

PEARSON

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2010 half-year results

26 July 2010

Forward-looking statements

Except for the historical information contained herein, the matters discussed in this presentation include forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated costs savings and synergies and the execution of Pearson's strategy, are forward looking statements. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in future.

There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements, including a number of factors outside Pearson's control. These include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in the company's publicly-filed documents.

Any forward looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based.

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Agenda

Overview

Marjorie

Results and outlook

Robin

Markets and plans

CEOs

Q&A

Financial highlights

£m	H1 2010	H1 2009	<i>Headline Growth</i>	<i>CER Growth</i>
Sales *	2,342	2,149	<i>9%</i>	<i>9%</i>
Operating profit *	178	84	-	<i>79%</i>
Adjusted EPS	16.6p	7.9p	-	-
Operating cash flow	(92)	(206)	<i>55%</i>	-
Dividend	13.0p	12.2p	<i>7%</i>	-

*Continuing operations

Our world in 2010

Economic environment uncertain

Public funding shrinking

Demand for learning and information vigorous

Commitment to education reform urgent

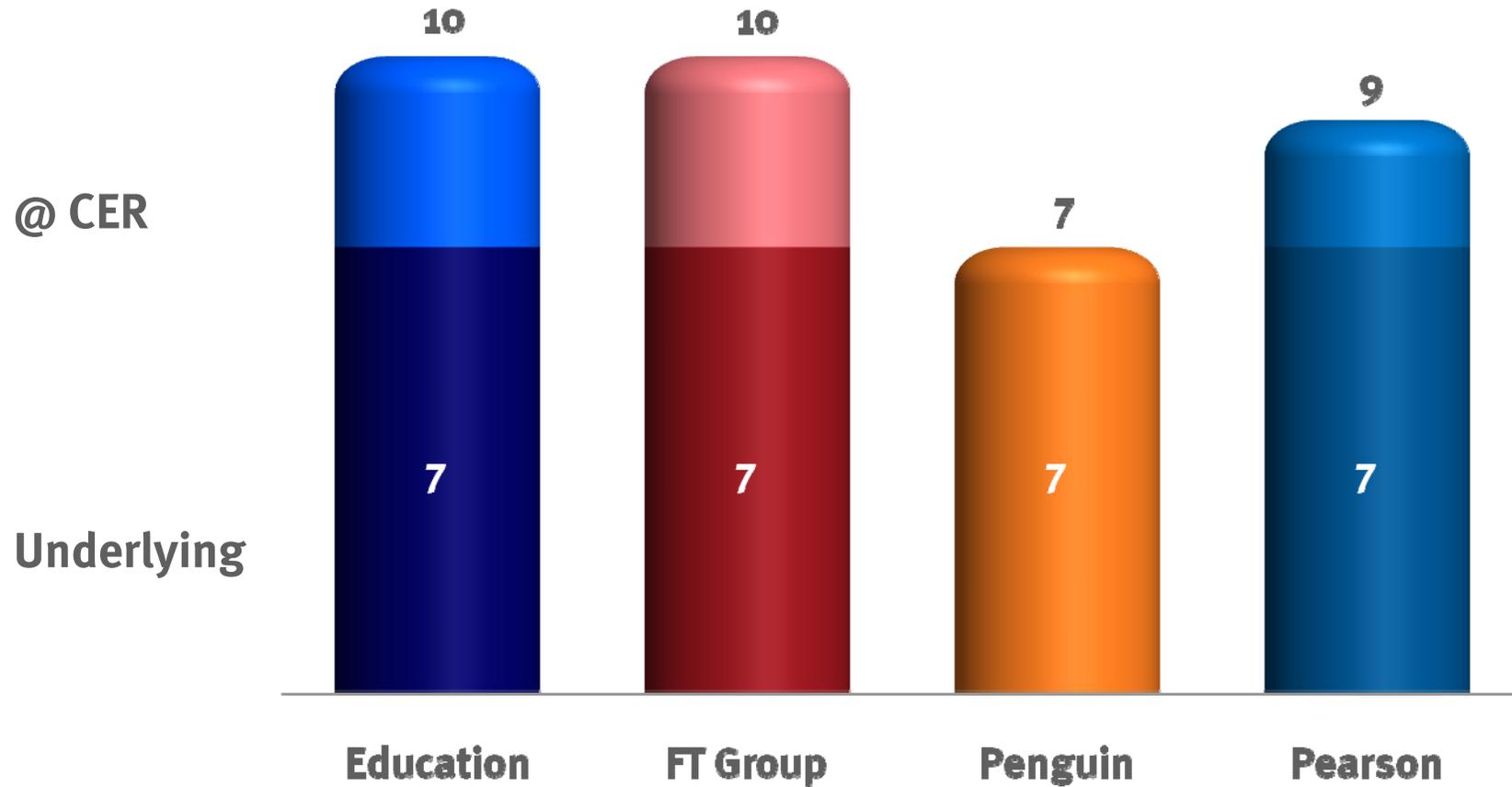
Digital innovation and adoption accelerating

Our investments are producing:

1. Growth
2. Share gains
3. Change
4. Returns

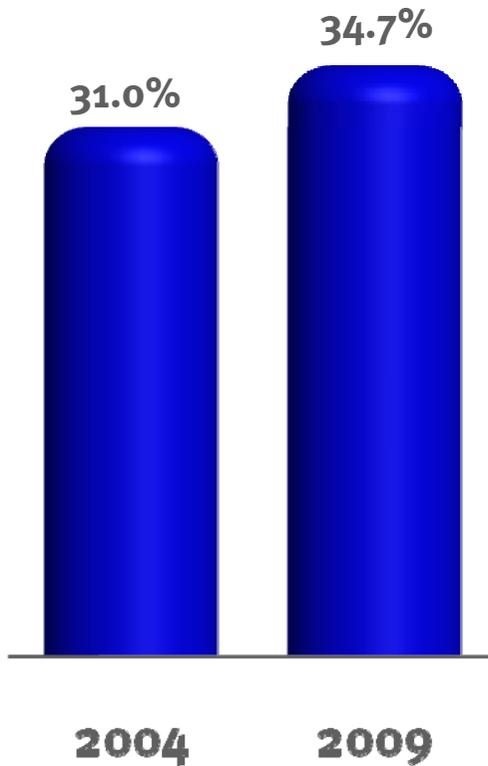
Strong growth

H1 2010, %



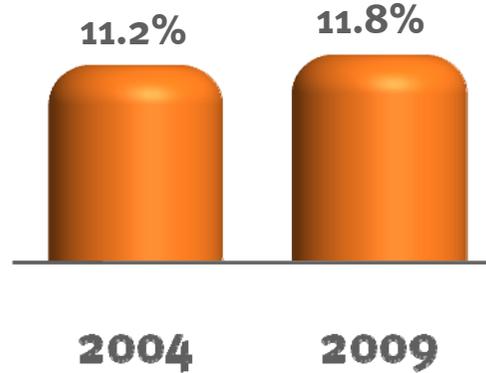
Sustained share gains

Education
US K-16 learning materials



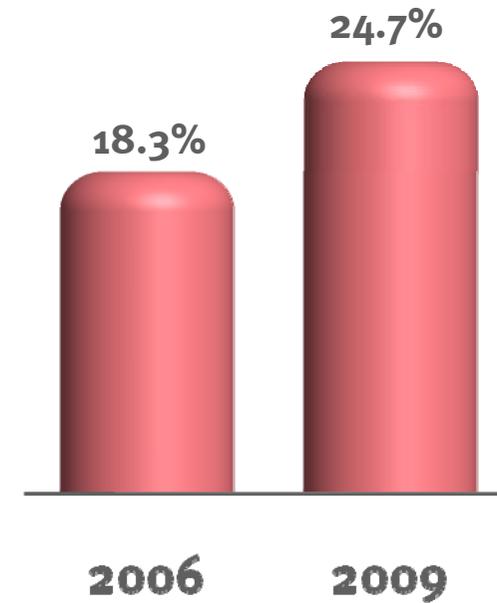
Share of US School and College learning materials market (Sources: Pearson, AAP)

Penguin
US



Share of US consumer books market (Source: Neilsen)

Financial Times
Readership



Share of business readers (Source: European, US, Asian Business Readership Surveys)

Change

	2005	2009
Services *	\$837m	\$1,641m
Digital	\$1,015m	\$1,964m
Developing markets	\$304m	\$648m
Margins	11.6%	13.8%

Excludes Interactive Data

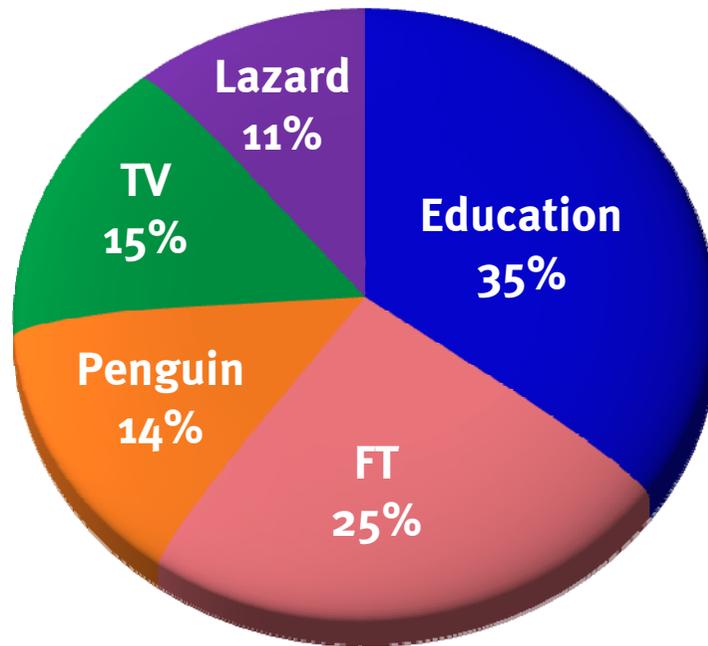
*Services defined as worldwide school + professional testing businesses

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Change

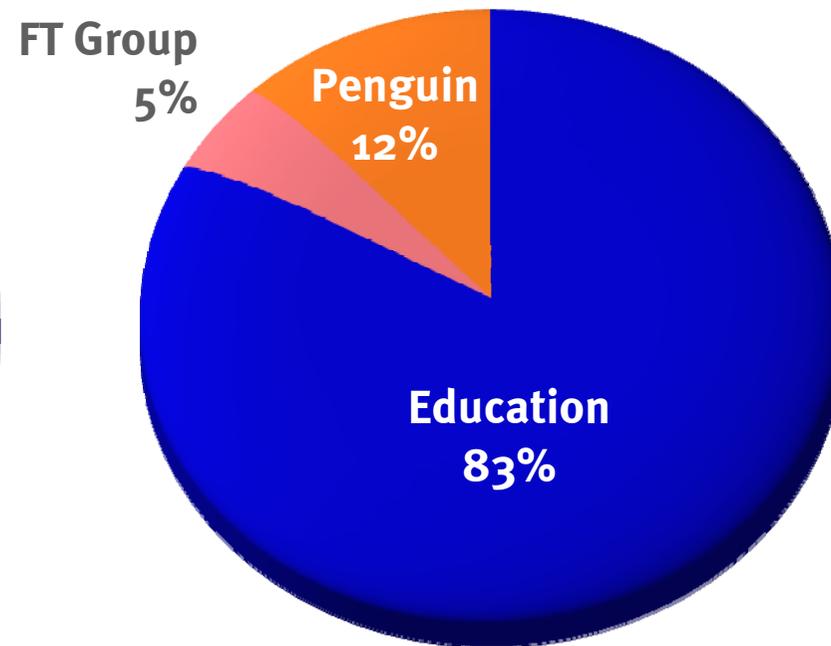
Operating profit

1999



£449m
UK GAAP

2009



£710m
IFRS
(excludes Interactive Data)

Investing in bolt-on acquisitions

Year	Acquisitions	Disposals
2002		RTL, Forum
2003	Edexcel, LessonLab	El Mundo
2004	Altona Ed, Dominie Press, KAT	Capella, Business.com
2005	AGS, Co-nect	Recoletos, MarketWatch
2006	Promissor, NES, PowerSchool, Chancery, PBM, Mergermarket	
2007	Harcourt, eCollege, Edustructures	Government Solutions, Les Echos
2008	MoneyMedia, MML, Longman Nigeria	Data Management, FT Deutschland
2009	Wall Street English, NTC, Fronter	
2010	Melorio	
\$3.4bn		\$3.6bn

List not comprehensive; figures include all completed transactions

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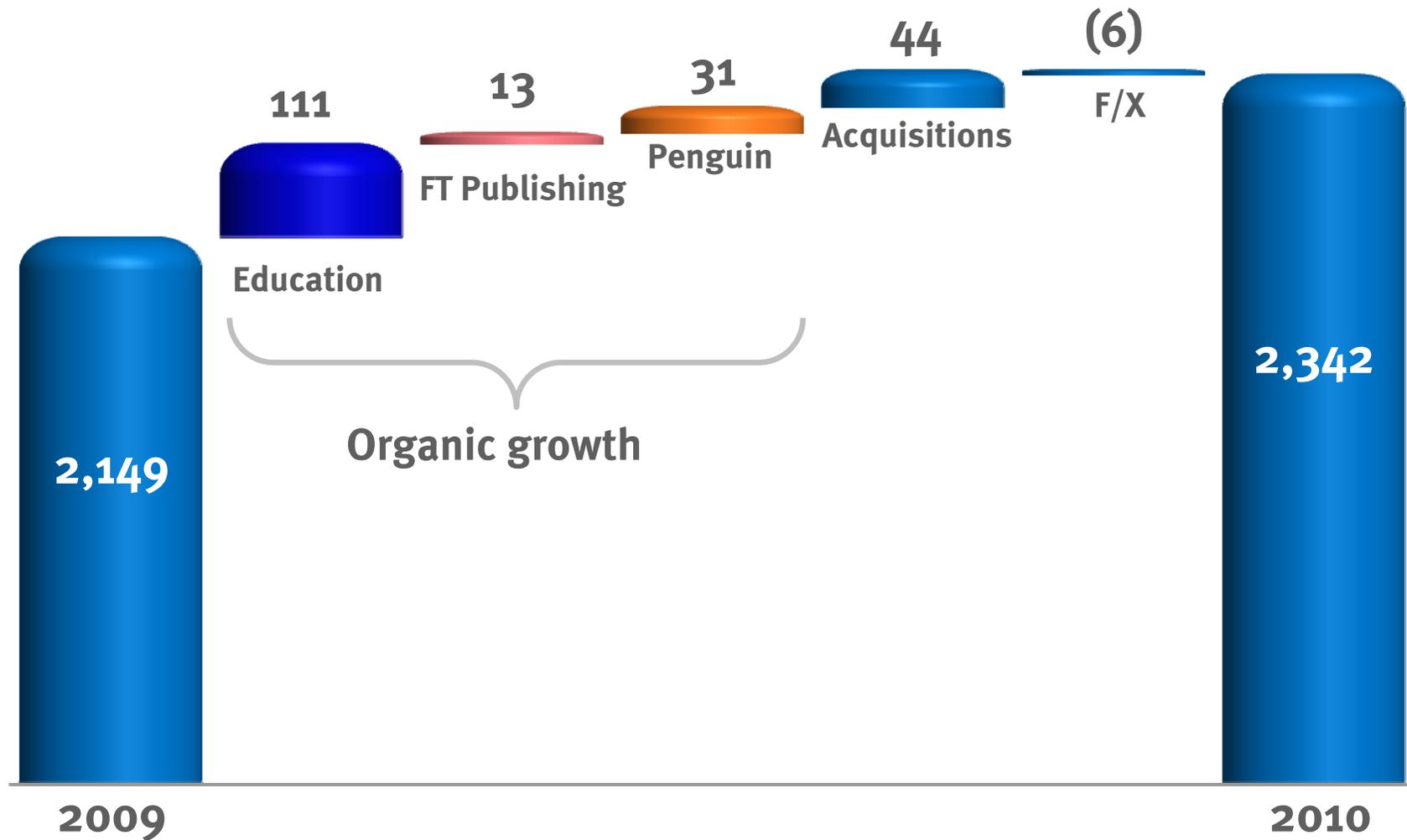
Financial review

Sales

£m	H1 2010	H1 2009	<i>Headline Growth</i>	<i>CER Growth</i>
North America	1,017	943	<i>8%</i>	<i>10%</i>
International	504	446	<i>13%</i>	<i>11%</i>
Professional	136	132	<i>3%</i>	<i>5%</i>
FT Group	192	176	<i>9%</i>	<i>10%</i>
Penguin	493	452	<i>9%</i>	<i>7%</i>
Total	2,342	2,149	<i>9%</i>	<i>9%</i>
Discontinued*	256	249	<i>3%</i>	<i>4%</i>

* Interactive Data

Sales growth, £m



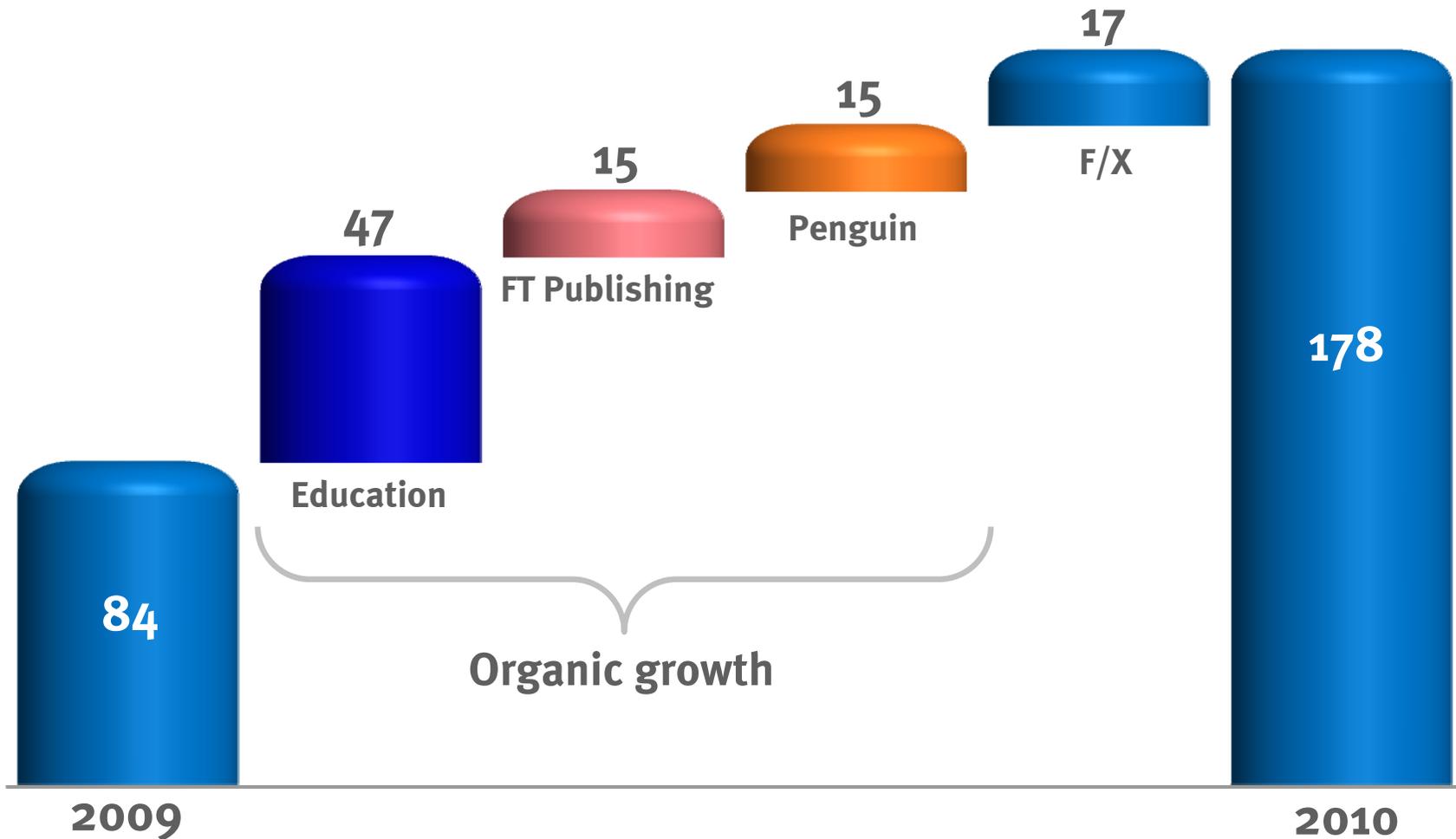
Continuing operations

Operating profit

£m	H1 2010	H1 2009	<i>Headline Growth</i>	<i>CER Growth</i>
North America	51	12	--	--
International	36	23	<i>57%</i>	<i>16%</i>
Professional	17	14	<i>21%</i>	<i>21%</i>
FT Group	30	14	--	--
Penguin	44	21	--	<i>56%</i>
Total	178	84	--	<i>79%</i>
Discontinued*	70	74	<i>(5)%</i>	<i>(4)%</i>

* Interactive Data

Profit growth, £m



Continuing operations

Summary phasing effects

Earlier purchasing in US School

Earlier marking completion in UK testing

Penguin publishing schedule & restructuring

Helpful H1 comparatives, tougher in H2

Adjusted earnings per share

£m	H1 2010	H1 2009
Adjusted operating profit – continuing	178	84
Adjusted operating profit – discontinued	70	74
Finance costs – Pensions	(6)	(6)
Finance costs – Traditional	(39)	(41)
Adjusted profit before tax	203	111
Taxation	(53)	(30)
Adjusted profit after tax	150	81
Minorities	(17)	(18)
Adjusted earnings	133	63
Adjusted EPS	16.6p	7.9p

P&L – statutory

£m	H1 2010	H1 2009
Adjusted operating profit	178	84
Intangible amortisation/acquisition costs	(50)	(43)
Statutory operating profit	128	41
Finance costs	(34)	(48)
Profit/(loss) before tax	94	(7)
Taxation	(25)	5
Profit/(loss) after tax	69	(2)
Discontinued	35	46
Profit for the period	104	44
EPS (statutory)	11.5p	3.5p

Free cash flow

£m	H1 2010	H1 2009
Adjusted operating profit	248	158
Working capital	(312)	(332)
Fixed asset purchases	(71)	(63)
Depreciation	65	65
Other movements	(22)	(34)
Operating cash flow	(92)	(206)
Operating tax paid	(46)	(43)
Operating finance charges	(27)	(35)
Free cashflow	(165)	(284)

Total business

Balance sheet

£m	H1 2010	H1 2009
Goodwill & intangible assets	5,533	4,935
Tangible fixed assets	410	386
Operating working capital	1,203	1,215
Other net liabilities	(113)	(50)
Net assets	7,033	6,486
Shareholders' funds	4,392	4,033
Pensions	454	233
Other provisions	78	98
Minorities	324	261
Deferred tax	39	1
Net debt	1,746	1,860
Capital employed	7,033	6,486

Total business

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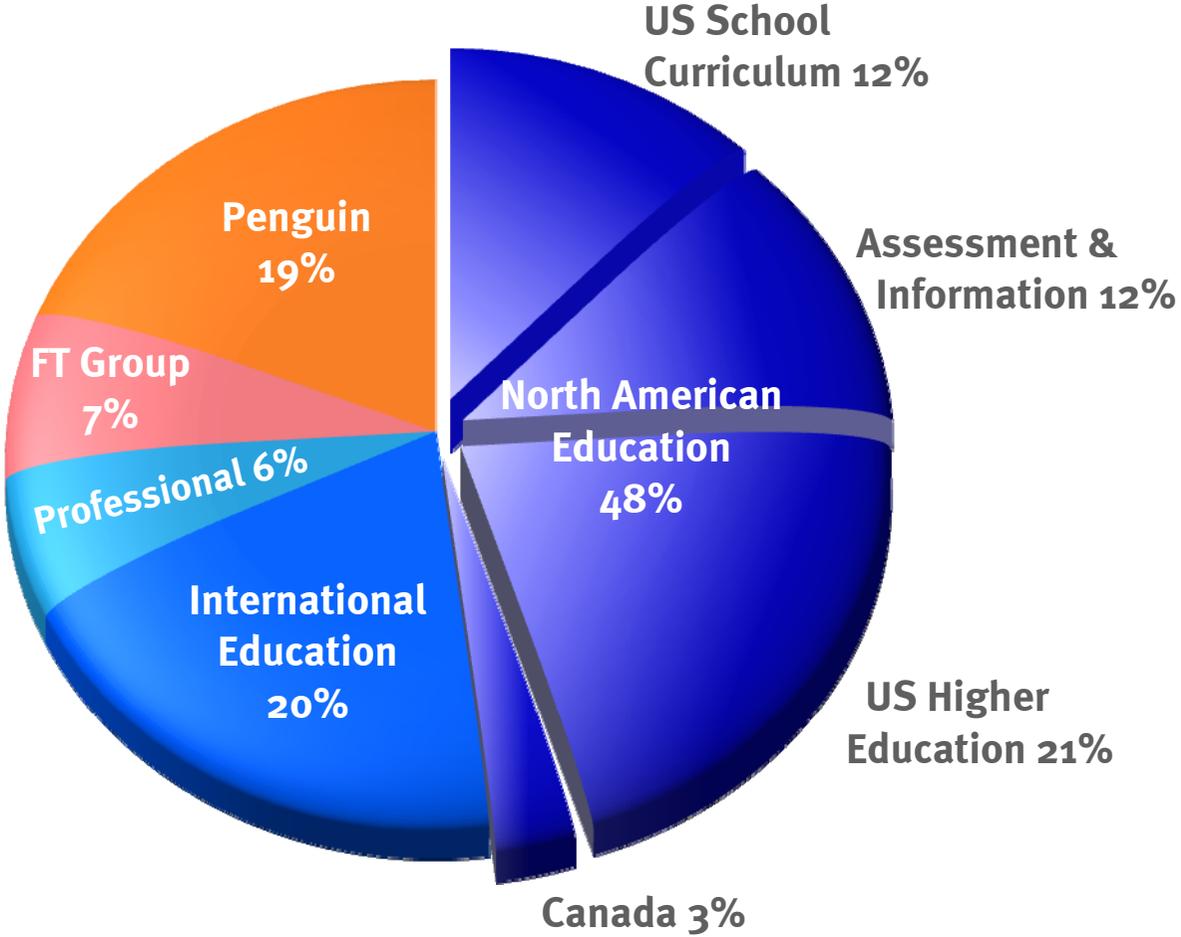
Outlook

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North American Education

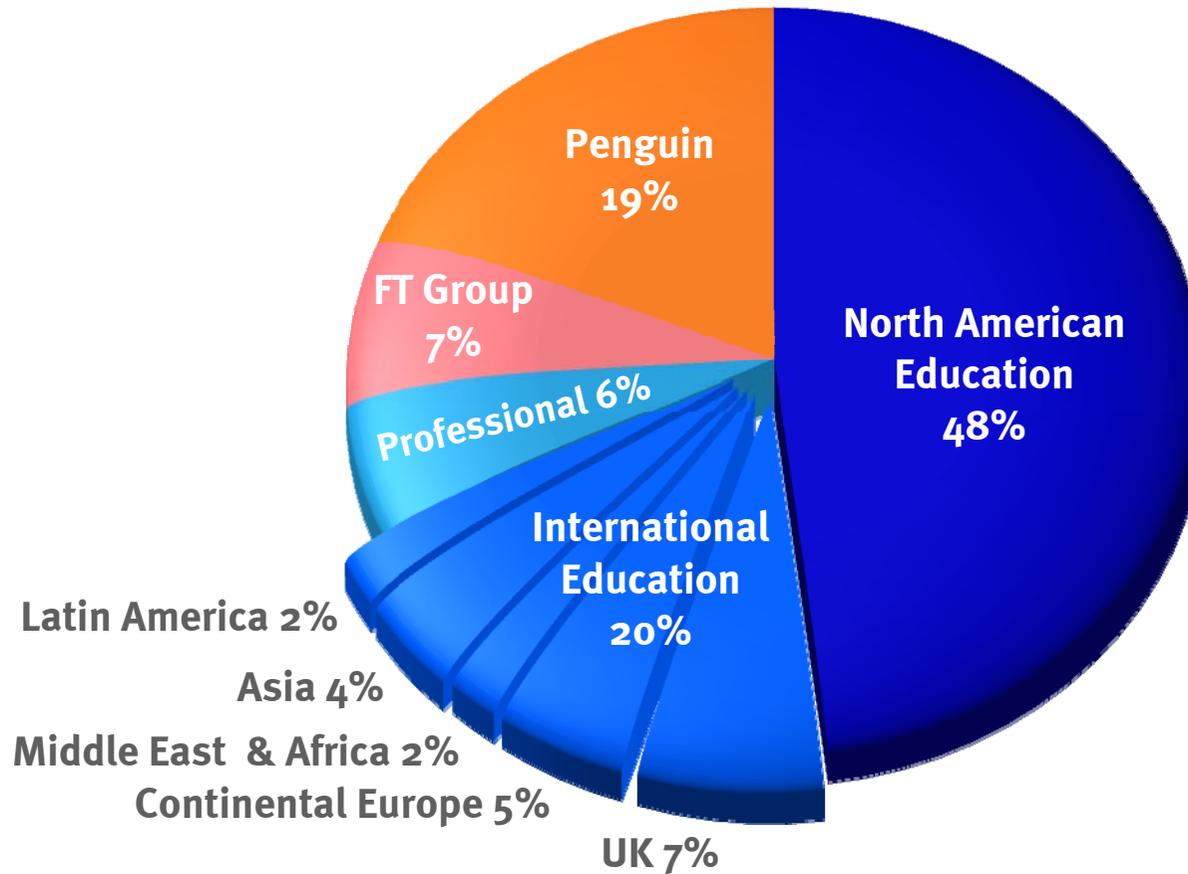


2009 revenues: £5.1bn

Excludes Interactive Data



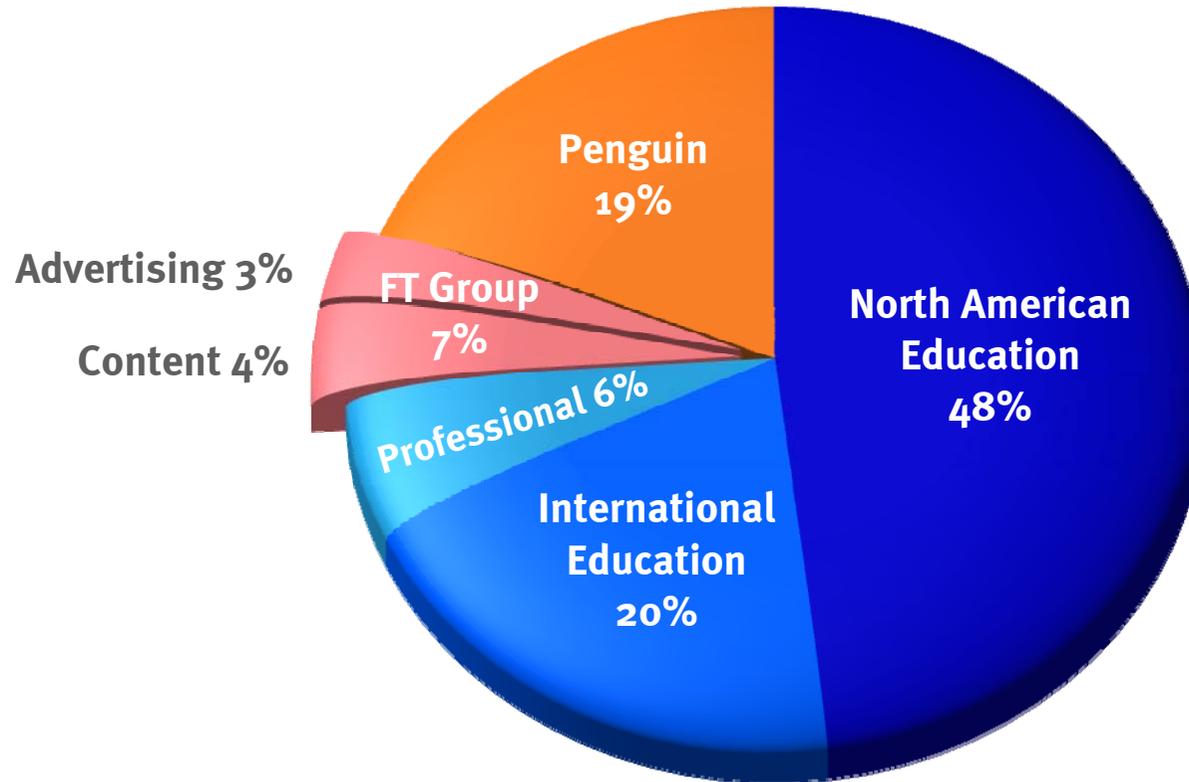
International Education



2009 revenues: £5.1bn

Excludes Interactive Data

FT Group

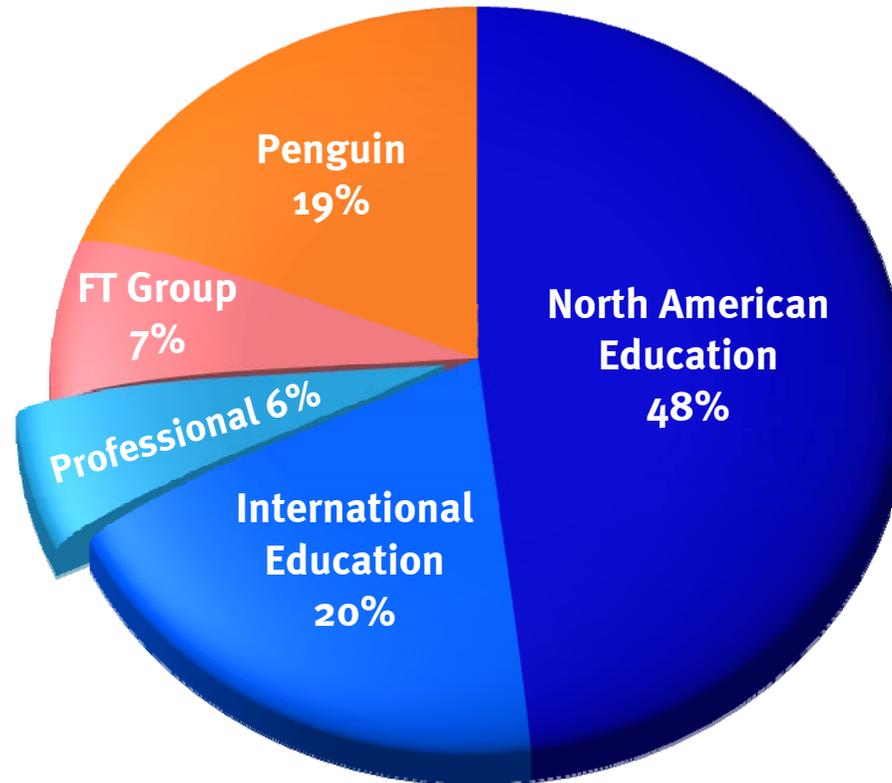


2009 revenues: £5.1bn

Excludes Interactive Data



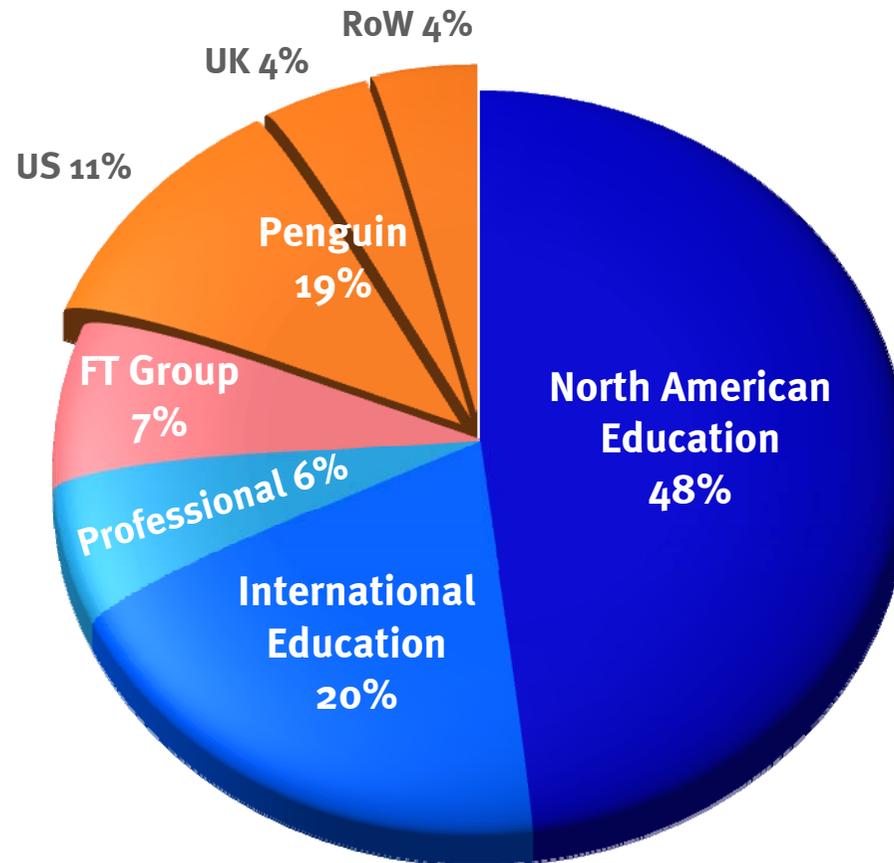
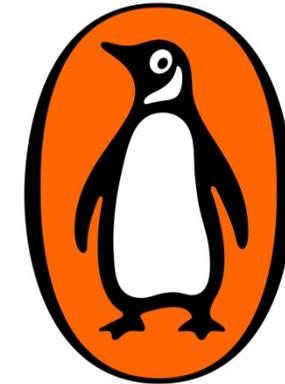
Professional Education



2009 revenues: £5.1bn

Excludes Interactive Data

Penguin

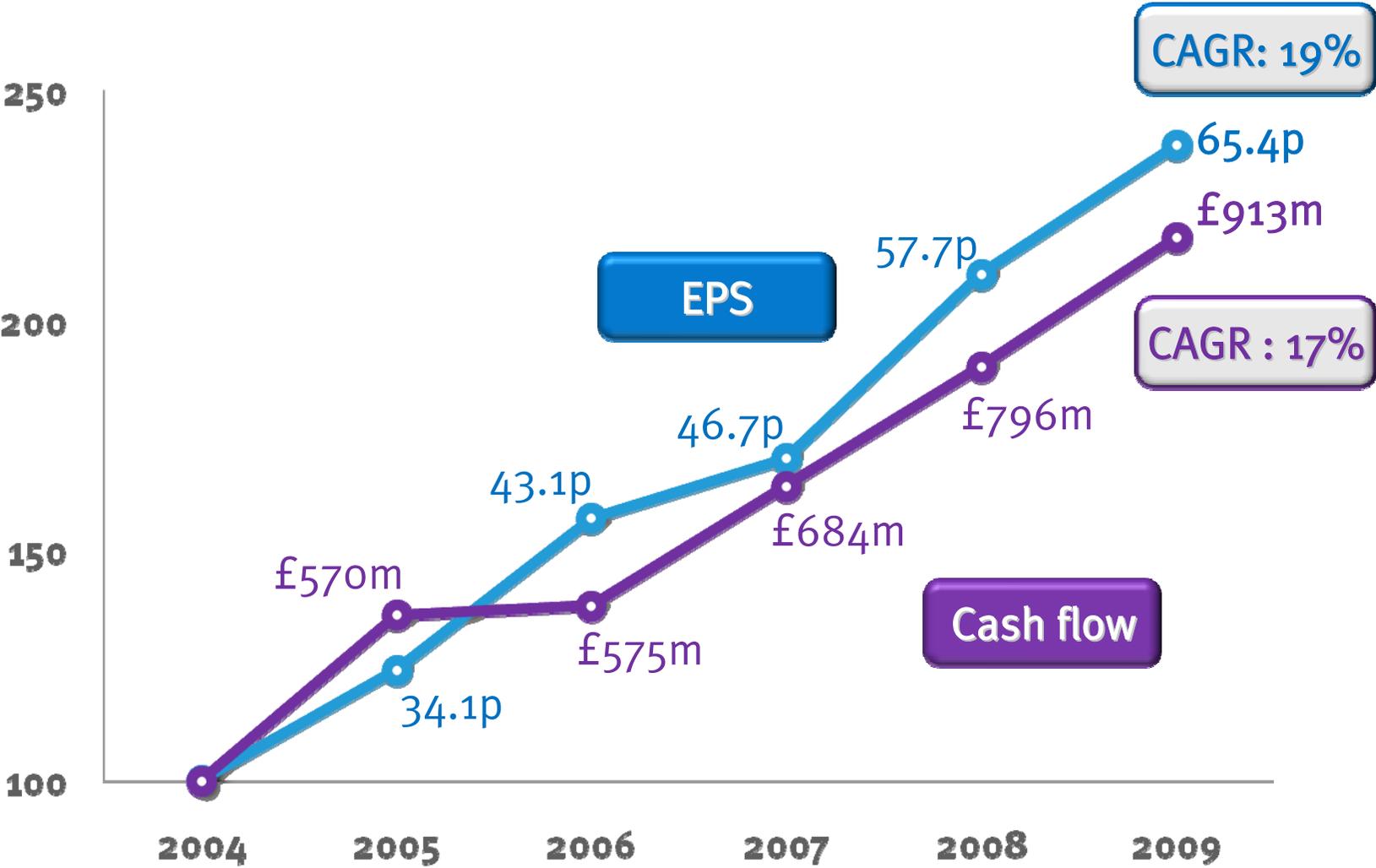


2009 revenues: £5.1bn

Excludes Interactive Data

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Durability and growth



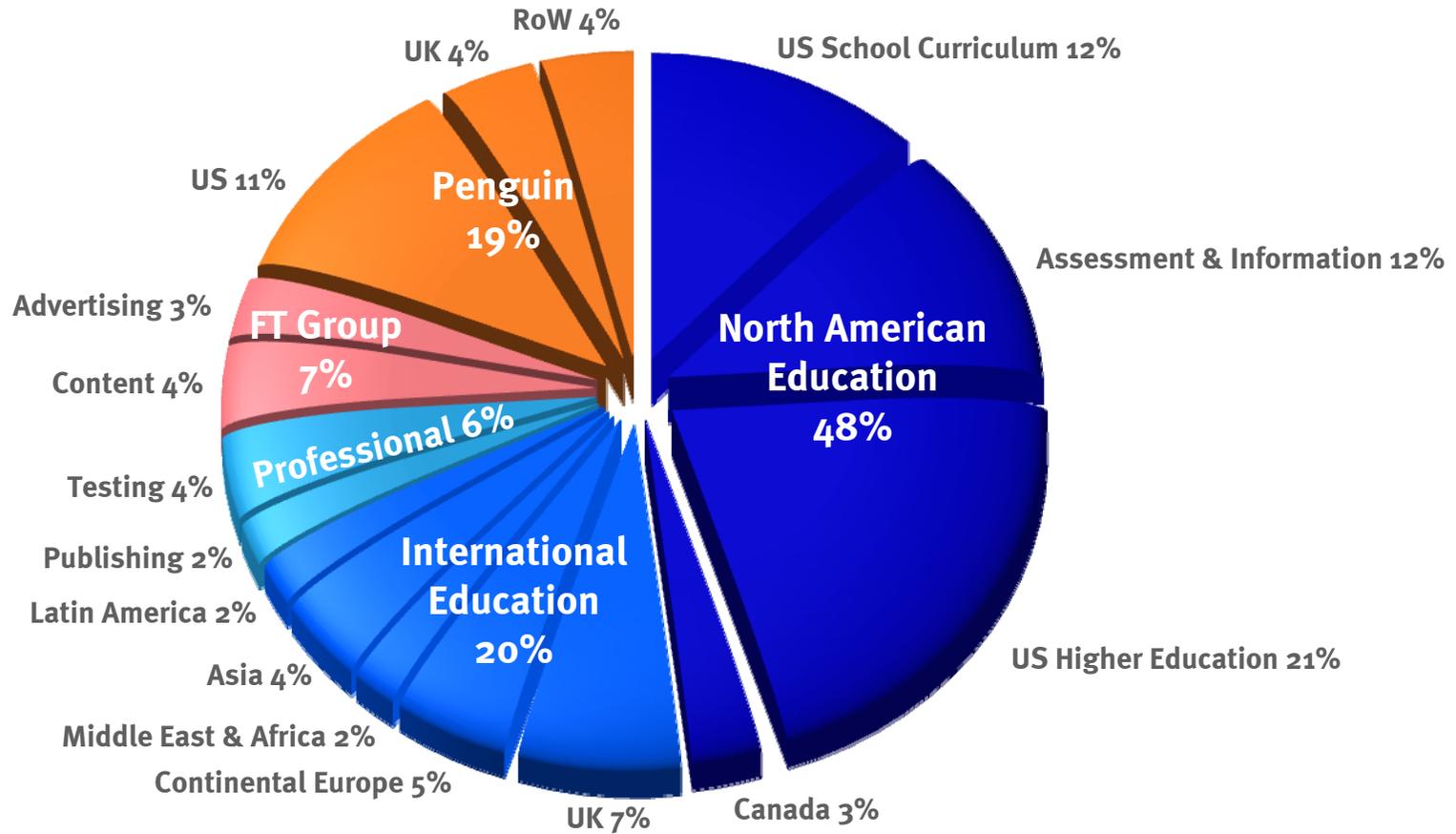
2004 = 100

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Appendices

The shape of Pearson



2009 revenues: £5.1bn

Excludes Interactive Data



North American Education

Markets

- School curriculum growing after tough '09
- Funding environment remains weak
- Healthy enrolments and demand in higher education
- Hunger for innovation and reform

Priorities

- Support policy change
- Develop new business models
- Build platforms & services
- Use scale to fuel efficiencies and investment
- Benefit from global reach

International Education

Markets

- Healthy demand from consumers, parents
- Rapid growth in developing economies
- Public spending under pressure in developed markets

Priorities

- Educational effectiveness
- Services
- Latin America
- Global English language

FT Group & Professional Education

Markets

- Healthy demand for content & services
- Corporate activity increasing but confidence muted; advertising volatile
- Strong demand for work-related learning, information, certification

Priorities

- Invest organically in content, technology & subscriptions
- Expand internationally
- Bolt-on acquisitions

Penguin

Markets

- Soft markets
- New devices; new channels
- Accelerating shift to digital

Priorities

- Publishing depth and breadth
- Digital publishing, innovation
- Emerging markets

Share gains in new school adoptions

2010 estimates

Subject	Total opportunity	Market share (where we compete)	Position
Science	\$15m	41%	#1
Social Studies	\$5m	61%	#1
Reading/literature	\$490m	24%	#3
Maths	\$255m	37%	#1
Other	\$20m	18%	#2
Total competed for	\$785m	29%	#2
Total – all adoptions	\$815m	28%	#2/3

Reconciliation: statutory to adjusted earnings

Half year 2010

£m	Statutory	Discontinued operations	Acquisition and disposal costs	Amortisation of acquired intangibles	Other net finance costs/income	Tax amortisation benefit	Adjusted earnings
Operating profit – continuing	128	-	3	47	-	-	178
Operating profit – discontinued	-	53	10	7	-	-	70
Operating profit	128	53	13	54	-	-	248
Net finance costs	(34)	-	-	-	(11)	-	(45)
Profit before tax	94	53	13	54	(11)	-	203
Income tax	(25)	(18)	(4)	(19)	3	10	(53)
Profit after tax	69	35	9	35	(8)	10	150
Discontinued operations	35	(35)	-	-	-	-	-
Profit for the period	104	-	9	35	(8)	10	150
Minority Interest	(12)	-	(2)	(2)	-	(1)	(17)
Earnings	92	-	7	33	(8)	9	133

Reconciliation: statutory to adjusted earnings

Half year 2009

£m	Statutory	Discontinued operations	Amortisation of acquired intangibles	Other net finance costs/income	Tax amortisation benefit	Adjusted earnings
Operating profit – continuing	41	-	43	-	-	84
Operating profit – discontinued	-	68	6	-	-	74
Operating profit	41	68	49	-	-	158
Net finance costs	(48)	1	-	-	-	(47)
Profit before tax	(7)	69	49	-	-	111
Income tax	5	(23)	(14)	-	2	(30)
Profit after tax	(2)	46	35	-	2	81
Discontinued operations	46	(46)	-	-	-	-
Profit for the period	44	-	35	-	2	81
Minority Interest	(16)	-	(2)	-	-	(18)
Earnings	28	-	33	-	2	63

Reconciliation: pre-publication costs

£m	H1 2010	H1 2009
Opening balance	650	695
Exchange	40	(69)
New spend capitalised	141	158
Acquisitions	2	3
Amortisation	(132)	(113)
Closing balance	701	674
Total education sales	1,657	1,521
Amortisation as a % of sales	8.0%	7.4%

Reconciliation: half-year net debt

£m	2010			2009		
	Continuing operations	Discontinued operations	Total business	Continuing operations	Discontinued operations	Total business
Non current assets						
Derivative financial instruments	156	-	156	121	-	121
Current assets						
Derivative financial instruments	13	-	13	-	-	-
Marketable securities	5	-	5	2	58	60
Cash and cash equivalents	468	232	700	349	106	455
Non current liabilities						
Borrowings	(2,004)	-	(2,004)	(2,437)	-	(2,437)
Derivative financial instruments	(2)	-	(2)	(3)	-	(3)
Current liabilities						
Borrowings	(612)	-	(612)	(47)	-	(47)
Derivative financial instruments	(2)	-	(2)	(9)	-	(9)
Net debt	(1,978)	232	(1,746)	(2,024)	164	(1,860)

Retirement benefit obligations

£m	H1 2010	H1 2009
Income statement		
Operating charge		
Defined benefit schemes	12	10
Defined contribution schemes	34	31
Post retirement medical benefit schemes	1	1
	47	42
Interest	6	6
Total	53	48
Balance sheet		
UK pension scheme liabilities	(290)	(79)
Other pension scheme liabilities	(61)	(67)
Post retirement medical benefit liability	(67)	(61)
Other pension accruals	(36)	(26)
Total	(454)	(233)

Includes Interactive Data for both periods