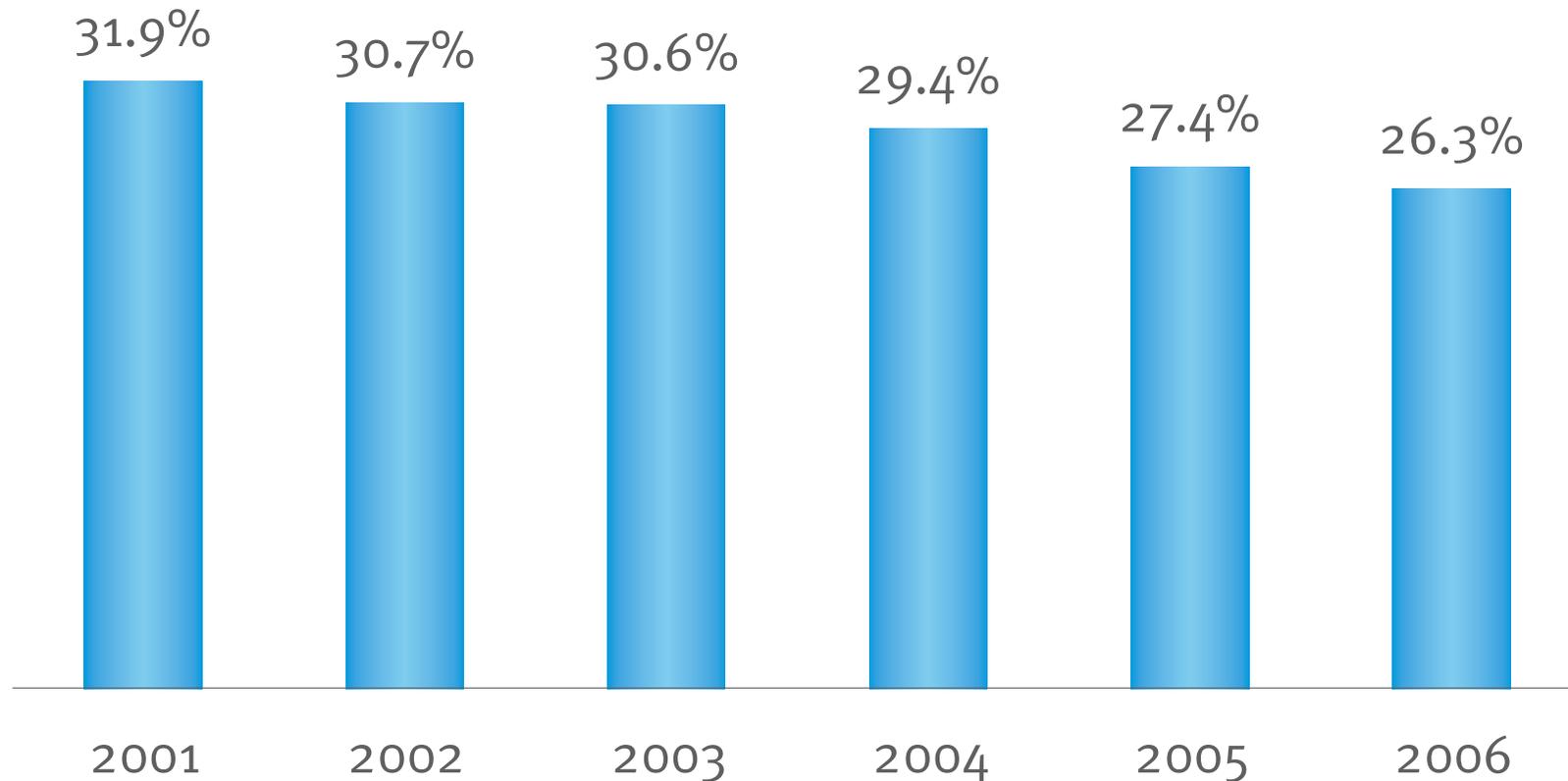
Continued rigour in capital allocation

Earnings growth: focus on margins

£m	Margins		
	2006	2005	2004
School	12.6%	11.4%	9.9%
Higher Education	20.3%	20.0%	17.7%
Professional	9.6%	7.6%	7.9%
FT Publishing	8.7%	6.3%	1.3%
IDC	26.8%	26.9%	24.9%
Penguin	7.8%	7.5%	6.6%
Pearson	13.4%	12.4%	10.8%

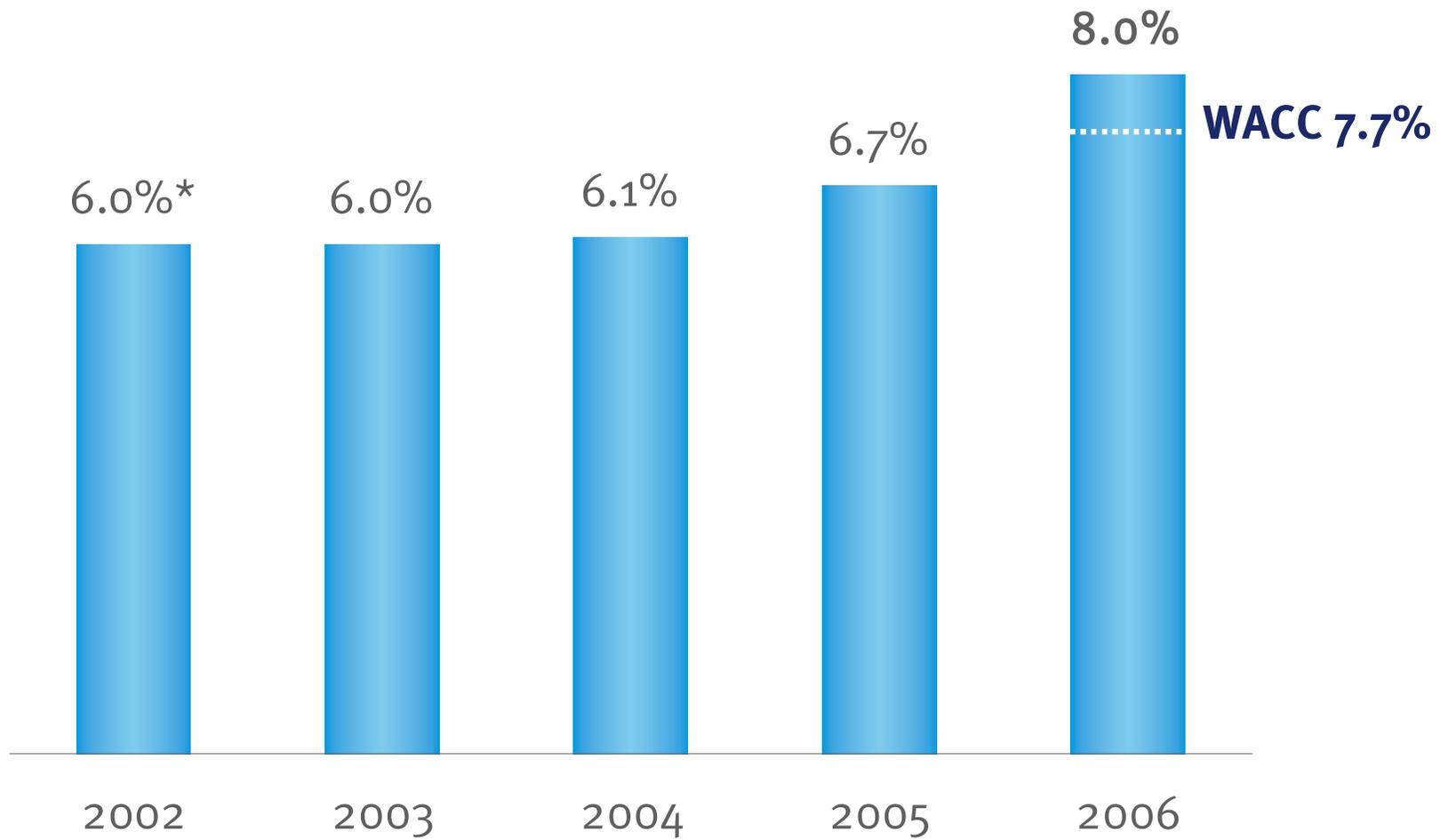
Cash and working capital discipline

Average working capital/sales



Includes capitalised pre-publication costs and author advances

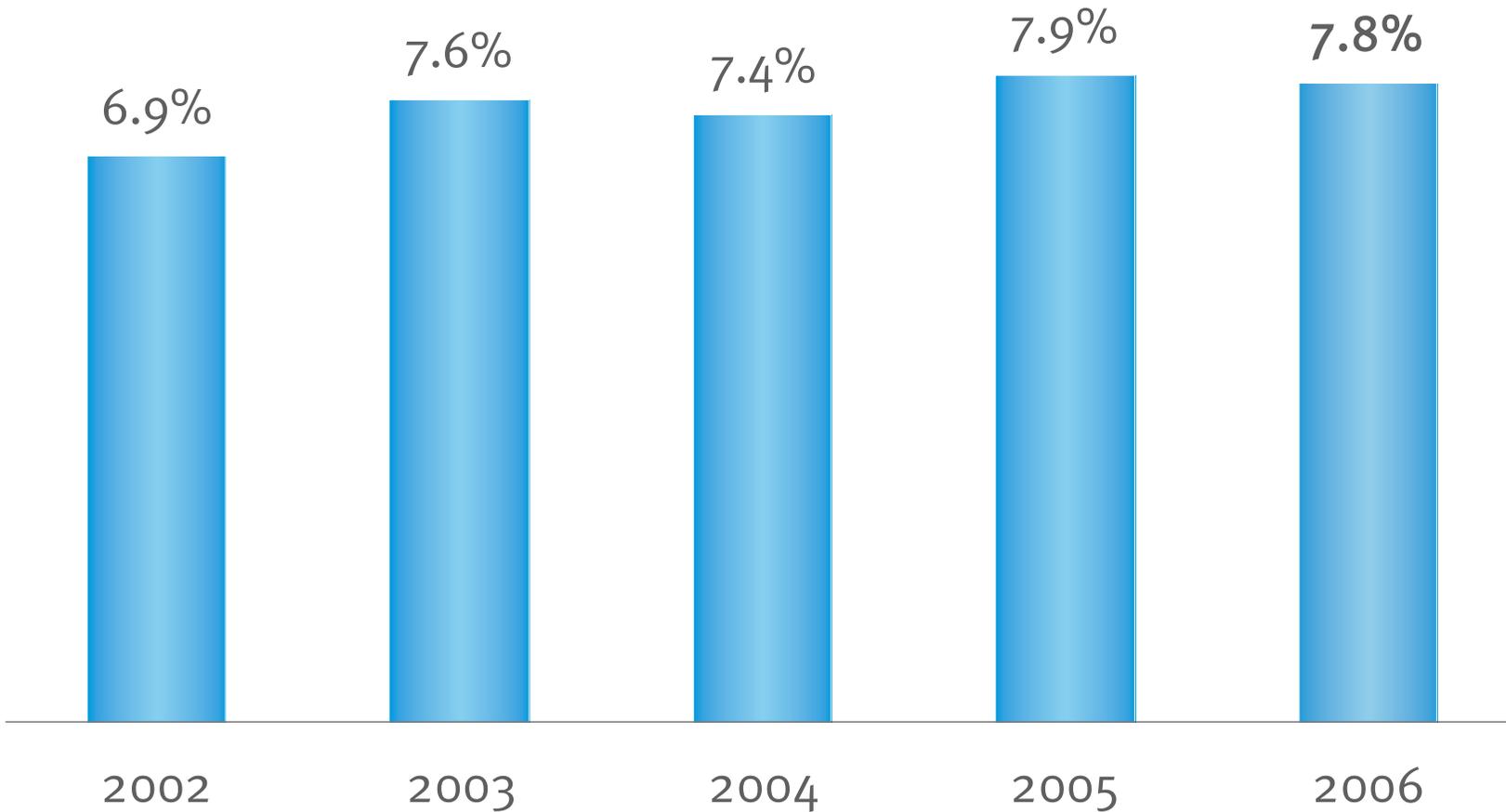
ROIC improvement



* UK GAAP

Capital allocation: organic investment

Education pre-publication expenditure as % of sales



Capital allocation: bolt-on acquisitions

- £363m invested in acquisitions in 2006
- Integration on track; all costs expensed
- Earnings neutral in 2006/ROIC reduced
- Earnings and ROIC enhancing in 2007

Capital allocation: Return on bolt-on acquisitions

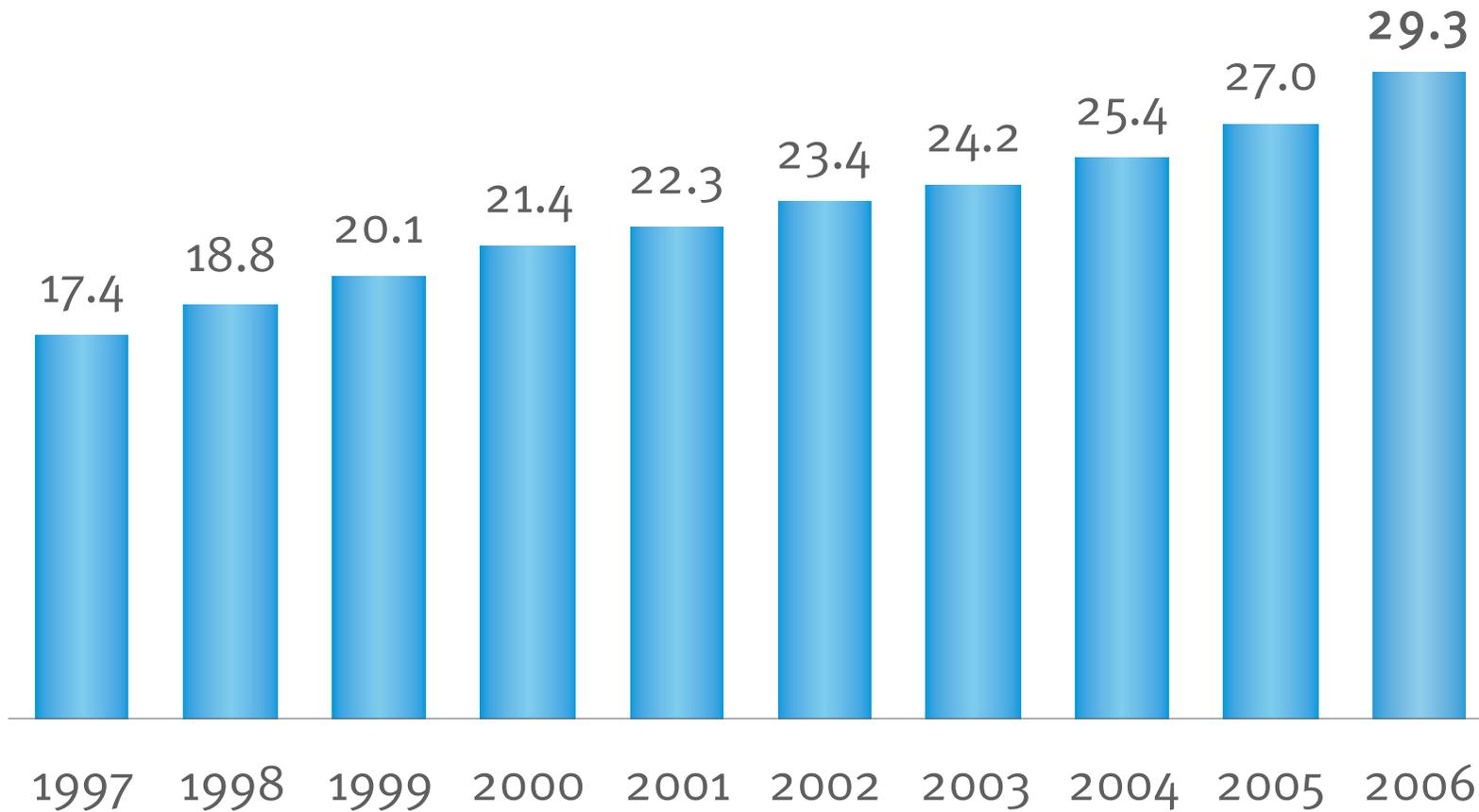
Year	Publishing	Financial information
2002	Abrams, DDC	SPS
2003	Edexcel, LessonLab	Comstock
2004	Altona Ed, BBC Children's, Causeway, Dominie Press, KAT	Futuresource
2005	AGS, BBC Adult, Co-nect, Index Books	IS Teledata
2006	Promissor, NES, PowerSchool, Chancery, PBM, Ellis, EET	Quote.com, Mergermarket

Total acquisition cost : \$1.4bn
2006 ROIC: 12%

Represents pro-forma 2006 results and includes integration costs

Capital allocation: dividend growth

Pence per share



Capital allocation: credit rating considerations

£m	2006	2005
Balance sheet net debt	1,059	996
Lease liabilities (@ 8x)	992	1,032
Pension liabilities	250	389
Total	2,301	2,417

Agency calculations of debt vary

2007 outlook

- **School:** 4-6% sales growth; margins improving
- **Higher Education:** 3-5% sales growth; stable margins
- **Professional:** sales broadly level; margins improving
- **FT Publishing:** margin improvement, into double digits
- **IDC:** 6-9% sales growth; c.10% net income growth (US GAAP)
- **Penguin:** margins improving

Impact of \$ (2006 average £1:\$1.84)

Tax rate for adjusted earnings

- 2006 guidance: 32-34% 2006 actual : 30.9%
- Recognise tax allowable goodwill amortisation benefit – 4% reduction in 2007
- 2007 guidance: 28%-30%
- US net operating losses to last well into 2009
- Goodwill amortisation benefit to continue to 2013
- No 2007 statutory or cash tax impact from change

2007 financial priorities

Earnings growth

Cash and working capital discipline

Significant ROIC improvement

Continued rigour in capital allocation

PEARSON



Market leadership

Sustainable growth

Investment focus

Content +

Technology and services

International expansion

Efficiency



The bucks start here.

Content + services IDC profit



IDC reported income before amortisation and stock based compensation, under US GAAP

Content + services

BPI seen as perfect merger candidate for BPVN, analysis **mergermarket**



Banco Popolare di Verona e Novara [BPVN], the listed Italian cooperative bank, is seen as the perfect merger candidate for Banco Popolare Italiana [BPI].

This was according to a source familiar

Timberland in sales talks with PE firms, sources say **mergermarket**



The Timberland Co., the listed shoe and apparel manufacturer and retailer, is in sales talks, two sources said, while two dealmakers said they have heard the rumors.

A spokesperson at New Hampshire-b

Reader's Digest susceptible to takeover due to low stock price; does not consider consumer business non core, CFO says **mergermarket**



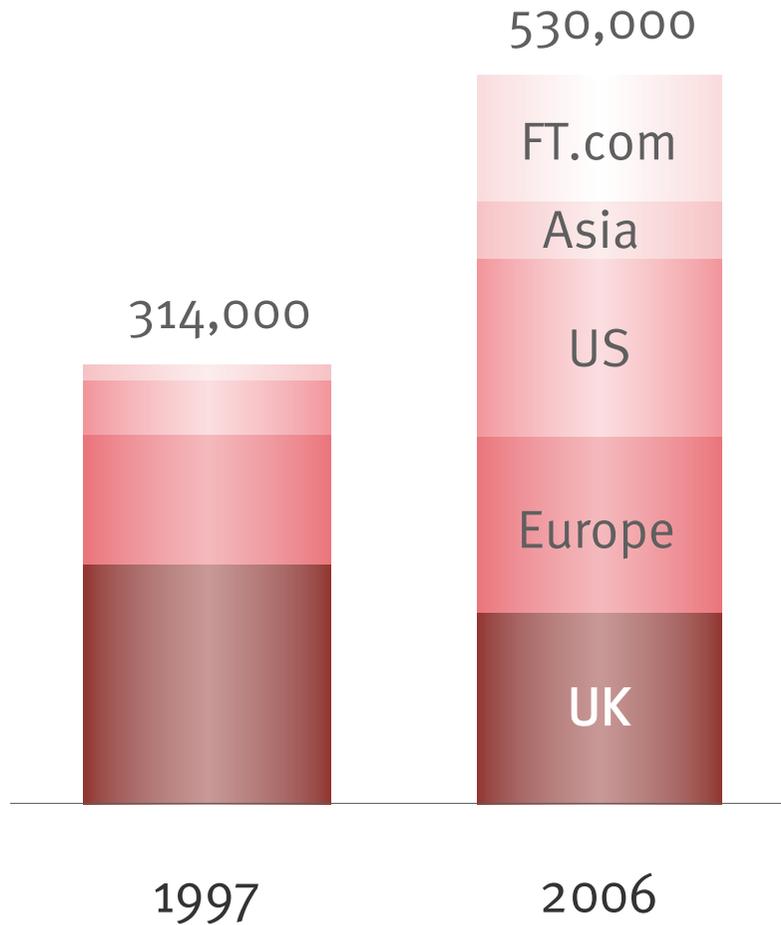
Reader's Digest, a listed magazine and direct marketing company based in New York, is

Content

The collage features several elements:

- FT.com Website (Top Left):** A screenshot of the Financial Times website from Sunday, Feb 26, 2007. It includes a search bar, navigation links like 'Home', 'World', and 'Markets Live', and a prominent advertisement for 'ALPHAVILLE instant market insight' with the headline 'Get THE 600-CUT - Alphaville by email'.
- FT.com Website (Top Right):** Another screenshot of the FT.com website, showing a 'MULTIMEDIA FT video' section and a 'Person of the Year Lakshmi Mittal' feature with a photo of the subject.
- FT.com Website (Middle Left):** A screenshot of the 'FTHOUSE & HOME' section with the headline 'Privilege of a city slicker' and a photo of a person relaxing on a sofa.
- Table (Middle):** A 'Live Prices' table with columns for 'MARKET', 'LAST UPDATE', 'HIGH', 'LOW', and 'OFFER'. It lists various market indices and their values.
- Magazine Cover (Bottom Center):** The cover of 'FINANCIAL TIMES how to spend it' magazine. The cover image shows a snowy mountain landscape with a large tunnel-like opening. Text on the cover includes 'EXTREME ADVENTURE, EXTREME INDULGENCE'.
- Advertisement (Bottom Right):** A blue advertisement with the text 'IF SHAREHOLDERS AND YOUR CLIMATE ASSESSMENT... TODAY?' and the 'PEARSON' logo.

International Circulation



Europe's #1 business newspaper

Asia readership up 26%

US readership up 47%

Sources: ABC; EBRs; ABRS; Mendelsohn

International + online expansion

FT advertising

+ 9% in '05 and '06

**30%+ growth in corporate finance,
luxury goods, online**

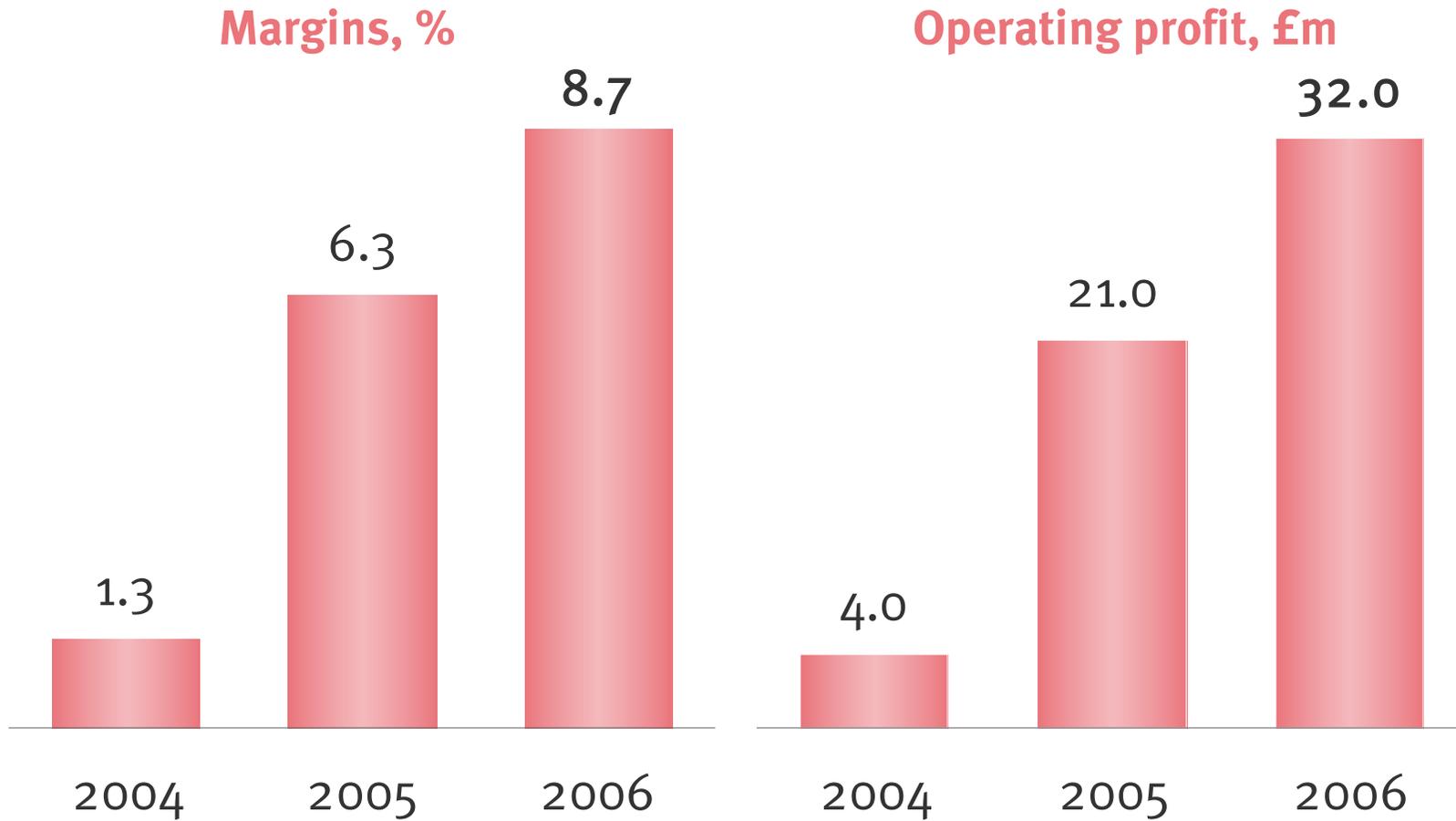
Three-quarters booked for two editions

Half booked for all four editions

One-third booked for Newspaper and FT.com

Efficiency

FT Publishing



What next?

Increasing content revenues

Transforming online operations

Developing internationally

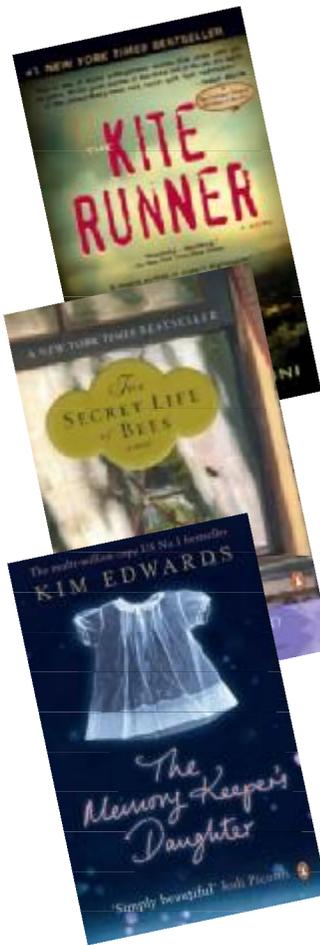
Integrating our businesses



You can win them all.

Content +

First-time novelists: weeks on NYT Bestseller List

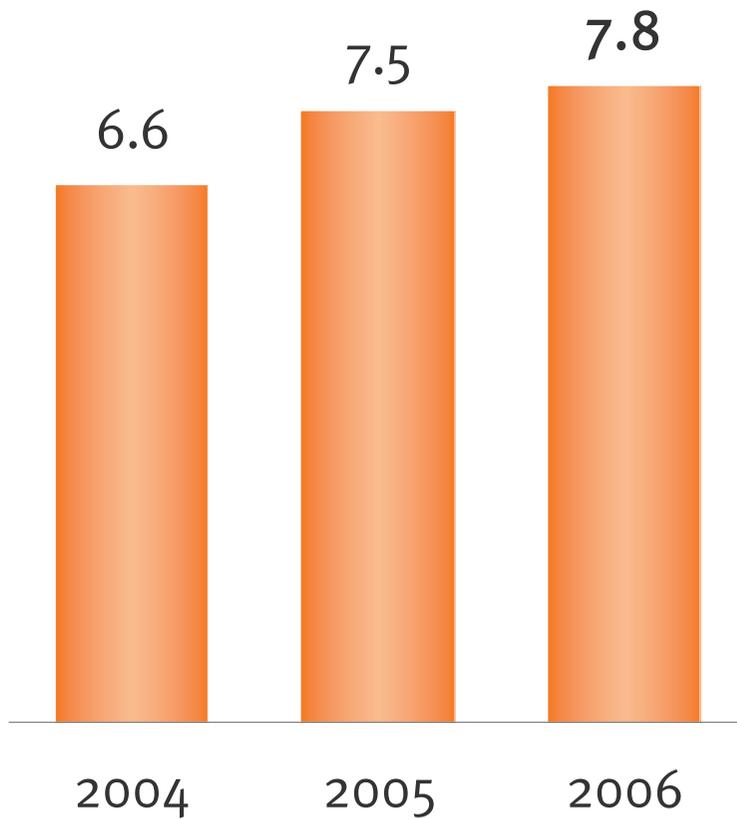


2003	2004	2005	2006	Total	Copies
	14	52	40	106	4.0m
46	33	22	1	102	4.6m
			26	26	2.4m

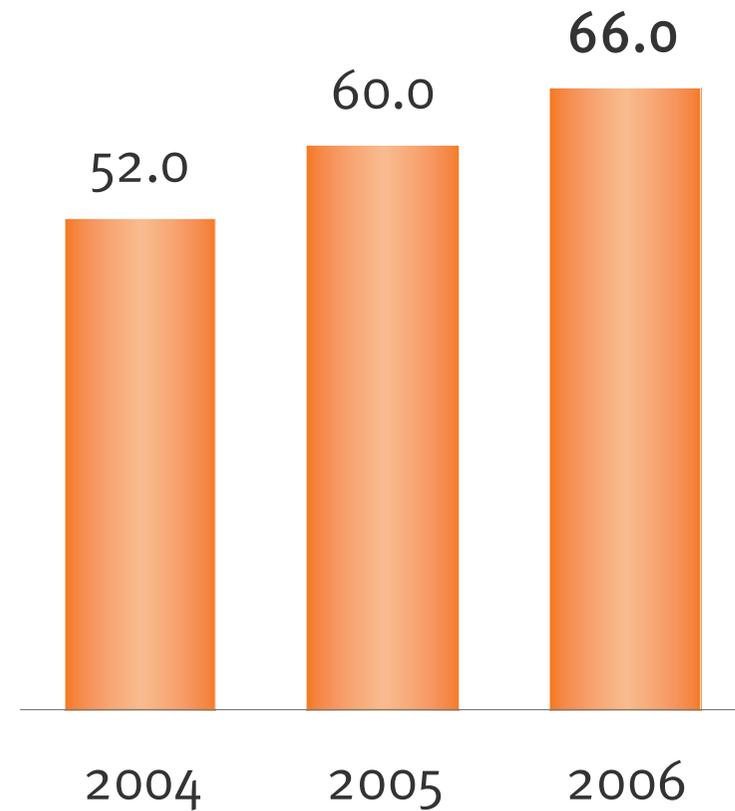
Efficiency

Penguin

Margins, %



Operating profit, £m



What next?

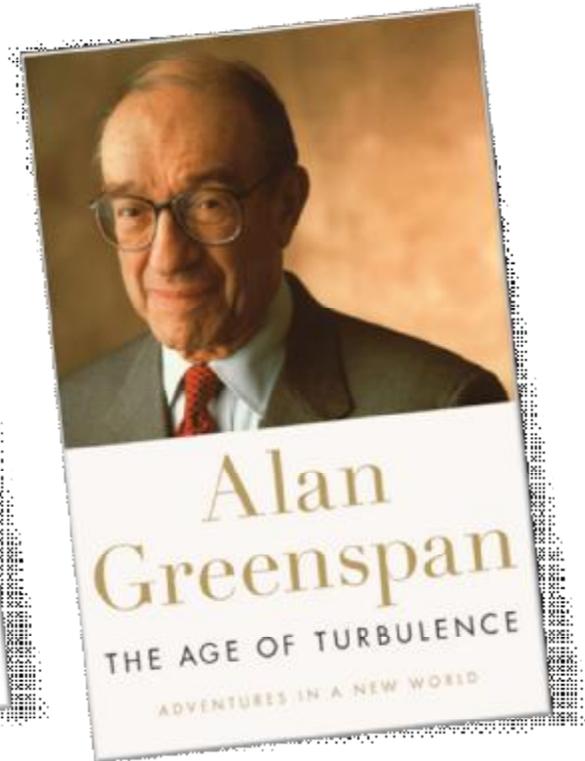
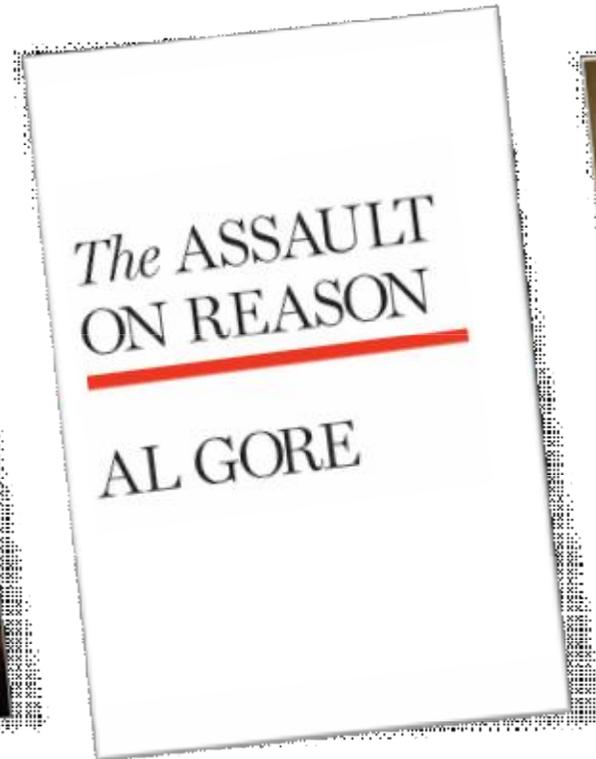
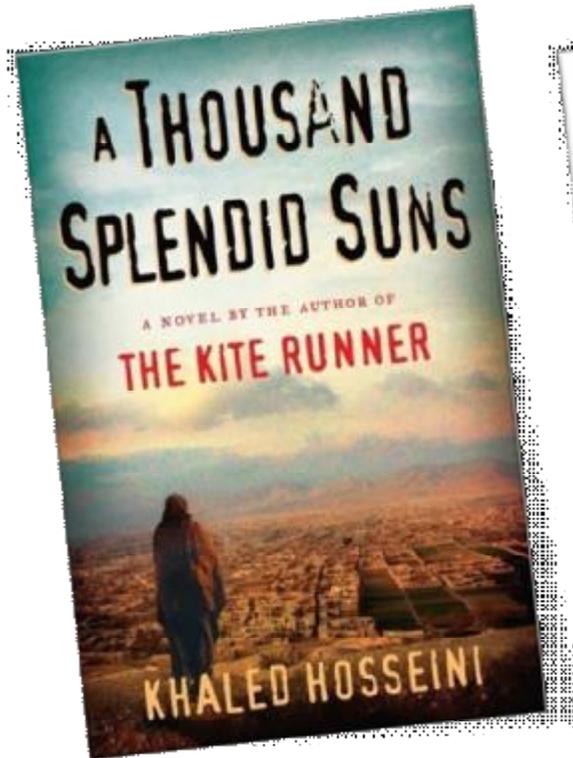
Further efficiency gains

Digital opportunity

Emerging markets

Great publishing

2007 titles





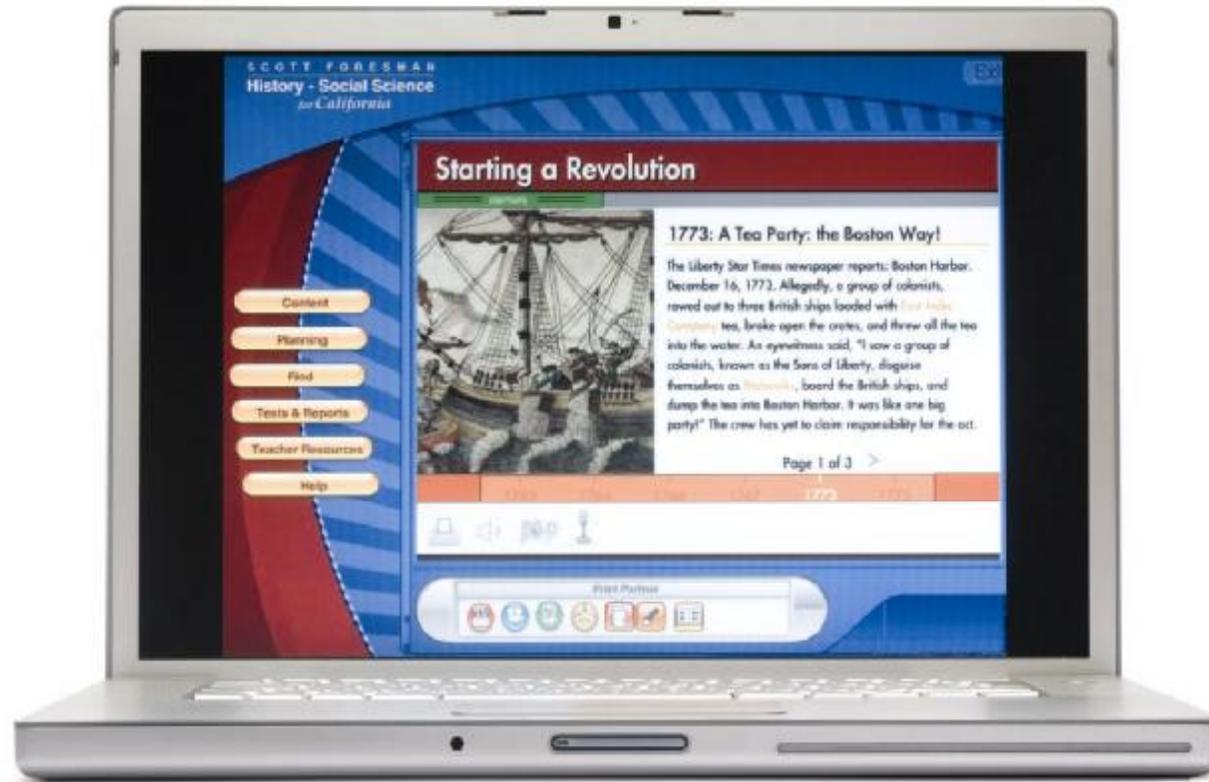
FINANCIAL TIMES

FINANCIAL TIMES

France on the line

Beijing goes
state secret
three years
to half

Nationalism
in Serbian



The future of history.

Content

Education pre-publication spend



Content + technology

CA Social Studies	1.5m students
On-screen marking	100m test questions
Online testing	1.4m examinations
Student information	25m students
Instructional software	20m students
College instruction	4.5m students
Online certification	4m professionals

Approx \$1.1bn/23% of education sales

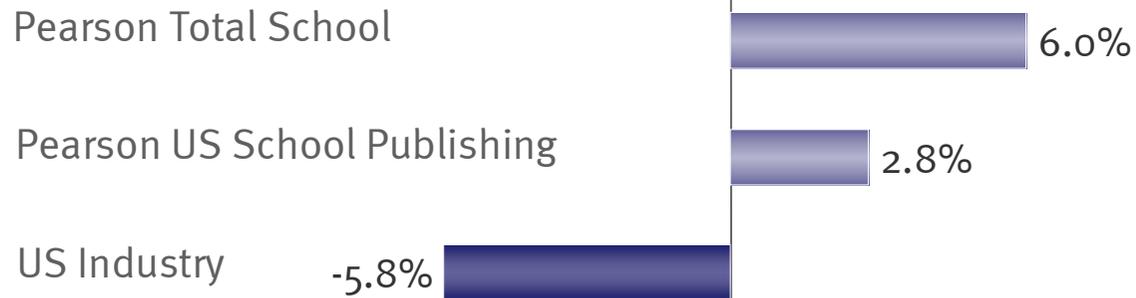
Content + services

School & Professional testing revenues

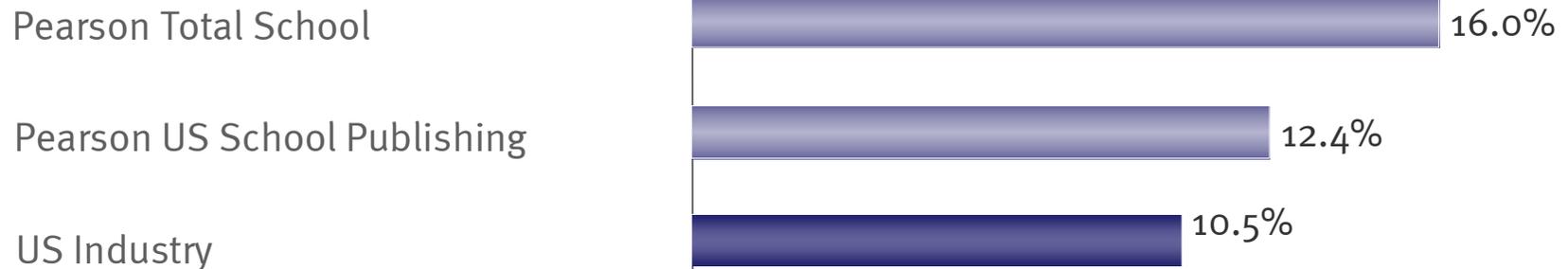


Growth School

2006



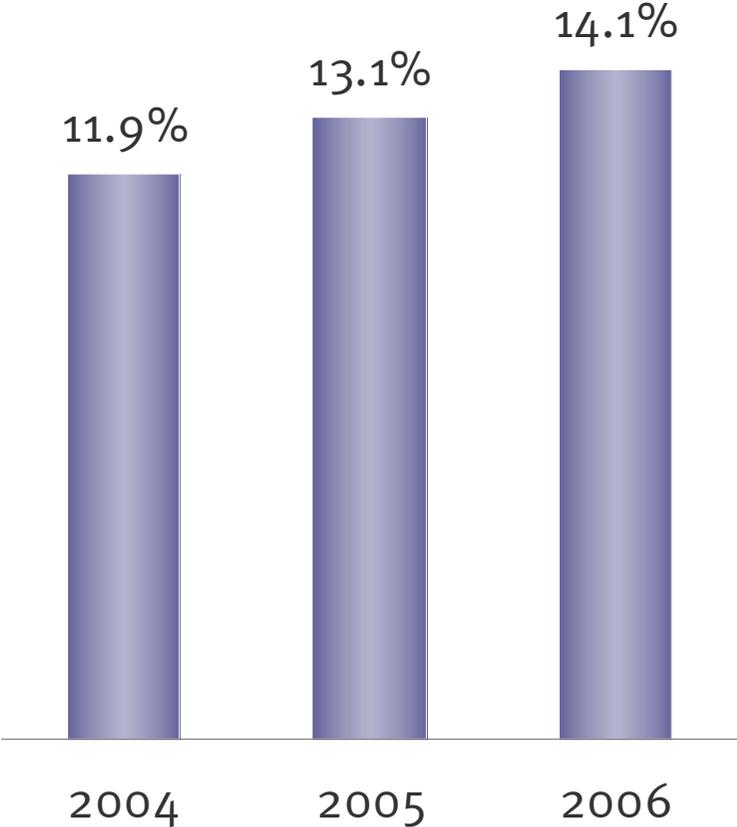
2005



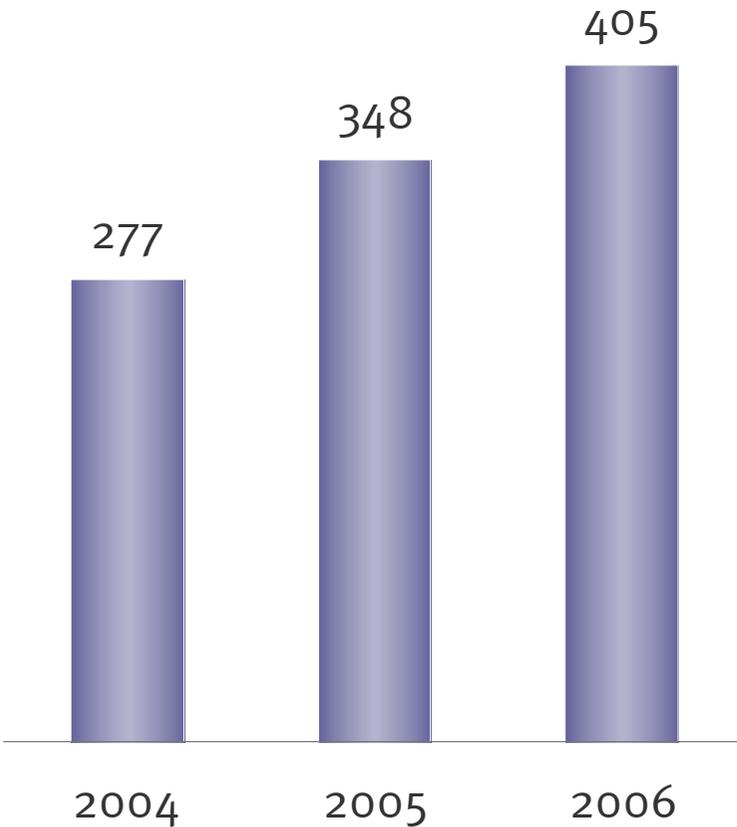
Sources: AAP / Pearson

Efficiency Education

Margins, %



Operating profit, £m



What next?
The market

Funding and policy

Adoption cycle

Technology and productivity

What next?

Personalisation and services

K-16-professional

Efficacy

International expansion

Margins

PEARSON

The Pearson logo consists of the word "PEARSON" in a white, uppercase, serif font. Below the text is a white, curved line that arches over the letters, resembling a stylized horizon or a wave.

Market leadership

Sustainable growth