

26 February 2007

PEARSON 2006 PRELIMINARY RESULTS

- **Record results.** Pearson reports its highest ever operating profits (adjusted operating profit up 15% to £592m), earnings (adjusted eps up 18% to 40.2p) and cash (free cash flow up £2m to £433m).
- **Sustained growth and market share gains.** School sales up 6% and Higher Education sales up 4%, benefiting from leading position in content, assessment and technology; FT advertising revenues up 9%; Penguin sales up 3% despite tough consumer publishing market.
- **Stronger margins and double-digit profit growth in all businesses.** Pearson margin up a percentage point to 13.4%. Education margin up to 14.1% and profits up 12%; FT Group margin up to 17.3% and profits up 18%; Penguin margin up to 7.8% and profits up 22%.
- **Higher returns.** Return on invested capital up to 8.0% (from 6.7% in 2005), above Pearson's weighted average cost of capital; dividend increased by 8.5% to 29.3p, the largest increase for a decade.

Marjorie Scardino, chief executive, said: "This is another strong set of results. We have built market-leading businesses and invested consistently in their content, technology and international expansion. That strategy is paying off with sustained growth in sales, margins, earnings and returns, and we expect 2007 to be another good year."

£ millions	2006	2005	Headline growth	Underlying growth
Business performance				
Sales	4,423	4,096	8%	4%
Adjusted operating profit	592	506	17%	15%
Adjusted profit before tax	502	422	19%	--
Adjusted earnings per share	40.2p	34.1p	18%	--
Operating cash flow	575	570	1%	--
Free cash flow	433	431	--	--
Return on invested capital	8.0%	6.7%	1.3 ppts	0.6 ppts
Net debt	1,059	996	(6)%	--
Statutory results				
Sales	4,137	3,808	9%	--
Operating profit	540	516	5%	--
Profit before tax	466	446	4%	--
Basic earnings per share	55.9p	78.2p	(29)%	--
Basic earnings per share – continuing	54.1p	38.9p	39%	--
Cash generated from operations	621	653	(5)%	--
Dividend per share	29.3p	27.0p	8.5%	--

Throughout this statement, we refer to business performance measures for total operations (including Government Solutions) and growth rates on an underlying basis (ie excluding currency movements and portfolio changes) unless otherwise stated. The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes to the accounts 2, 5, 7, 12, 14 and 15. Profit measures within business performance are presented on an adjusted basis to exclude: i) other net gains and losses arising in connection with the sale of subsidiaries, investments and associates; ii) amortisation and adjustment of acquired intangible assets; and iii) short-term fluctuations in the market value of financial instruments (under IAS39) and other currency movements (under IAS21).

2006 OVERVIEW

Pearson's three key financial measures are adjusted earnings per share, free cash flow and return on invested capital. In 2006, adjusted EPS and free cash flow reached record levels, and our return on invested capital increased from 6.7% in 2005 to 8.0%, above our weighted average cost of capital of 7.7%.

Pearson's sales increased by 4% to £4.4bn and adjusted operating profit was up 15% to a record £592m. All parts of Pearson contributed, with good sales growth, further margin improvement and double-digit profit increases in each business. Adjusted earnings per share were 40.2p, up 18%.

Operating cash flow increased by £5m to £575m and free cash flow by £2m to £433m. Cash conversion was strong at 97% of operating profit (even after an exceptional 113% cash conversion rate in 2005). The ratio of average working capital to sales at Pearson Education and Penguin improved by 1.1% points to 26.3%.

Statutory results show an increase in operating profit to £540m (£516m in 2005). Basic earnings per share were 55.9p (compared with 78.2p in 2005, which included the £302m profit on the sale of Recoletos). Net debt rose by £63m to £1,059m (from £996m in 2005).

During the year, we completed a series of bolt-on acquisitions in Education (including Promissor, PBM, National Evaluation Systems, PowerSchool and Chancery) and the FT Group (Quote.com and Mergermarket). Our total investment in acquisitions in 2006 was £363m. Together, these acquisitions contributed £147m of sales and £17m of operating profit to our 2006 results (after integration costs, which are expensed).

In December 2006 we announced the sale of Government Solutions to Veritas Capital for \$560m in cash, \$40m in preferred stock and a 10% interest in the company. In 2006 Government Solutions contributed £286m of sales and £22m of operating profit to Pearson. The sale was completed on 15 February 2007. As part of our plan to reduce our UK pension deficit, we will inject £100m of the cash proceeds from the sale of Government Solutions into our UK pension scheme during 2007.

The board is proposing a dividend increase of 8.5% to 29.3p, the largest increase for a decade. Subject to shareholder approval, 2006 will be Pearson's 15th straight year of increasing our dividend above the rate of inflation, and in the past five years alone we have returned approximately £1bn (\$1.8bn) to shareholders through the dividend.

2007 OUTLOOK

We expect 2007 to be another good year for Pearson, with continued margin improvement and growth ahead of our markets. We expect to achieve good underlying earnings growth, cash conversion ahead of our 80% threshold, and a further increase in return on invested capital. At this early stage in the year our outlook is:

- **Pearson Education** (65% of 2006 sales; 68% of operating profit). We expect School to achieve underlying sales growth in the 4-6% range; Higher Education to grow in the 3-5% range; and Professional sales to be broadly level with 2006. We expect margins to improve again in School and Professional, and to be stable in Higher Education.
- **Penguin** (19% of sales; 11% of operating profit) expected to improve margins further, as its publishing investment and efficiency programmes continue to bear fruit.
- **Financial Times Group** (16% of sales; 21% of operating profit) expected to continue its strong profit growth. At FT Publishing, advertising trends remain difficult to predict, but we expect our cost measures, integration actions and revenue diversification to push margins into double digits in 2007. IDC has stated that it expects to achieve revenue growth in the 6-9% range and net income growth in the high single-digits to low double-digits (headline growth under US GAAP).

Interest. Our interest charge in 2007 will reflect the receipt of the sale proceeds from Government Solutions, a £100m cash payment into our UK pension scheme and higher interest rates.

Tax. For 2007, we expect our effective tax rate on adjusted earnings to be in the 28-30% range (compared with our 2006 rate of 30.9%). Our tax position benefits from deductions relating to amortisation of goodwill arising on acquisitions, and from 2007 we will reflect those deductions in adjusted earnings. The amount of tax paid (£59m in 2006) is not affected.

Exchange rates. Pearson generates about two-thirds of its sales in the US and each five cent change in the average £:\$ exchange rate for the full year (which in 2006 was £1:\$1.84) would have an impact of approximately 1p on adjusted earnings per share.

Dividends. In recent years, our dividend policy has been to increase the dividend ahead of the rate of inflation. Looking ahead, the Board expects to raise the dividend more in line with earnings growth, while building our dividend cover towards two times earnings.

For more information:

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Pearson's results presentation for investors and analysts will be webcast live today from 09.00 (GMT) and available for replay from 12.00 (GMT) via www.pearson.com.

We are holding a conference call for US investors at 15.00 (GMT) / 10.00 (EST). To participate please dial in on +1 718 354 1175 (inside the US) or +44 20 8974 7900 (outside the US), participant code 476378. The call will be available for replay at www.pearson.com.

Video interviews with Marjorie Scardino and Robin Freestone are available at www.pearson.com; high resolution photographs are available for the media at www.newscast.co.uk.

BUSINESS PERFORMANCE

£ millions	2006	2005	Headline growth	Underlying growth
Sales				
School	1,455	1,295	12%	6%
Higher Education	795	779	2%	4%
Professional*	627	589	6%	3%
Pearson Education	2,877	2,663	8%	4%
FT Publishing	366	332	10%	8%
IDC	332	297	12%	4%
FT Group	698	629	11%	6%
Penguin	848	804	5%	3%
Total	4,423	4,096	8%	4%
Adjusted operating profit				
School	184	147	25%	17%
Higher Education	161	156	3%	3%
Professional*	60	45	33%	29%
Pearson Education	405	348	16%	12%
FT Publishing	32	21	52%	52%
IDC	89	80	11%	9%
FT Group	121	101	20%	18%
Penguin	66	60	10%	22%
Total	592	509	16%	15%
Recoletos	--	(3)		
Total	592	506	17%	15%

* includes Government Solutions

SCHOOL

RECORD RESULTS: SALES UP 6%; PROFITS UP 17%; MARGINS UP BY 1.2% PTS TO 12.6%

£ millions	2006	2005	Headline growth	Underlying growth
Sales	1,455	1,295	12%	6%
Adjusted operating profit	184	147	25%	17%

Significant share gains in US School publishing

- Pearson US School publishing up 3%, against an industry decline of 6% (source: Association of American Publishers), as we benefit from our sustained investment in new basal programmes and innovative digital services.
- Pearson takes the leading share of the new adoption market: 30% of the total market and 33% where we competed. #1 or #2 market share in reading, maths, science and social studies. Total new adoption opportunity of approximately \$670m in 2006, down from \$900m in 2005.
- Innovative digital programme for California takes #1 position and a 43% market share in elementary social studies. Digital curriculum services being developed for new adoptions.
- US School new adoption market expected to grow strongly over the next three years (estimated at \$760m in '07; \$900m in '08; \$950m in '09).

Strong growth and continued share gains in school testing

- US School testing sales up in the high single digits (after 20%+ growth in 2005), benefiting from further contract wins, market share gains and leadership in onscreen marking, online testing and embedded (formative) assessment.
- Acquisition of National Evaluation Systems (NES), the leading provider of customised assessments for teacher certification in the US, with testing programmes in 16 states including Florida (won in 2006) and California (renewed in 2006). NES expands our testing capabilities in an attractive adjacent market.

School technology business broadened

- Acquisition of Chancery and PowerSchool enhances our leading position in the US Student Information Systems (SIS) market. Integration on track and good growth prospects as schools upgrade information systems to manage and report data on student attendance and performance.
- Organic growth and margin improvement continues in digital curriculum business, Pearson Digital Learning. Continued investment in new generation digital products to meet demands of school districts for personalised classroom learning.
- Four product nominations in six categories, more than any other education company, for the Software and Information Industry Association 'Codie' awards. The products are: *Prosper*, a formative assessment tool for 'at-risk' students; *Write to Learn*, a web-based tool for learning to read and write; *Chancery SMS*, a student information system for middle and large school districts; and *California History-Social Studies*.

Good growth in international school

- International testing businesses continue to benefit from technology leadership. In the UK, we have marked over 9 million GCSE, AS and A-Level scripts on screen. In 2007 we will roll out *Results Plus* across the UK, providing students, teachers and parents with online access to question-level examination performance data.

- In school publishing, UK launch of ActiveTeach technology provides multimedia resources for maths and science teaching and brings market share gains. Market-leading school companies in Hong Kong and South Africa outperform their markets.
- Acquisition of Paravia Bruno Mondadori (PBM), one of Italy's leading education publishers. Good progress in integrating publishing, sales and marketing, distribution and back office operations with our existing Italian business, and in sharing content and technology.
- Successful launch of regional adaptations of *English Adventure* (with Disney), our worldwide English Language Training programme for elementary schools, in Asia and Latin America.

HIGHER EDUCATION

RECORD RESULTS: SALES UP 4%; PROFITS UP 3%; MARGINS UP BY 0.3% PTS TO 20.3%

£ millions	2006	2005	Headline growth	Underlying growth
Sales	795	779	2%	4%
Adjusted operating profit	161	156	3%	3%

Steady growth momentum

- US Higher Education up 4%; ahead of the industry once again.
- Over the past eight years, Pearson US Higher Education has grown at an average annual rate of 7%, compared to the industry's average growth rate of 4%.

Rapid growth in online learning and custom publishing

- Approximately 4.5m US college students using one of our online programmes. Of these, approximately 2.3m (up almost 30% on 2005) register for an online course on one of our 'MyLab' online homework and assessment programmes.
- 16 subject-specific 'MyLab' online homework and assessment programmes now available supporting more than 200 titles. Research studies show significant gains in student success rates and productivity improvements for institutions.
- Strong market share, student performance and institutional productivity gains in college maths, supported by MyMathLab.
- In psychology and economics, two of the three largest markets in US higher education, Pearson publishes successful first edition bestsellers: Cicarrelli's *Psychology* together with MyPyschLab and Hubbard's *Economics* together with MyEconLab. Cicarrelli's *Psychology* increases Pearson's market share by 3% to 25% and is the bestselling launch of a first edition in the discipline in the past decade.
- Continued strong double digit growth in custom publishing – which builds customised textbooks and online services around the courses of individual faculties or professors.

Good progress in international markets

- Good growth in local language publishing programmes. Increasing focus on custom publishing and technology based assessment services with the MyLab suite of products.

PROFESSIONAL

RECORD RESULTS: SALES UP 3%; PROFITS UP 29%; MARGINS UP BY 2.0% PTS TO 9.6%

£ millions	2006	2005	Headline growth	Underlying growth
Sales	627	589	6%	3%
Adjusted operating profit	60	45	33%	29%

Note: includes Government Solutions

Professional Testing: rapid organic sales and profit growth

- Professional Testing sales up more than 30% in 2006 (and have doubled over the past two years). Approximately 4m secure online tests delivered in more than 5,000 test centres worldwide in 2006.
- Successful start-up of the worldwide Graduate Management Admissions Test. 220,000 examinations delivered in 400 test centres in 96 countries, in first year of new contract.
- Professional Testing moves from around breakeven in 2005 to profitability in 2006.
- Successful integration of Promissor, acquired in January 2006. Combination brings together two leading international professional testing companies and takes Pearson into new US state and federal regulatory markets.

Professional publishing: further margin improvement

- Technology publishing profits up as further cost actions offset continued industry weakness.
- Strong performance from Wharton School Publishing and FTPress imprints, aided by Pearson's global distribution and strong retail relationships. 41 titles published in 2006 including Jerry Porras, Stewart Emery and Mark Thompson's *Success Built To Last* (the sequel to *Built To Last*) and Jeffrey Gitomer's *The Little Red Book of Sales Answers*, *The Little Gold Book of Yes Attitude*. Three *Wall Street Journal* business bestsellers, two *BusinessWeek* bestsellers and one *New York Times* bestseller in 2006.

Government Solutions: sale completed in February 2007

- Sale of Government Solutions to Veritas Capital for \$560m in cash, \$40m in preferred stock and a 10% interest in the company completed on 15 February 2007.
- Government Solutions contributed £286m of sales and £22m of operating profit to Pearson in 2006.

FT PUBLISHING

**GOOD SALES MOMENTUM AND SIGNIFICANT PROFIT IMPROVEMENT:
SALES UP 8%; PROFITS UP 52%; MARGINS UP BY 2.4% PTS TO 8.7%**

£ millions	2006	2005	Headline growth	Underlying growth
Sales	366	332	10%	8%
Adjusted operating profit	32	21	52%	52%

Continued growth and profit improvement at the *Financial Times* and FT.com

- FT newspaper and FT.com sales up 8% to £238m; £9m profit improvement to £11m.
- FT advertising revenues up 9% with rapid growth in online, luxury goods and corporate finance categories, all up more than 30%.
- FT's worldwide circulation up 1% to 430, 469 (Source: ABC, average for six months to December 2006). FT.com's paying subscribers up 7% to 90,000 and December audience up 29% to 4.2m.
- Growing international presence and readership. 47% growth in readership in the US Mendelsohn Affluent Survey and 26% growth in the Asian Business Readership Survey. The FT ranked number one European business title in Europe for the fifteenth time (European Business Readership Survey).
- Continued benefits of international expansion: approximately three-quarters of the FT's advertising booked in two or more international editions; almost half of the FT's advertising booked for all four editions worldwide.
- 'New newsroom' creates an integrated multi-media newsroom, improving commissioning, reporting, editing and production efficiency, and providing further cost savings.

Sustained progress across FT Publishing

- Acquisition and integration of Mergermarket, an online financial data and intelligence provider. On a pro forma basis, Mergermarket's revenues grew 80% in 2006, with 90% customer renewals. Margins improving as expected in spite of significant investment in new products and geographic markets.
- FT Business shows good growth and improves margins driven by strong performance in events, UK retail finance titles (*Investment Adviser*, *Financial Adviser*) and internationally by *The Banker*, which celebrated its 80th year. FT Business integrated with the *Financial Times* early in 2007.
- *Les Echos* achieves modest circulation (average circulation of 119,117) and advertising growth in a weak market ahead of the 2007 French presidential elections; *FT Deutschland* outperforms the German newspaper market once again, increasing circulation 2% to 104,000.
- *The Economist*, in which Pearson owns a 50% stake, increases its circulation by 9% to 1.2m (for the July-December ABC period).

INTERACTIVE DATA CORPORATION (NYSE:IDC)

RECORD RESULTS: SALES UP 4%; PROFITS UP 9%; MARGINS STABLE AT 26.8%

£ millions	2006	2005	Headline growth	Underlying growth
Sales	332	297	12%	4%
Adjusted operating profit	89	80	11%	9%

Faster organic growth

- FT Interactive Data, IDC's largest business (approximately two-thirds of IDC revenues), generates strong, consistent growth in North America and Europe.
- Improving momentum at ComStock and eSignal. Comstock enjoys good new sales progress with institutional clients and lower cancellation levels. eSignal produces continued growth in its base of direct subscription terminals.
- Renewal rates for IDC's institutional businesses remain at around 95%.

Continued focus on high value services

- FT Interactive Data's growth driven by sustained demand for fixed income evaluated pricing services and related reference data. Continues to expand its market coverage, adding independent valuations of credit default swaps and other derivative securities
- CMS BondEdge launches fixed income analytical data feed service. Enables CMS BondEdge to deliver new applications for sophisticated risk measures.
- ComStock real-time services power algorithmic trading applications. ComStock's highly reliable, low-latency consolidated data-feed service supports increasingly sophisticated institutional electronic trading applications.
- IDC divisions unified under the Interactive Data brand to emphasise the breadth of its comprehensive range of products and services across the front, middle and back offices of customers.

Further expansion into adjacent markets

- Following the acquisition of IS.Teledata (re-branded Interactive Data Managed Solutions in July 2006), IDC now provides customised, web-based financial information systems for retail banking and private client applications as well as for infomedia portals and online brokers.
- The acquisition of Quote.com in March 2006, which expanded eSignal's suite of real-time market data platforms and analytics, added two financial websites. As a result, eSignal is generating strong growth in online advertising.
- Interactive Data Managed Solutions and Quote.com contribute over \$50 million to IDC's 2006 revenue.

PENGUIN

**GOOD SALES GROWTH AND SIGNIFICANT PROFIT INCREASE:
SALES UP 3%; PROFITS UP 22%; MARGINS UP BY 0.3% PTS TO 7.8%**

£ millions	2006	2005	Headline growth	Underlying growth
Sales	848	804	5%	3%
Adjusted operating profit	66	60	10%	22%

Record literary success and bestseller performance

- Record number of bestsellers for record number of weeks - Penguin US places 139 books on *The New York Times* bestseller list, 10 more than in 2005, and keeps them there for 809 weeks overall, up 119 weeks from 2005; Penguin UK places 59 titles in the BookScan Top Ten bestseller list, up 5 from 2005, and keeps them there for 361 weeks, up 42 weeks from 2005.
- Penguin authors win a large number of prestigious literary awards including: a Pulitzer Prize for Fiction (*March* by Geraldine Brooks); a National Book Critics Circle Award (*THEM: A Memoir of Parents* by Francine du Plessix Gray); the Michael L. Printz award (*Looking for Alaska* by John Green); the Whitbread Book of the Year Award (*Matisse the Master* by Hilary Spurling); the Orange Prize for Fiction (*On Beauty* by Zadie Smith); and the Man Booker Prize (*The Inheritance of Loss* by Kiran Desai).
- Penguin UK's focus on fiction rewarded with a substantial increase in market share, led by Marina Lewycka's *A Short History of Tractors in Ukrainian*.
- Penguin US premium paperback format continues to accelerate revenue growth and improves profitability in the important mass market category. Strong performance from paperbacks with Penguin authors holding the #1 position on *The New York Times* paperback fiction list for a record 22 successive weeks.

Continued focus on quality and efficiency

- Pearson-wide renegotiation of major global paper, print and binding contracts brings cost savings in 2006 and beyond.
- Integration of Australia and New Zealand warehouses and back office operations produces further scale benefits.
- Investment in India as a pre-production and design centre for reference titles.

Strong international growth

- Penguin India, which celebrates its 20th anniversary in 2007, continues its rapid growth and extends its market leadership. Penguin authors win all the prizes in India's national book awards: Vikram Chandra in fiction for *Sacred Games*, Vikram Seth in non-fiction for *Two Lives* and Kiran Desai in readers' choice for *The Inheritance of Loss*.
- Penguin China continues to acquire rights to between four and six Chinese titles each year, following acquisition of Jian Rong's *Wolf Totem*, due to be published in English in 2008. Penguin enters the Chinese market with the launch of ten translated Penguin Classic titles in 2007.
- Penguin South Africa grows strongly in 2006 and continues to increase market share.

Investing in digital to engage consumers

- Strong growth in online revenues and unique visitors to Penguin and DK websites.
- Penguin leading the market in developing new content creation and distribution models. In 2006 Penguin won the Revolution Award for Best Brand Building using Digital Channels and the Nielsen Nibbie for Innovation in the Book Business for the Penguin Remixed competition and the Penguin Podcast. These two initiatives have been followed by further campaigns including the launch of the acclaimed Penguin Blog, Penguin's presence in Second Life and the recent wiki-novel, *A Million Penguins*, which hosted 60,000 unique visitors in its first week. DK Travel content made available on MSN and Rough Guides distributed through mobile phones.
- Subscribers to Penguin and DK opt-in newsletters building rapidly, allowing Penguin consumers to personalise areas of interest and strengthening relationship with Penguin brand.
- Jamie Oliver's 'Cookcast' was the first ever live streamed cookery webcast and one of the most successful webcasts ever in the UK.

Strong 2007 publishing schedule

- Strong list of new titles for 2007 from bestselling and new authors including Alan Greenspan, Khaled Hosseini, Jamie Oliver, Al Gore, Jeremy Clarkson, Patricia Cornwell, Marina Lewycka and Naomi Klein.

FINANCIAL REVIEW

Operating profit

Total adjusted operating profit increased by £86m or 17% to £592m in 2006 from £506m in 2005. Adjusted operating profit excludes amortisation and adjustment of acquired intangibles and other gains and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations. For the purposes of our adjusted operating profit we add back the profits from discontinued operations. In 2006 these relate to the disposal of the Group's interest in Government Solutions and in 2005 to the disposals of Government Solutions and Recoletos.

Statutory operating profit increased by £24m or 5%. This was a lower increase than seen in the adjusted operating profit due to an increased intangible amortisation charge and the absence of the Marketwatch profit on disposal recorded in 2005.

Net finance costs

Net finance costs reported in our adjusted earnings comprise net interest payable and net finance income relating to pension schemes. Net interest payable in 2006 was £94m, up from £77m in 2005. Although we were partly protected by our fixed rate policy, the strong rise in average US dollar floating interest rates had an adverse effect. Year on year, average three month LIBOR (weighted for the Group's borrowings in US dollars, euros and sterling at the year end) rose by 1.5% to 4.9%. Combining the rate rise with an increase in the Group's average net debt of £40m, the Group's average net interest rate payable rose by 1.1% to 7.0%. In 2006 the net finance income relating to pension schemes was an income of £4m compared to a cost of £7m in the previous year, giving an overall net finance cost of £90m in 2006 compared to £84m in 2005.

Taxation

The tax rate on adjusted earnings increased slightly from 30.3% in 2005 to 30.9%. Our overseas profits, which arise mainly in the US, are generally subject to tax rates which are higher than the UK Corporation Tax rate of 30%. But this factor was again offset by releases of provisions following further progress in agreeing our tax affairs with the authorities and reassessment of the provisions required for uncertain items.

The reported tax charge on a statutory basis of £11m represents just over 2% of reported profits. This low rate was mainly accounted for by two factors. First, in the light of the announcement of the disposal of Pearson Government Solutions, we have recognised a deferred tax asset in relation to capital losses in the US where previously we were not confident that the benefit of the losses would be realised prior to their expiry. Second, in the light of our trading performance in 2006 and our strategic plans together with the expected utilisation of US trading losses in the Government Solutions sale, we have re-evaluated the likely utilisation of operating losses both in the US and the UK; this has enabled us to increase the amount of the deferred tax asset carried forward in respect of such losses. The combined effect of these two factors was to create a non-recurring credit of £127m.

Minority interests

Following the disposal of our 79% holding in Recoletos and the purchase of the 25% minority stake in Edexcel in 2005, our minority interests now comprise mainly the minority share in IDC. In January 2006 we increased our stake in IDC to 62%, reducing the minority interest from 39% to 38%.

Dividends

The dividend accounted for in our 2006 financial statements totalling £220m, represents the final dividend (17.0p) in respect of 2005 and the 2006 interim dividend of 10.5p. We are proposing a final dividend for 2006 of 18.8p, bringing the total paid and payable in respect of 2006 to 29.3p, an 8.5% increase on 2005. This final 2006 proposed dividend was approved by the board in February 2007, is subject to shareholder approval at the forthcoming AGM and will be charged against 2007 profits. For 2006, the dividend is covered 1.4 times by adjusted earnings.

Condensed consolidated income statement

for the year ended 31 December 2006

Unaudited

<i>all figures in £ millions</i>	note	2006	2005
Continuing operations			
Sales	2	4,137	3,808
Cost of goods sold		(1,917)	(1,787)
Gross profit		2,220	2,021
Operating expenses		(1,704)	(1,559)
Other net gains and losses	3	-	40
Share of results of joint ventures and associates		24	14
Operating profit	2	540	516
Finance costs	4	(133)	(132)
Finance income	4	59	62
Profit before tax	5	466	446
Income tax	6	(11)	(116)
Profit for the year from continuing operations		455	330
Discontinued operations			
Profit for the year from discontinued operations	8	14	314
Profit for the year		469	644
Attributable to:			
Equity holders of the Company		446	624
Minority interest		23	20
Earnings per share from continuing and discontinued operations			
Basic	7	55.9p	78.2p
Diluted	7	55.8p	78.1p
Earnings per share from continuing operations			
Basic	7	54.1p	38.9p
Diluted	7	54.0p	38.8p

The results are presented under IFRS (see note 1).

Condensed consolidated statement of recognised income and expense

for the year ended 31 December 2006

Unaudited

<i>all figures in £ millions</i>	note	2006	2005
Net exchange differences on translation of foreign operations		(417)	327
Actuarial gains on defined benefit pension and post retirement medical schemes		107	26
Taxation on items charged to equity		12	12
Net (expense) / income recognised directly in equity		(298)	365
Profit for the year		469	644
Total recognised income and expense for the year		171	1,009
Attributable to:			
Equity holders of the Company	13	148	989
Minority interest		23	20
Effect of transition adjustment on adoption of IAS 39			
Attributable to:			
Equity holders of the Company		-	(12)

Condensed consolidated balance sheet

as at 31 December 2006

Unaudited

<i>all figures in £ millions</i>	note	2006	2005
Non-current assets			
Property, plant and equipment		348	384
Intangible assets	11	3,581	3,854
Investments in joint ventures and associates		20	36
Deferred income tax assets		417	385
Financial assets - Derivative financial instruments		36	79
Other financial assets		17	18
Other receivables		124	108
		4,543	4,864
Current assets			
Intangible assets – pre-publication		402	426
Inventories		354	373
Trade and other receivables		953	1,031
Financial assets – Derivative financial instruments		50	4
Financial assets – Marketable securities		25	-
Cash and cash equivalents (excluding overdrafts)		592	902
		2,376	2,736
Non-current assets classified as held for sale		294	-
Total assets		7,213	7,600
Non-current liabilities			
Financial liabilities – Borrowings		(1,148)	(1,703)
Financial liabilities – Derivative financial instruments		(19)	(22)
Deferred income tax liabilities		(245)	(204)
Retirement benefit obligations		(250)	(389)
Provisions for other liabilities and charges		(29)	(31)
Other liabilities		(162)	(151)
		(1,853)	(2,500)
Current liabilities			
Trade and other liabilities		(998)	(974)
Financial liabilities – Borrowings		(595)	(256)
Current income tax liabilities		(74)	(104)
Provisions for other liabilities and charges		(23)	(33)
		(1,690)	(1,367)
Liabilities directly associated with non-current assets held for sale		(26)	-
Total liabilities		(3,569)	(3,867)
Net assets			
Share capital		202	201
Share premium		2,487	2,477
Treasury shares		(189)	(153)
Reserves		976	1,039
Total equity attributable to equity holders of the Company		3,476	3,564
Minority interest		168	169
Total equity	13	3,644	3,733

Condensed consolidated cash flow statement

for the year ended 31 December 2006

Unaudited

<i>all figures in £ millions</i>	note	2006	2005
Cash flows from operating activities			
Cash generated from operations	14	621	653
Interest paid		(106)	(101)
Tax paid		(59)	(65)
Net cash generated from operating activities		456	487
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(363)	(246)
Acquisition of joint ventures and associates		(4)	(7)
Purchase of property, plant and equipment (PPE)		(68)	(76)
Proceeds from sale of PPE		8	3
Purchase of intangible assets		(29)	(24)
Purchase of other financial assets		-	(2)
Disposal of subsidiaries, net of cash disposed		10	376
Disposal of joint ventures and associates		-	54
Interest received		24	29
Dividends received from joint ventures and associates		45	14
Net cash (used in) / generated from investing activities		(377)	121
Cash flows from financing activities			
Proceeds from issue of ordinary shares		11	4
Purchase of treasury shares		(36)	(21)
Proceeds from borrowings		84	-
Liquid resources acquired		(24)	-
Repayment of borrowings		(145)	(79)
Finance lease principal payments		(3)	(3)
Dividends paid to Company's shareholders		(220)	(205)
Dividends paid to minority interests		(15)	(17)
Net cash used in financing activities		(348)	(321)
Effects of exchange rate changes on cash and cash equivalents		(44)	13
Net (decrease) / increase in cash and cash equivalents		(313)	300
Cash and cash equivalents at the beginning of the year		844	544
Cash and cash equivalents at the end of the year		531	844

For the purposes of the cash flow statement, cash and cash equivalents are presented net of overdrafts repayable on demand. These overdrafts are excluded from cash and cash equivalents disclosed on the balance sheet.

Notes to the condensed consolidated financial statements

for the year ended 31 December 2006

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the Listing Rules of the Financial Services Authority and in accordance with EU-adopted International Financial Reporting Standards (IFRS) and IFRIC interpretations.

The condensed consolidated financial statements have also been prepared in accordance with the accounting policies set out in the 2005 Annual Report and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value.

The preparation of condensed consolidated financial statements requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements have been set out in the 2005 Annual Report.

The 2005 Annual Report refers to new standards effective from 1 January 2006. None of these standards have had a material impact in these financial statements.

This preliminary announcement does not constitute the Group's full financial statements for the year ended 31 December 2006, which will be approved by the Board of Directors and reported on by the auditors in March 2007. Accordingly, the financial information for 2006 is presented unaudited.

The financial information for the year ended 31 December 2005 has been extracted from the full financial statements. The Auditors' report on the full financial statements for the year ended 31 December 2005 was unqualified and did not contain statements under section 237 (2) of the United Kingdom Companies Act 1985 (regarding the adequacy of accounting records and returns), or under 237 (3) (regarding provision of necessary information and explanations).

Notes to the condensed consolidated financial statements *continued*

for the year ended 31 December 2006

2. Segment information

The Group is organised into five primary business segments: School, Higher Education, Penguin, Financial Times Publishing and Interactive Data Corporation (IDC). Our remaining business group, Professional, brings together a number of education publishing, testing and services businesses and does not meet the criteria for classification as a 'segment' under IFRS.

<i>all figures in £ millions</i>	2006	2005
Sales		
School	1,455	1,295
Higher Education	795	779
Professional	341	301
Pearson Education	2,591	2,375
FT Publishing	366	332
IDC	332	297
FT Group	698	629
Penguin	848	804
Total sales – continuing operations	4,137	3,808
Discontinued operations – Government Solutions	286	288
Adjusted sales	4,423	4,096
Adjusted operating profit		
School	184	147
Higher Education	161	156
Professional	38	25
Pearson Education	383	328
FT Publishing	32	21
IDC	89	80
FT Group	121	101
Penguin	66	60
Adjusted operating profit – continuing operations	570	489
Adjusted operating profit – discontinued operations	22	17
Total adjusted operating profit	592	506
Adjusted operating profit – continuing operations	570	489
Amortisation and adjustment of acquired intangibles	(35)	(11)
Other gains and losses (including associates)	4	40
Other net finance costs of associates	1	(2)
Operating profit	540	516

Adjusted sales include sales from discontinued operations held throughout the current and previous year. In our adjusted operating profit, we have excluded amortisation of acquired intangibles, other net gains and losses and other net finance costs of associates. The amortisation and adjustment of acquired intangibles is not considered to be fully reflective of the underlying performance of the Group. Other gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations but which distort the performance for the year. Other net finance costs of associates are the equivalent of the Company's own net finance costs that are excluded in adjusted earnings (see note 4). discontinued operations in 2006 relate to the disposal of the Group's interest in Government Solutions and in 2005 to both the disposal of Government Solutions and Recoletos (see note 8).

Notes to the condensed consolidated financial statements *continued*

for the year ended 31 December 2006

3. Other net gains and losses

	2006	2005
<i>all figures in £ millions</i>		
Profit on sale of interest in MarketWatch	-	40
Total other net gains and losses	-	40

Other net gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations.

4. Net finance costs

	2006	2005
<i>all figures in £ millions</i>		
Net interest payable	(94)	(77)
Finance income / (costs) re employee benefits	4	(7)
Net foreign exchange gains	19	12
Other (losses) / gains on financial instruments in a hedging relationship:		
- fair value hedges	-	-
- net investment hedges	(2)	3
Other gains / (losses) on financial instruments not in a hedging relationship:		
- amortisation of transitional adjustment on bonds	8	7
- derivatives	(9)	(8)
Net finance costs	(74)	(70)
Finance costs	(133)	(132)
Finance income	59	62
Net finance costs	(74)	(70)
Analysed as:		
Net interest payable	(94)	(77)
Finance income / (costs) re employee benefits	4	(7)
Net finance costs reflected in adjusted earnings	(90)	(84)
Other net finance income	16	14
Net finance costs	(74)	(70)

Fair value gains and losses on financial instruments are analysed between three elements: net interest payable, foreign exchange and other gains and losses. For the purposes of adjusted earnings we have excluded foreign exchange and other gains and losses as they represent short-term fluctuations in market value and are subject to significant volatility. These gains and losses may not be realised in due course as it is normally the intention to hold these instruments to maturity. The increased volatility has been introduced as a result of adopting IAS 39 'Financial Instruments: Recognition and Measurement' as at 1 January 2005.

Notes to the condensed consolidated financial statements *continued*

for the year ended 31 December 2006

5. Profit before tax

	2006	2005
<i>all figures in £ millions</i>		
Profit before tax	466	446
Add back: amortisation and adjustment of acquired intangibles (see note 2)	35	11
Add back: other net gains and losses (including associates) (see note 2)	(4)	(40)
Add back: other net finance costs of associates (see note 2)	(1)	2
Add back: other net finance income (see note 4)	(16)	(14)
Adjusted profit before tax - continuing operations	480	405
Adjusted profit before tax - discontinued operations	22	17
Total adjusted profit before tax	502	422

6. Income tax

	2006	2005
<i>all figures in £ millions</i>		
Income tax charge	(11)	(116)
Add back: tax benefit on amortisation of acquired intangibles	(10)	(4)
Add back: tax benefit on other gains and losses	(4)	(4)
Add back: tax charge on other finance income	5	3
Add back: tax benefit on recognition of tax losses	(127)	-
Adjusted income tax charge - continuing operations	(147)	(121)
Adjusted income tax charge - discontinued operations	(8)	(7)
Total adjusted income tax charge	(155)	(128)
Tax rate reflected in adjusted earnings	30.9%	30.3%

Included within the income tax charge is an amount of £15m (2005: £26m) relating to UK tax. The Group has excluded from its adjusted earnings tax benefits from the recognition of its capital and trading losses (£127m) which, due to their size and non-recurring nature are not considered to be fully reflective of the underlying tax rate of the Group.

Notes to the condensed consolidated financial statements *continued*

for the year ended 31 December 2006

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company (earnings) by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to take account of all dilutive potential ordinary shares and adjusting the profit attributable if applicable to account for any tax consequences that might arise from conversion of those shares.

In order to show results from operating activities on a consistent basis, an adjusted earnings per share is presented which excludes certain items as set out below. The Company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

<i>all figures in £ millions</i>	2006	2005
Earnings	446	624
Adjustments to exclude profit for the year from discontinued operations:		
Profit for the year from discontinued operations	(14)	(314)
Earnings – continuing operations	432	310
Earnings	446	624
Adjustments:		
Amortisation and adjustment of acquired intangibles	35	11
Other gains and losses (including associates)	(4)	(40)
Other net finance (income) / costs of associates	(1)	2
Other net finance income (see note 4)	(16)	(14)
Profit on sale of discontinued operations (see note 8)	-	(306)
Taxation on above items	(9)	(3)
Recognition of tax losses	(127)	-
Minority interest share of above items	(3)	(2)
Adjusted earnings	321	272
Weighted average number of shares (millions)	798.4	797.9
Effect of dilutive share options (millions)	1.5	1.1
Weighted average number of shares (millions) for diluted earnings	799.9	799.0
Earnings per share from continuing and discontinued operations		
Basic	55.9p	78.2p
Diluted	55.8p	78.1p
Earnings per share from continuing operations		
Basic	54.1p	38.9p
Diluted	54.0p	38.8p
Adjusted earnings per share	40.2p	34.1p

Notes to the condensed consolidated financial statements *continued*

for the year ended 31 December 2006

8. Discontinued operations

Discontinued operations in 2006 relate to the sale of Pearson's wholly owned subsidiary, Government Solutions Inc., on 15 February 2007. The results of Government Solutions have been included in discontinued operations for both 2005 and 2006. Discontinued operations in 2005 also relate to the sale of Pearson's 79% interest in Recoletos Grupo de Comunicación S.A. The results of Recoletos were consolidated for the period to 28 February 2005. Any profit or loss on the disposal of Government Solutions will be included in the 2007 results.

<i>all figures in £ millions</i>	2006 Government Solutions	2005 Government Solutions	2005 Recoletos	2005 Total
Sales	286	288	27	315
Operating profit / (loss)	22	20	(3)	17
Net finance income	-	-	-	-
Profit / (loss) before tax	22	20	(3)	17
Attributable tax (expense) / benefit	(8)	(8)	1	(7)
Profit on disposal of discontinued operations before tax	-	-	306	306
Attributable tax expense	-	-	(2)	(2)
Profit for the year from discontinued operations	14	12	302	314

9. Dividends

<i>all figures in £ millions</i>	2006	2005
Amounts recognised as distributions to equity holders in the year	220	205

The directors are proposing a final dividend of 18.8p per equity share, payable on 11 May 2007 to shareholders on the register at the close of business on 10 April 2007. This dividend has not been included as a liability as at 31 December 2006. An 18.8p final dividend represents a cash payment of £151m (2005: 17.0p or £136m).

10. Exchange rates

Pearson earns a significant proportion of its sales and profits in overseas currencies, the most important being the US dollar. The relevant rates are as follows:

	2006	2005
Average rate for profits	1.84	1.81
Period end rate	1.96	1.72

Notes to the condensed consolidated financial statements *continued*
for the year ended 31 December 2006

11. Intangible assets

	2006	2005
<i>all figures in £ millions</i>		
Goodwill	3,271	3,654
Other intangibles	310	200
Total intangibles	3,581	3,854

Pearson has made a number of acquisitions in the year to 31 December 2006 including: Mergermarket, a financial information company providing information to financial institutions, corporations and their advisors; Promissor, a computerised test provider focused on the regulatory market in the US; National Evaluation Systems, the leading provider of customised state assessments for teacher certification in the US and Paravia Bruno Mondadori, one of Italy's leading educational publishers. Net consideration paid for all acquisitions in the year to 31 December 2006 was £363m and provisional goodwill recognised was £246m. In total the acquisitions made in 2006 contributed an additional £147m of sales and £17m of operating profit.

12. Net debt

	2006	2005
<i>all figures in £ millions</i>		
Non current assets		
Derivative financial instruments	36	79
Current assets		
Derivative financial instruments	50	4
Marketable securities	25	-
Cash and cash equivalents	592	902
Non current liabilities		
Borrowings	(1,148)	(1,703)
Derivative financial instruments	(19)	(22)
Current liabilities		
Borrowings	(595)	(256)
Total net debt	(1,059)	(996)

Notes to the condensed consolidated financial statements *continued*
for the year ended 31 December 2006

13. Reconciliation of movements in equity

	2006	2005
<i>all figures in £ millions</i>		
Attributable to equity holders of the Company		
Total recognised income and expense for the period	148	989
Equity settled transactions	25	23
Shares issued	11	4
Cumulative translation adjustment disposed	-	(14)
Treasury shares purchased	(52)	(21)
Dividends to equity holders of the Company	(220)	(205)
Net movement for the period	(88)	776
Attributable to equity holders of the Company at the beginning of the year	3,564	2,800
Transition adjustment on adoption of IAS 39	-	(12)
Attributable to equity holders of the Company at the end of the year	3,476	3,564
Minority interests	168	169
Total equity	3,644	3,733

Notes to the condensed consolidated financial statements *continued*
for the year ended 31 December 2006

14. Cash flows

	2006	2005
<i>all figures in £ millions</i>		
Reconciliation of profit for the period to net cash generated from operations		
Profit for the year	469	644
Income tax	19	125
Depreciation and amortisation charges	135	109
Amortisation of pre-publication	210	192
Investment in pre-publication	(213)	(222)
Loss on sale of property, plant and equipment	2	-
Net finance costs	74	70
Profit on sale of subsidiaries and associates	-	(346)
Share of results of joint ventures and associates	(24)	(14)
Net foreign exchange (losses) / gains from transactions	(37)	39
Share-based payments	25	23
Inventories	(16)	(17)
Trade and other receivables	(60)	(4)
Trade and other liabilities	54	71
Provisions	(17)	(17)
Net cash generated from operations	621	653
Dividends from joint ventures and associates	45	14
Net purchase of PPE including finance lease principal payments	(63)	(75)
Purchase of intangibles	(29)	(24)
Add back: Cash spent against integration and fair value provisions	1	2
Operating cash flow	575	570
Operating tax paid	(59)	(65)
Operating finance charges paid	(82)	(65)
Operating free cash flow	434	440
Non-operating finance charges paid	-	(7)
Integration and fair value spend	(1)	(2)
Total free cash flow	433	431
Dividends paid (including to minorities)	(235)	(222)
Net movement of funds from operations	198	209

Included in net cash generated from operations is an amount of £20m (2005: £16m) relating to discontinued operations.

Operating cash flow, operating free cash flow and total free cash flow have been disclosed as they are part of Pearson's corporate and operating measures. Following a review of accounting policies in 2006, the Group has reclassified investment in pre-publication assets as cash generated from operations. The 2005 number has been reclassified accordingly.

Notes to the condensed consolidated financial statements *continued*

for the year ended 31 December 2006

15. Adjusted income statement

	Income statement	Re-analyse discontinued operations – Government Solutions	Re-analyse discontinued operations – Recoletos	Other gains and losses	Amortisation/adjustment of acquired intangibles	Other net finance costs	Recognition of tax losses	Adjusted income statement
<i>all figures in £ millions</i>								
2006								
Sales	4,137	286	-	-	-	-	-	4,423
Gross profit	2,220	59	-	-	-	-	-	2,279
Operating expenses	(1,704)	(37)	-	-	35	-	-	(1,706)
Other net gains/losses	-	-	-	-	-	-	-	-
JVs and associates	24	-	-	(4)	-	(1)	-	19
Operating profit	540	22	-	(4)	35	(1)	-	592
Net finance costs	(74)	-	-	-	-	(16)	-	(90)
Profit before tax	466	22	-	(4)	35	(17)	-	502
Income tax	(11)	(8)	-	(4)	(10)	5	(127)	(155)
Profit for the year – continuing	455	14	-	(8)	25	(12)	(127)	347
Profit for the year – discontinued	14	(14)	-	-	-	-	-	-
Profit for the year	469	-	-	(8)	25	(12)	(127)	347
Minorities	(23)	-	-	-	(3)	-	-	(26)
Earnings	446	-	-	(8)	22	(12)	(127)	321
2005								
Sales	3,808	288	-	-	-	-	-	4,096
Gross profit	2,021	53	27	-	-	-	-	2,101
Operating expenses	(1,559)	(33)	(30)	-	11	-	-	(1,611)
Other net gains/losses	40	-	306	(346)	-	-	-	-
JVs and associates	14	-	-	-	-	2	-	16
Operating profit	516	20	303	(346)	11	2	-	506
Net finance costs	(70)	-	-	-	-	(14)	-	(84)
Profit before tax	446	20	303	(346)	11	(12)	-	422
Income tax	(116)	(8)	(1)	(2)	(4)	3	-	(128)
Profit for the year – continuing	330	12	302	(348)	7	(9)	-	294
Profit for the year – discontinued	314	(12)	(302)	-	-	-	-	-
Profit for the year	644	-	-	(348)	7	(9)	-	294
Minorities	(20)	-	-	-	(2)	-	-	(22)
Earnings	624	-	-	(348)	5	(9)	-	272