



PEARSON

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**Morgan Stanley - Barcelona**  
**Robin Freestone**  
**Chief Financial Officer**

14 November 2007

# Agenda

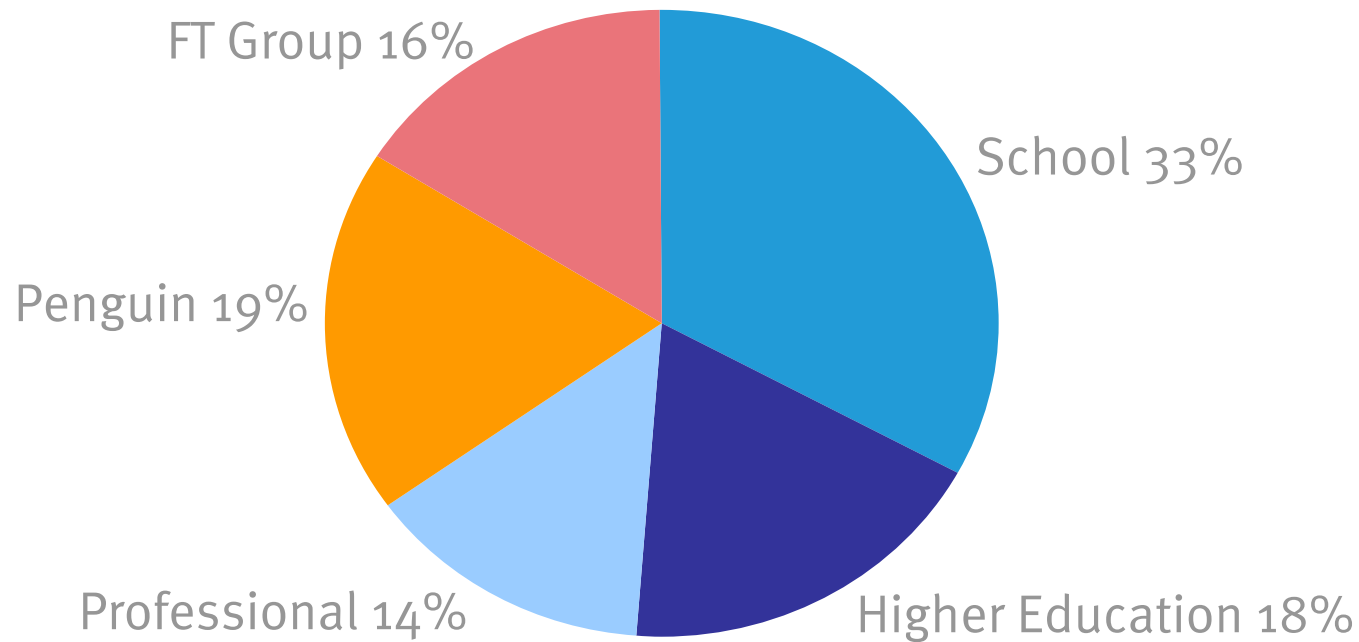
**Pearson overview**

**Our business priorities**

**Sustaining our financial progress**

# Pearson today

## Revenue by business



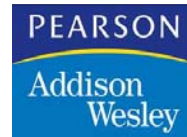
**2006 revenues: £4.4bn**

Note: includes Government Solutions

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# Pearson today

## Education

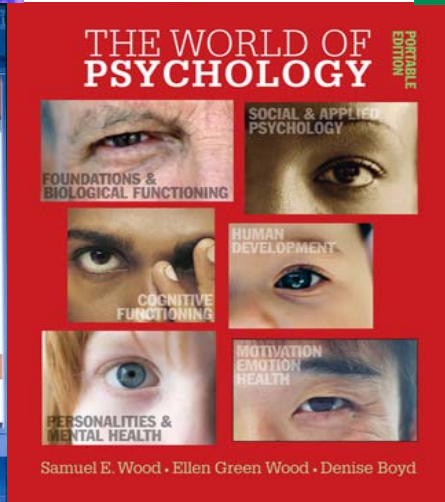
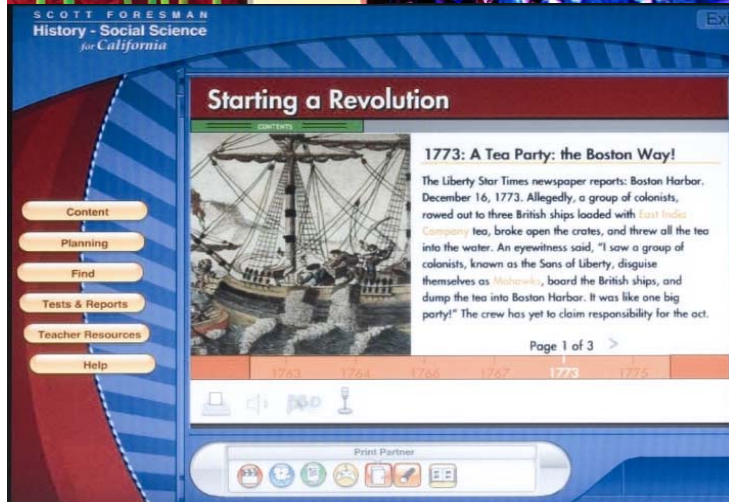
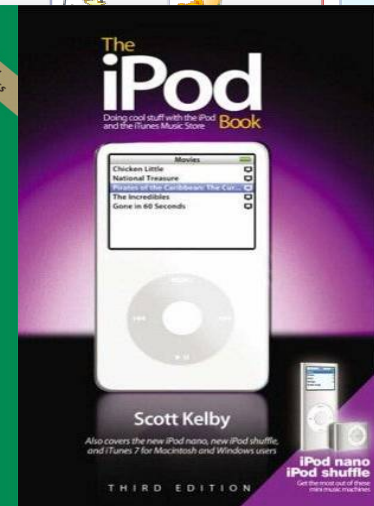
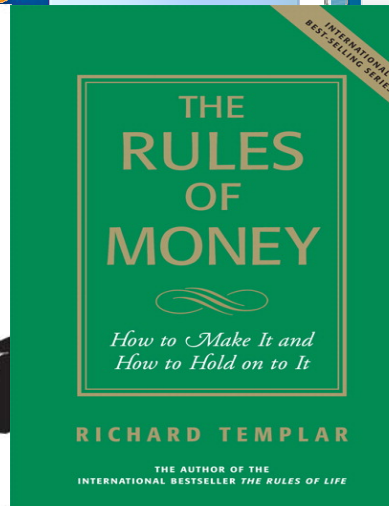
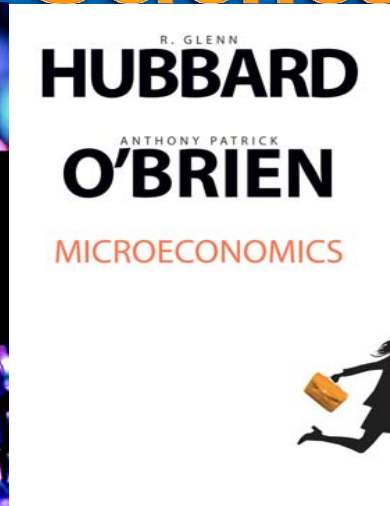
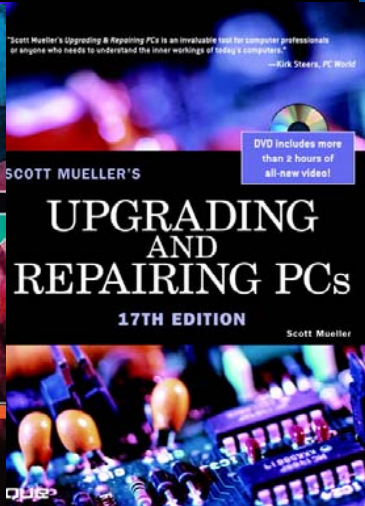
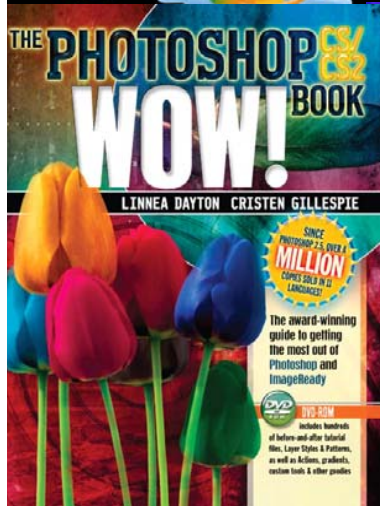
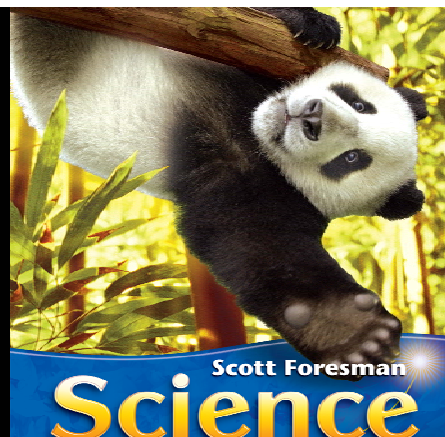


## Penguin

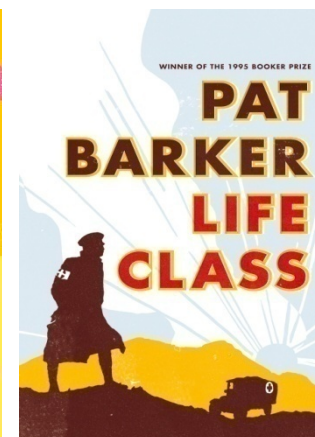
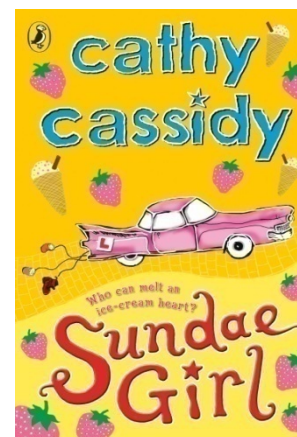
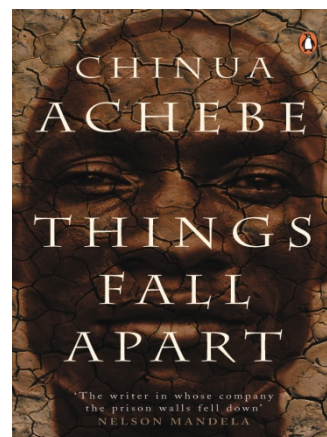
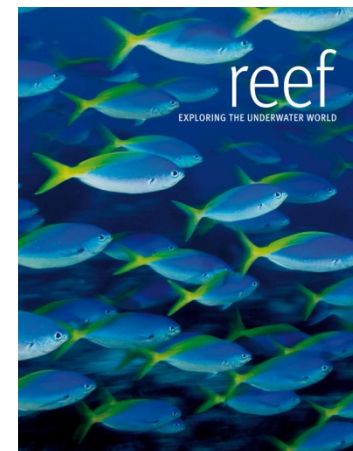
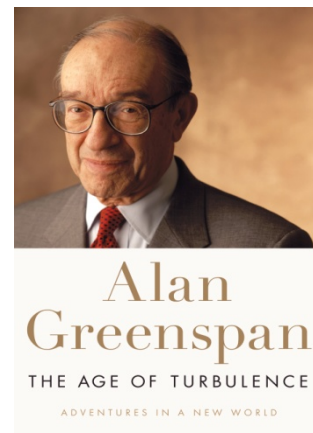
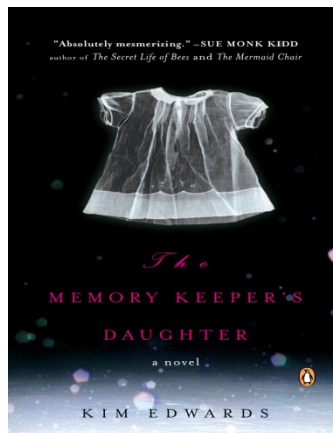
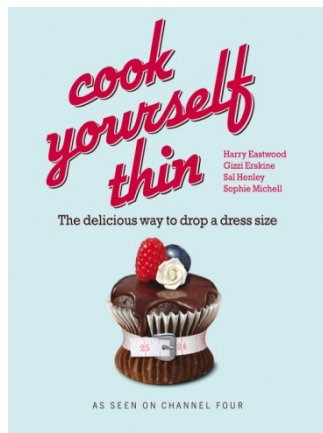
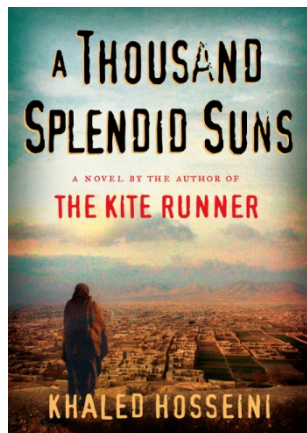


## FT Group









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# Nissha Printing plans to grow electronics business by M&A, insider says; J Touch open to discussions with potential investors



mergermarket

## FINANCIAL TIMES

USA Wednesday October 24, 2007

USA \$2.00 Canada C\$2.50



**John Plender**  
China's role in the credit squeeze **Page 24**

**Time to clock off**  
JOHN KAY on the madness of daylight saving **Page 11**



**A different league**  
PATTI WALDMIRE on law and fantasy sports **Page 12**

World Business Newspaper

### News Briefing

**Big companies' results underline resilience**  
Some of America's biggest companies underlined the resilience of their international operations that failed to dip last year. The driving force behind the recovery would swing on future earnings. **Page 15, Markets, Page 26**

**BP to settle charges**  
BP has agreed with US regulators to pay \$500m to settle charges it illegally manipulated oil prices in the US in 2004 by attempting to corner the market for the domestic gas. **Page 25, US, Page 14, Remaining India, Page 21**

**Countrywide loans plan**  
Countrywide Financial said it would give new clients better loans to borrowers in 10th of mortgage mortgages before interest rate moves before the end of 2007. **Page 25**

**SIV banks' have liquidity**  
The US banks with exposure to structured investment vehicles (SIVs) have liquidity. **Page 25**

## India in new push for Iran pipeline

Renewed enthusiasm for oil and gas deal  
More likely to anger Bush administration

By Jo Johnson in New Delhi  
Senior Indian government officials say that the new push for an oil and gas deal with Iran is "unhindered" by the government's inability to move ahead. There are also a growing number of reports that he is considering resigning.

Nikhil Kumar, the US under secretary of state for political affairs, has said Washington hopes "very much that India will not overtake any American oil and gas deal with Iran."



## Russian food price controls ahead of polls

By Neil Buckley in Moscow and Javier Blas in London

Russia is introducing food price controls on some basic foodstuffs in an effort to prevent spiralling prices that threaten the popularity of the government ahead of parliamentary polls in December. The country's biggest food retailers and producers have reached an agreement, expected to be signed with the Russian government today, to freeze prices on a list of 100 food items. The list includes staples such as wheat, corn, sunflower oil and meat. The government will limit their mark-up on these goods to 10 per cent.

Russia's move is the latest sign of a government's efforts to control inflation. In recent years, food prices have risen fast. In 2006, food prices rose 10 per cent. Last year, they rose 15 per cent. Food prices have risen steadily since then, with the latest inflation report, with the food price index up 10 per cent. Food prices have risen steadily since then, with the latest inflation report, with the food price index up 10 per cent.

### FT 中文网

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《金融时报》集团出版

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今日首页

### 美国为什么还不存钱

专栏作家约翰·凯：在八国集团富裕国家中，美国人储蓄率最低。而美国富裕家庭的消费习惯，是看中国苦农民的节俭资助的。对这一矛盾现象如何解释呢？

2007年7月26日 星期四 出版

星期三 星期二 星期一 星期五

新闻速读

中国保险业海外投资可多

达500亿美元

中国保监会已放宽保险公司海外投资上限

入股黑石只是中国投资的开始

中国放宽境外金融投资限制

中国股市：业绩超预期

北京面临调高电价压力

全球没有拉队

最新FT哈里斯民调显示，民众认为全球化是造福而非祸。潘楠的号，这并不特

ComStock - Microsoft Internet Explorer

Interactive Data

Time & Sales

Interactive Data CP (IDC.NYS)

Criteria

Symbol: DC.NYS

Start Date: 11/11/2003

End Date: 11/11/2003

Advanced Criteria

Views: All Trades Quotes BBO

Exchanges: Across All Exchanges Selected Exchanges Below

Prices: Min: Max:

Size: Min: Max:

Quote Condition (QC):

Display

Time & Sales - All

Trade Bid Ask

Date & Time Type Price Size Exch Price Size Exch Price Size Exch QC

11/11/03 09:30:11 T 17.1000 3,700 NYS 0.0100 1000 0.0100 1000

Sunday Feb 25 2007  
All times are London time

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Podcasts Interactive graphics Business Life Business education Your money Arts & Weekend Most read In depth Special Reports Jobs & classified Services & tools

View from the Top Daily View 3G

View from the Top

Person of the Year Lakshmi Mittal

Person of the Year, Lakshmi Mittal: Mittal c

Person of the Year, Lakshmi Mittal: Mittal c

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## FTHOUSE & HOME

Privilege of a city slicker

Technology could have been a thing any other day when the 100 million (Pound sterling) of the use of technology in the home was first introduced.

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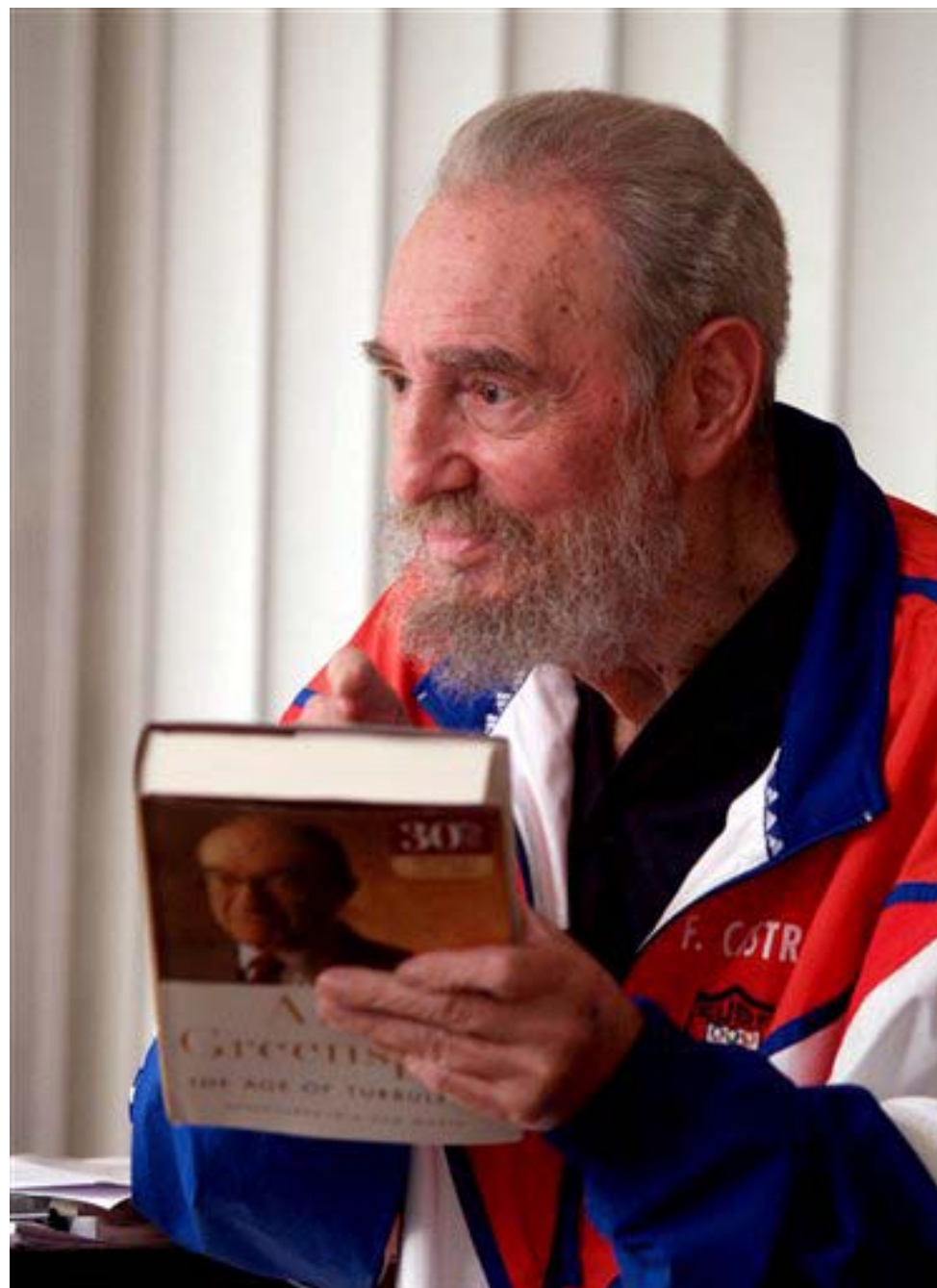
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# **Our business priorities**

**Content +**

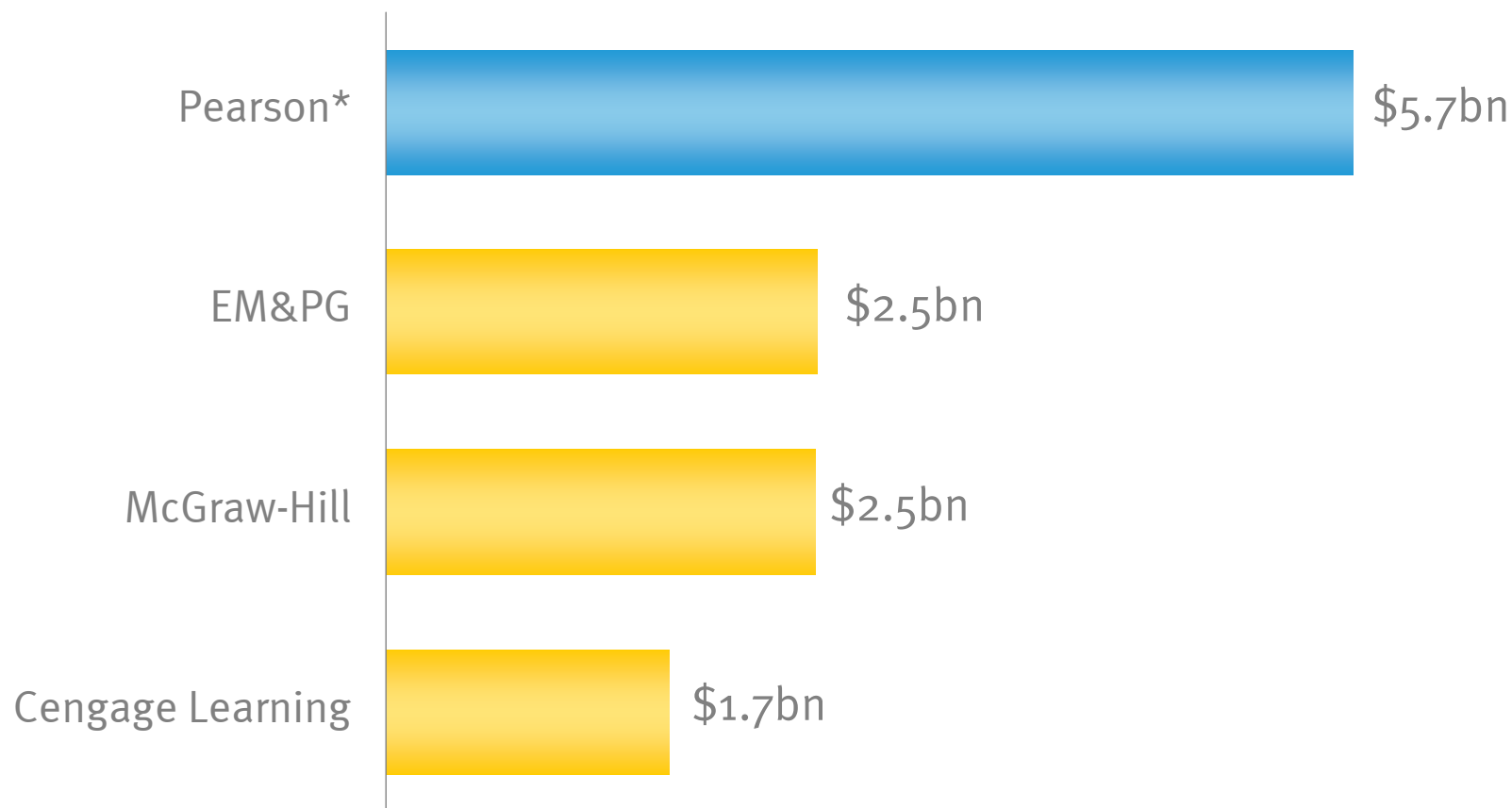
**Technology and services**

**International expansion**

**Efficiency**

# The world's leading education company

Prof forma 2006 education sales



\* Pearson excludes Government Solutions and includes Harcourt Assessment & International and eCollege

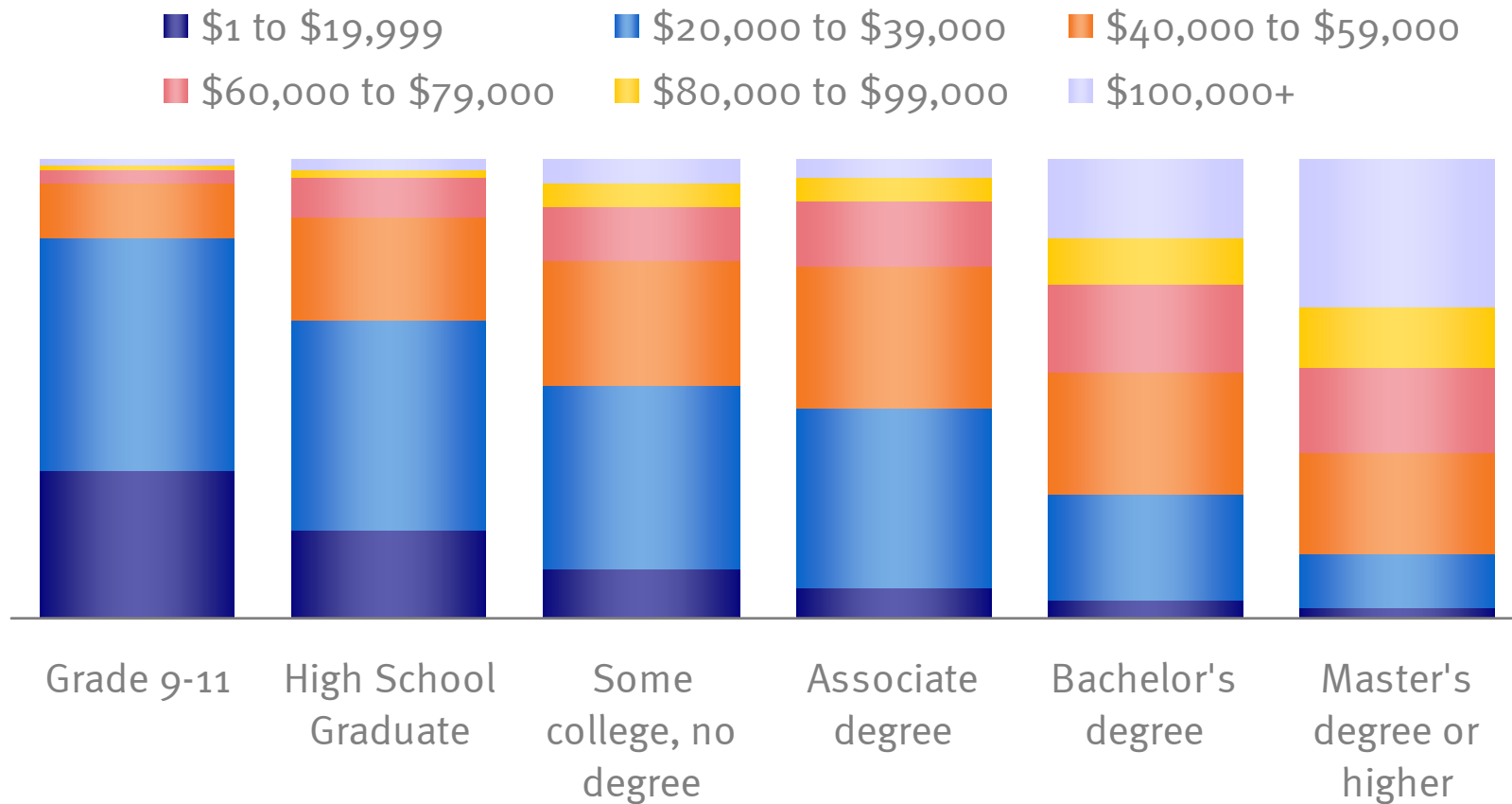
\*\* Education Media & Publishing including HM Riverdeep and Harcourt US Basal & Supplemental





# Education pays

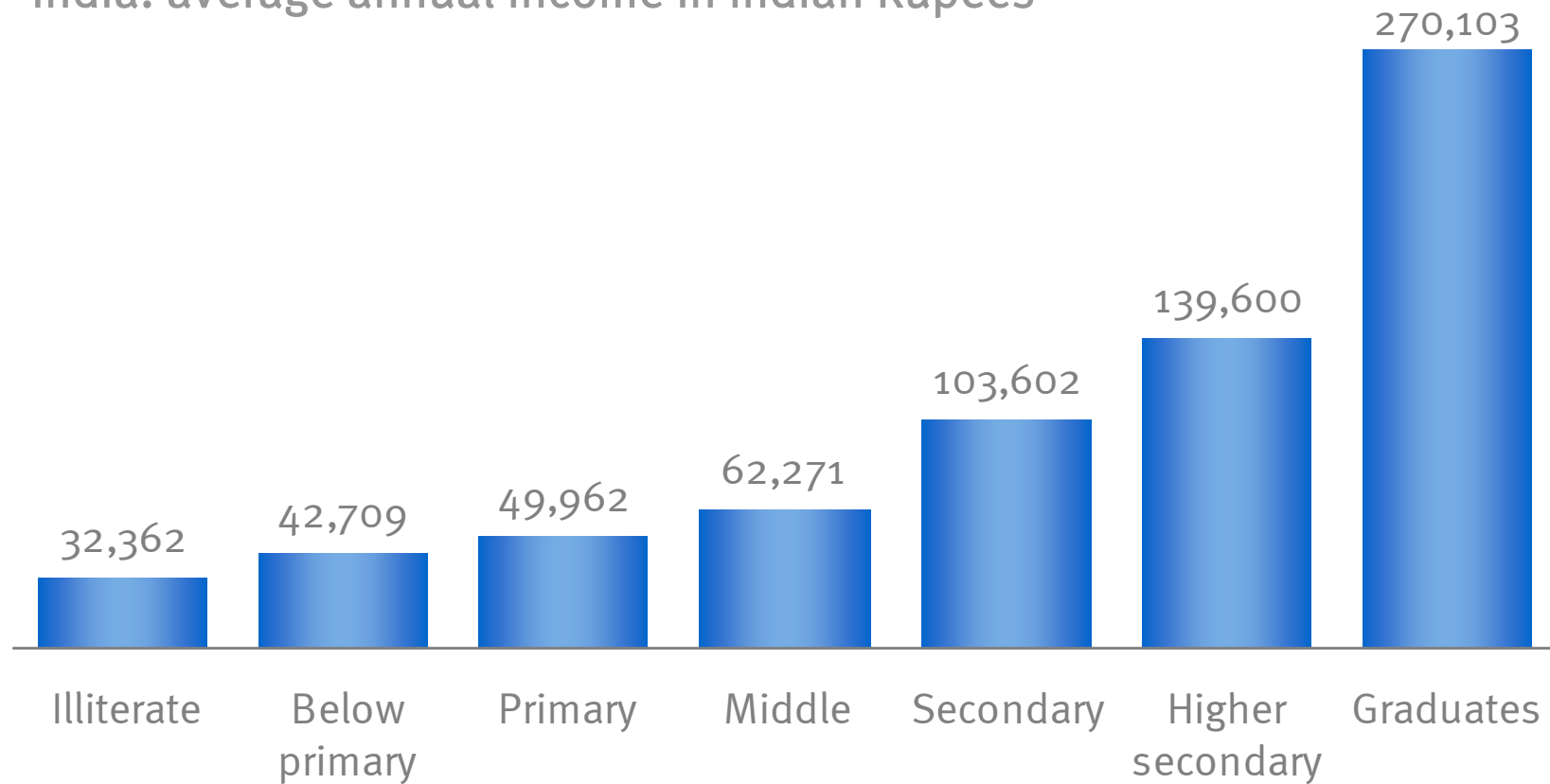
US: average earnings



Source: College Board

# Education pays

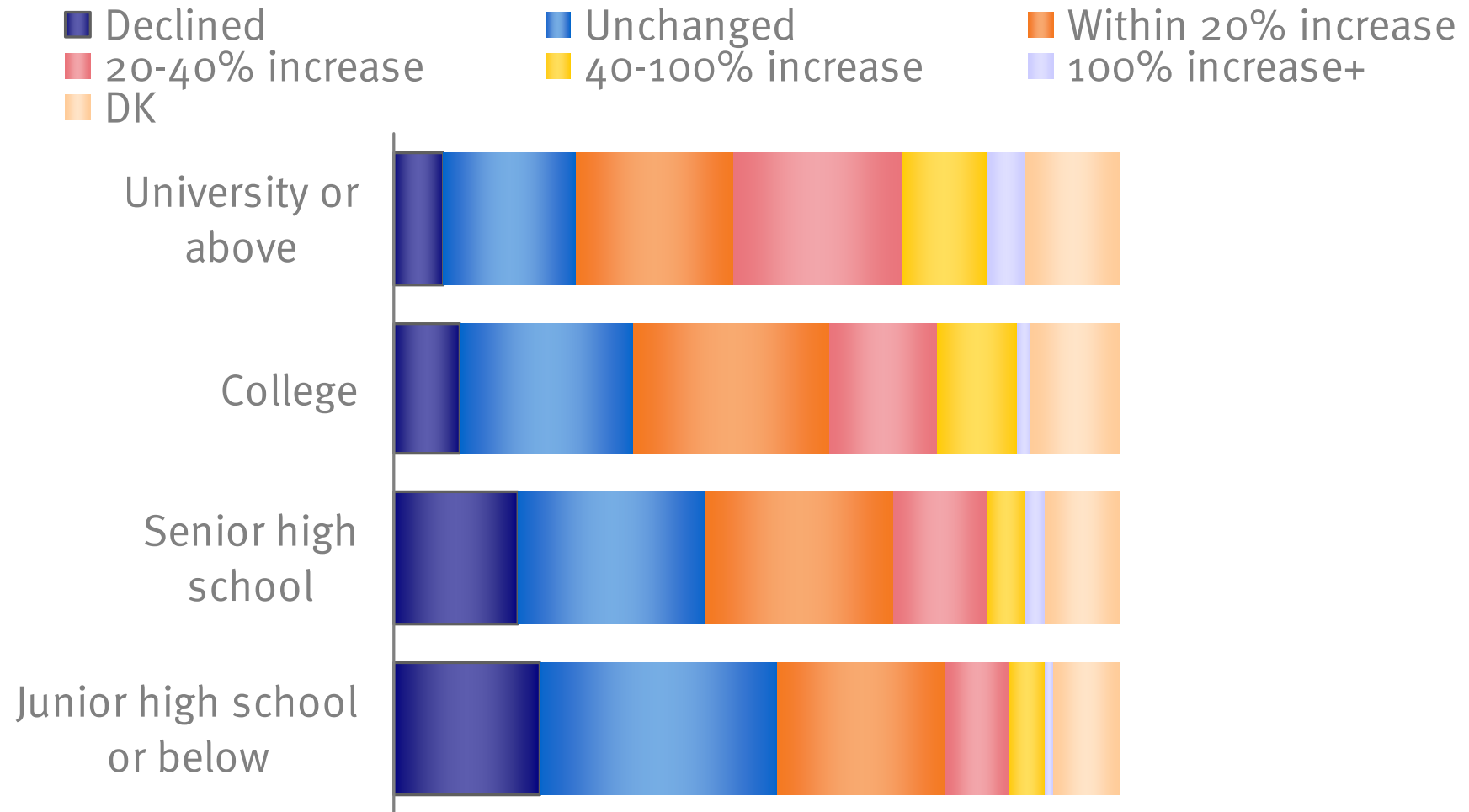
India: average annual income in Indian Rupees



Source: India Today

# Education pays

China: personal income growth (%)



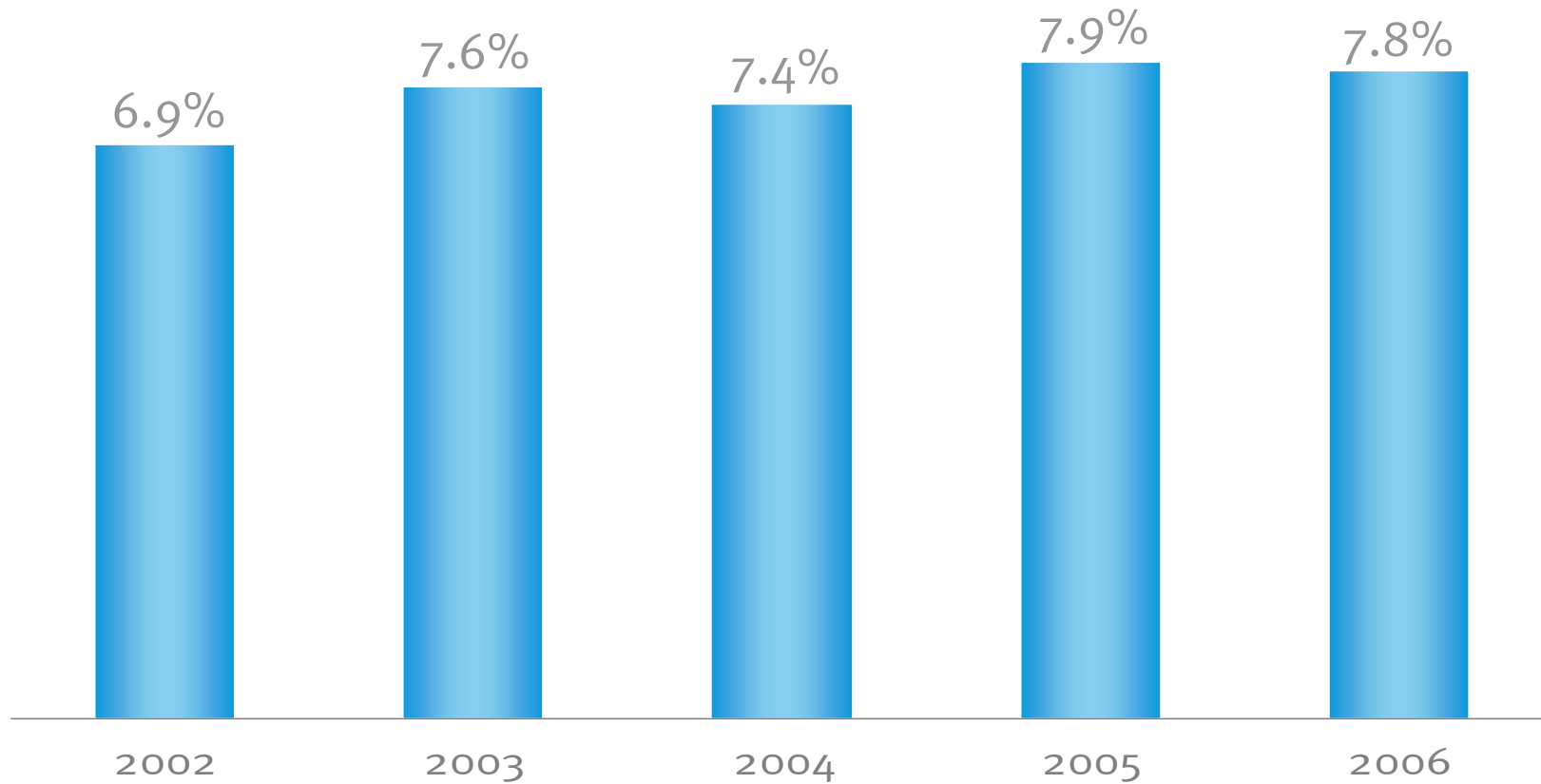
Source: Credit Suisse



# Our business priorities - Education

Sustained investment in content

Education pre-publication expenditure as % of sales



# Our business priorities - Education

Unique breadth

Market share	Pearson	McGraw-Hill	Cengage Learning	“EMAP”*
School Basal & Supplemental	●	●		●
School Assessment	●	●		●
Curriculum Software	●			●
School Enterprise Software	●			
Higher Education	●	●	●	●
Professional testing	●			

\* Non-US



Market leader



Market participant



# Our business priorities - Education

Content + technology + services

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

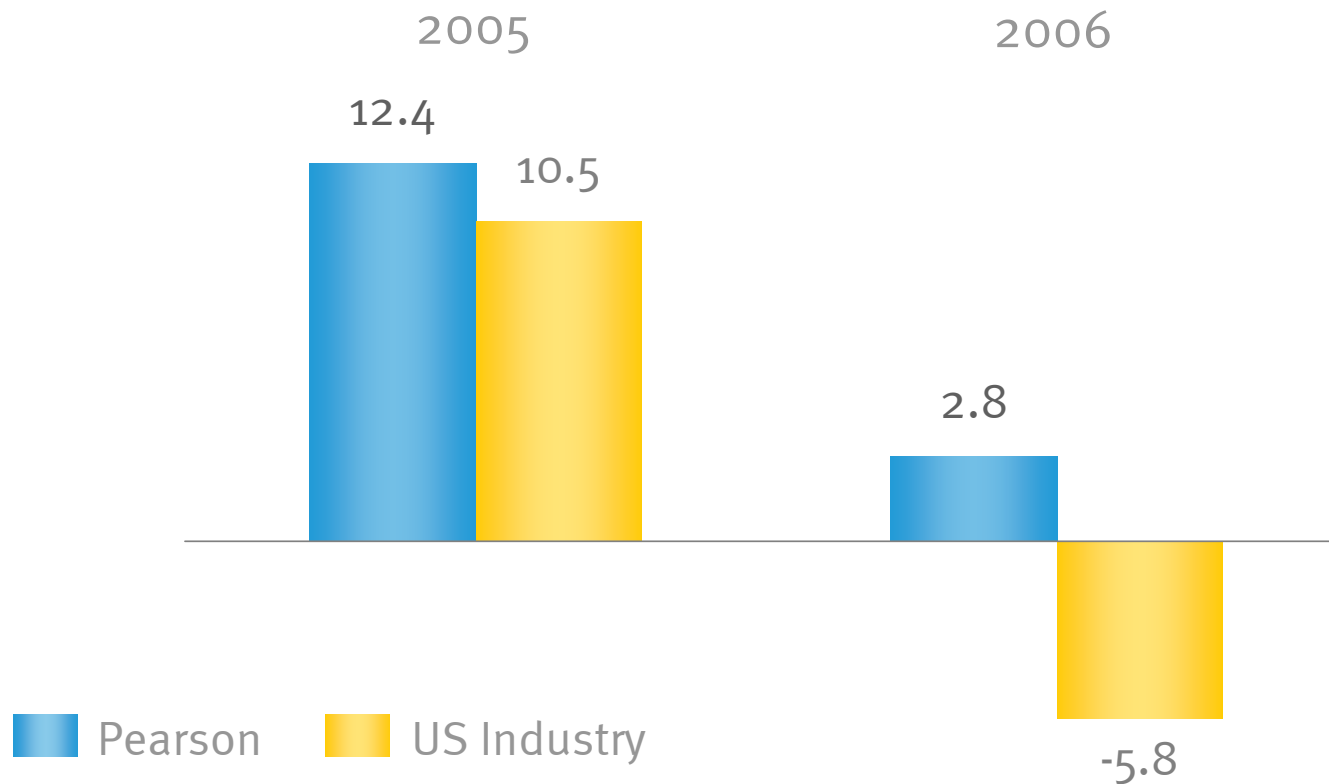
*Approx \$1.1bn/23% of education sales*



# Our business priorities - Education

...and grow faster than our peers in school...

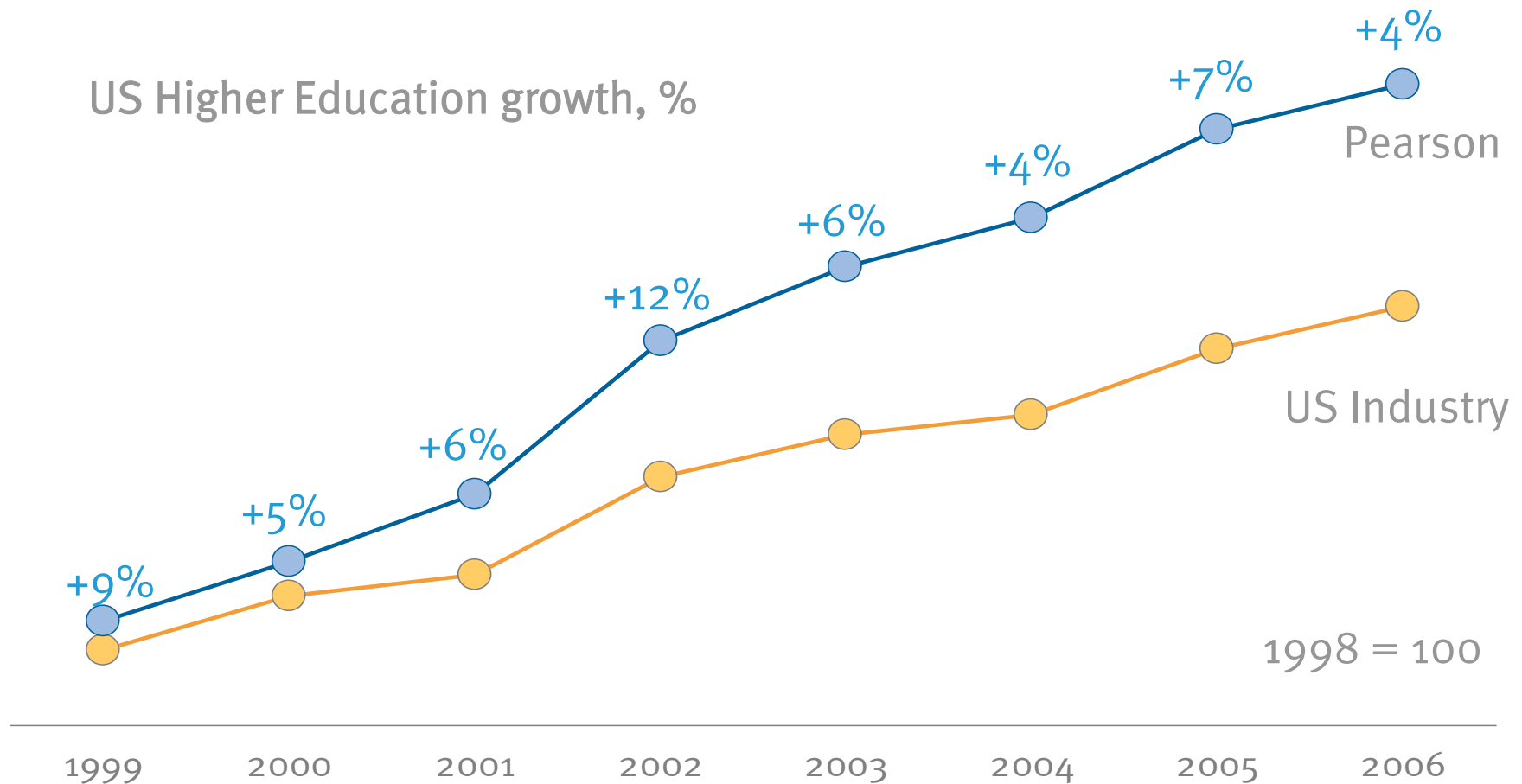
US basal & supplemental growth, %



Sources: Pearson, AAP

# Our business priorities - Education

## ...and college

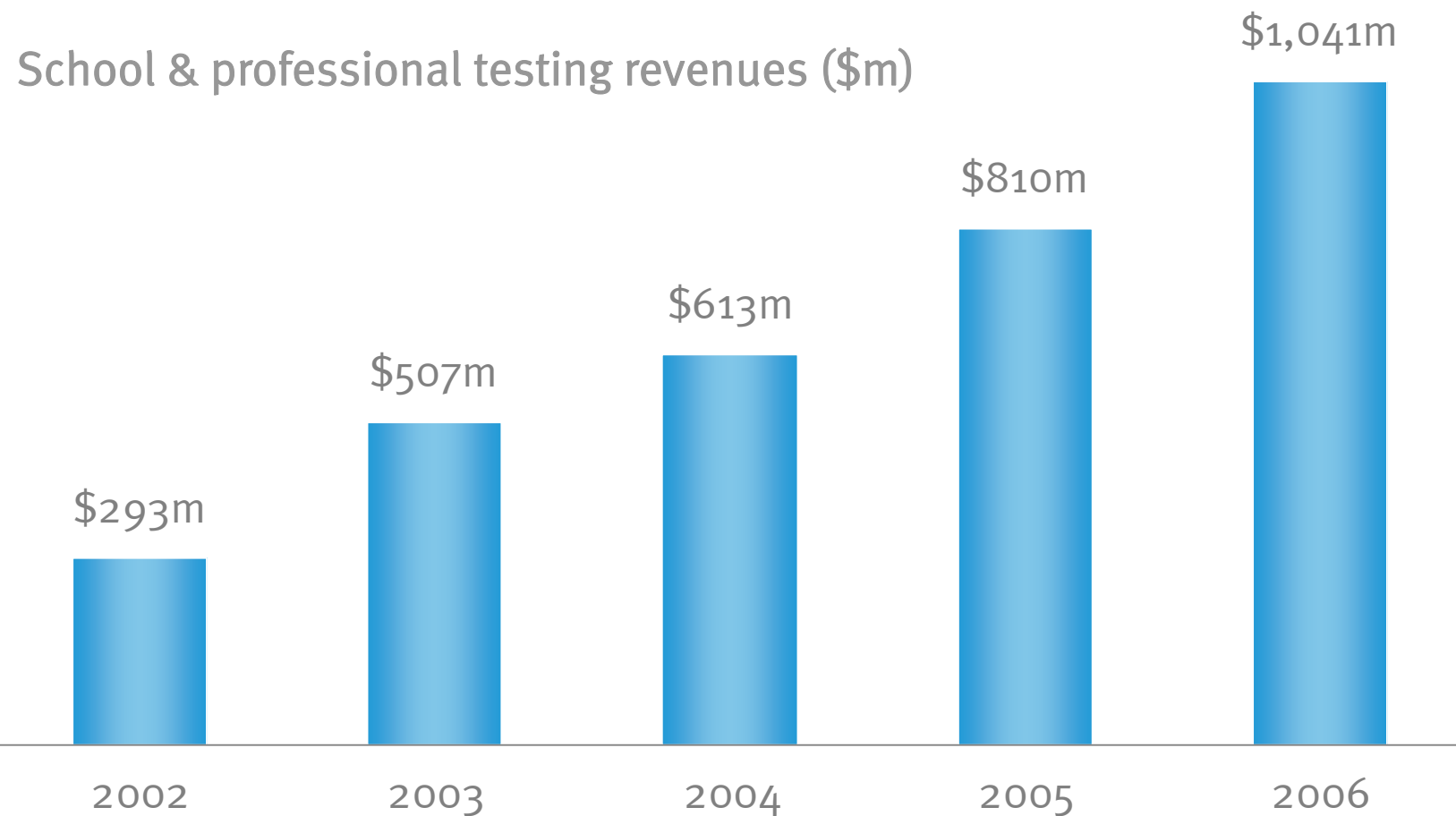


Sources: Pearson, AAP

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# Our business priorities - Education

Content + technology + services

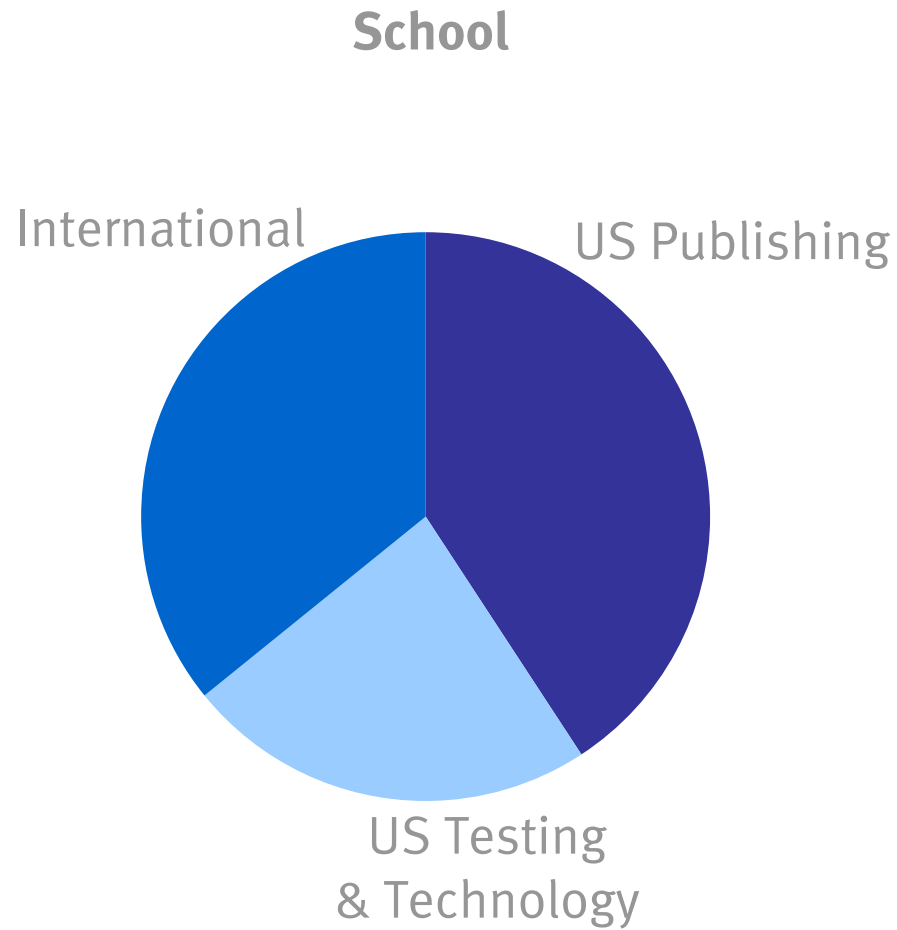


Source: Pearson

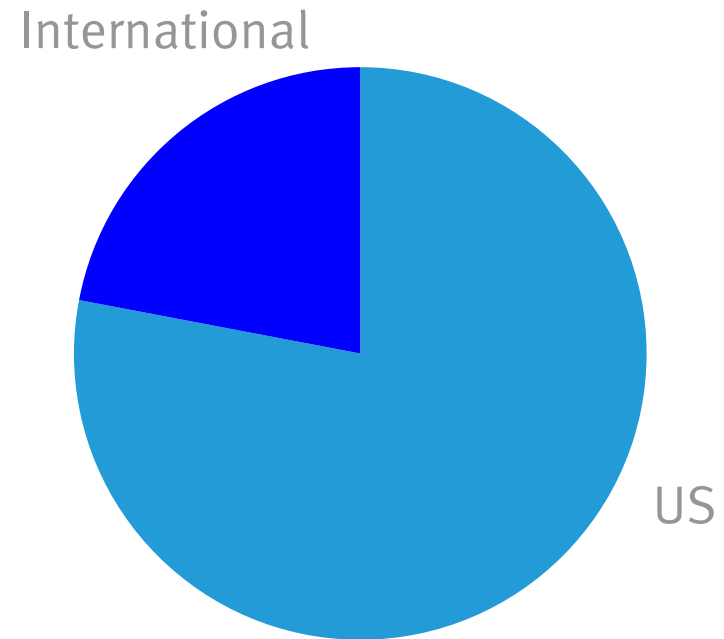
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# Our business priorities - Education

## International



## Higher Education



Note: 2005 data



# Technology travels

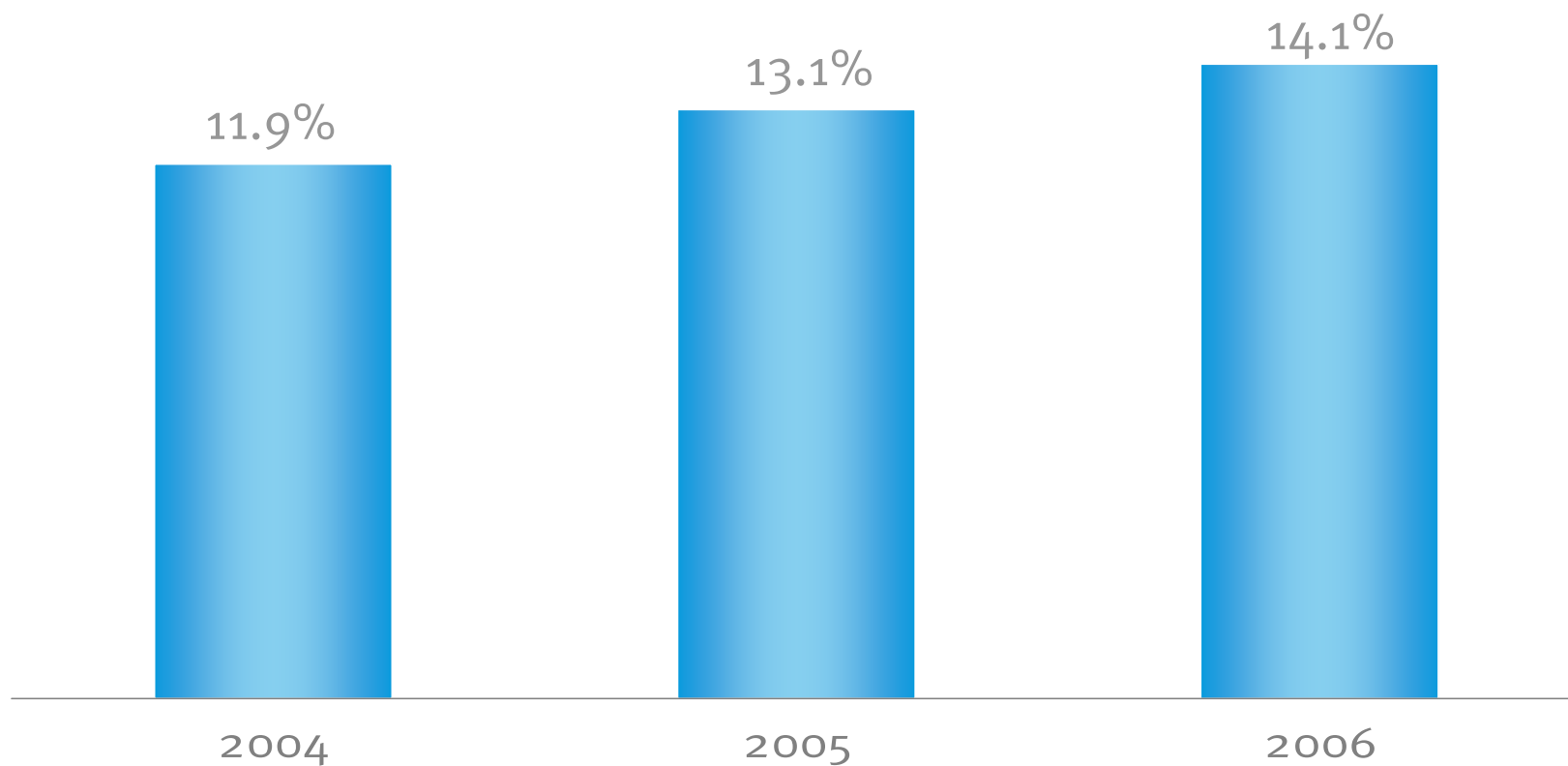
**Cost effective customisation of content to local markets**

**Software & services**

# Our business priorities - Education

## Efficiency

Education operating margins



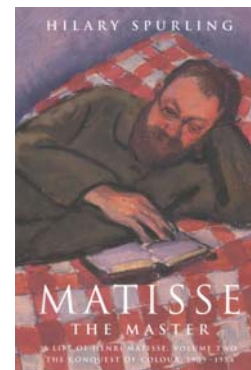
# Our business priorities - Penguin

Strong content

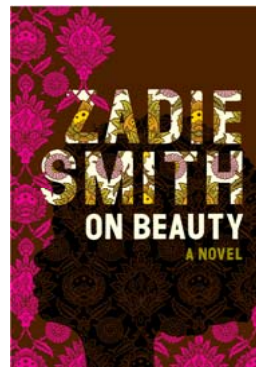
PUBLISHER OF THE YEAR 2007



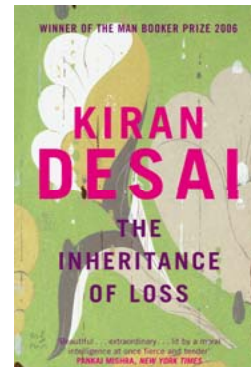
Pulitzer Prize for fiction  
*March*  
Geraldine Brooks



Whitbread Book of the Year  
*Matisse the Master*  
Hilary Spurling



Orange Prize for Fiction  
*On Beauty*  
Zadie Smith



Man Booker Prize  
*The Inheritance of Loss*  
Kiran Desai

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# **Our business priorities - Penguin**

Focus on margins and cash

**Author advances**

**Premium paperback**

**Cost base/out-sourcing**

**Supply chain management**

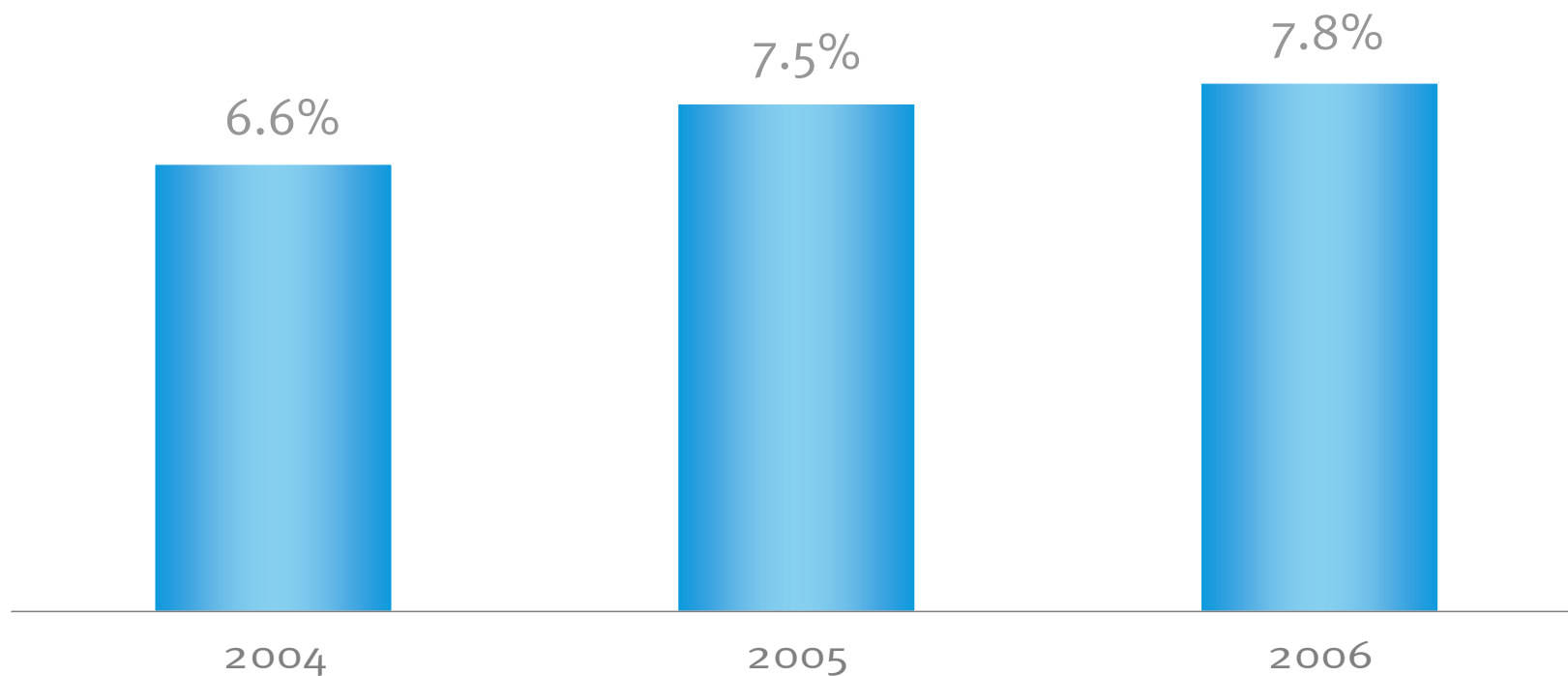
**Working capital**



# Our business priorities - Penguin

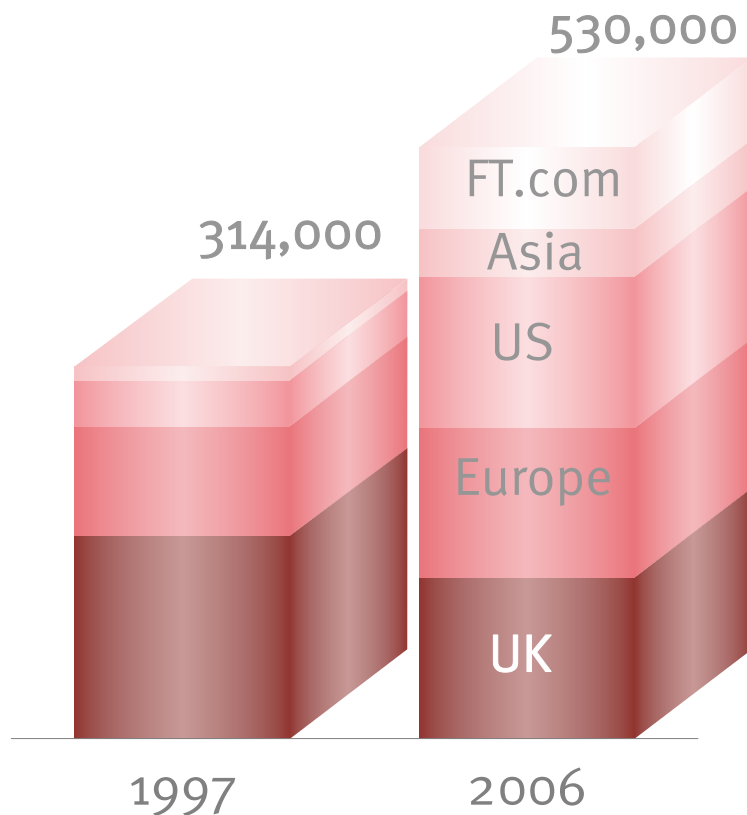
## Efficiency

Penguin operating margins



# Our business priorities – FT Group

## International



**Europe's #1 business newspaper**

**Asia readership up 26%**

**US readership up 47%**

Sources: ABC; EBRs; ABRS; Mendelsohn

**PEARSON**

# Our business priorities – FT Group

Content + technology + 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**



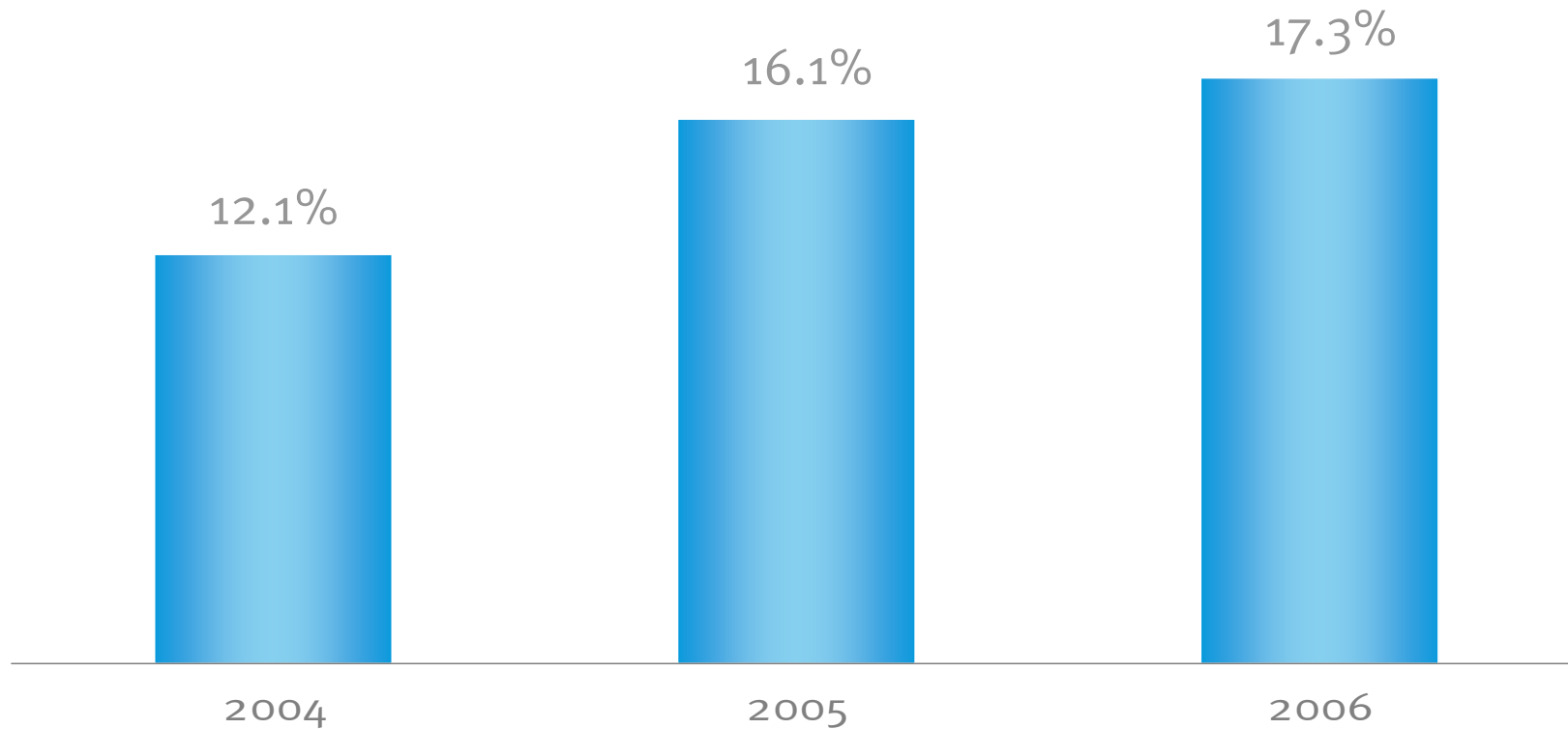
Reader's Digest, a listed magazine and direct marketing company based in New York, is

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# Our business priorities – FT Group

## Efficiency

FT Group operating margins



## **Our financial priorities**

**Earnings growth**

**Cash and working capital discipline**

**Significant ROIC improvement**

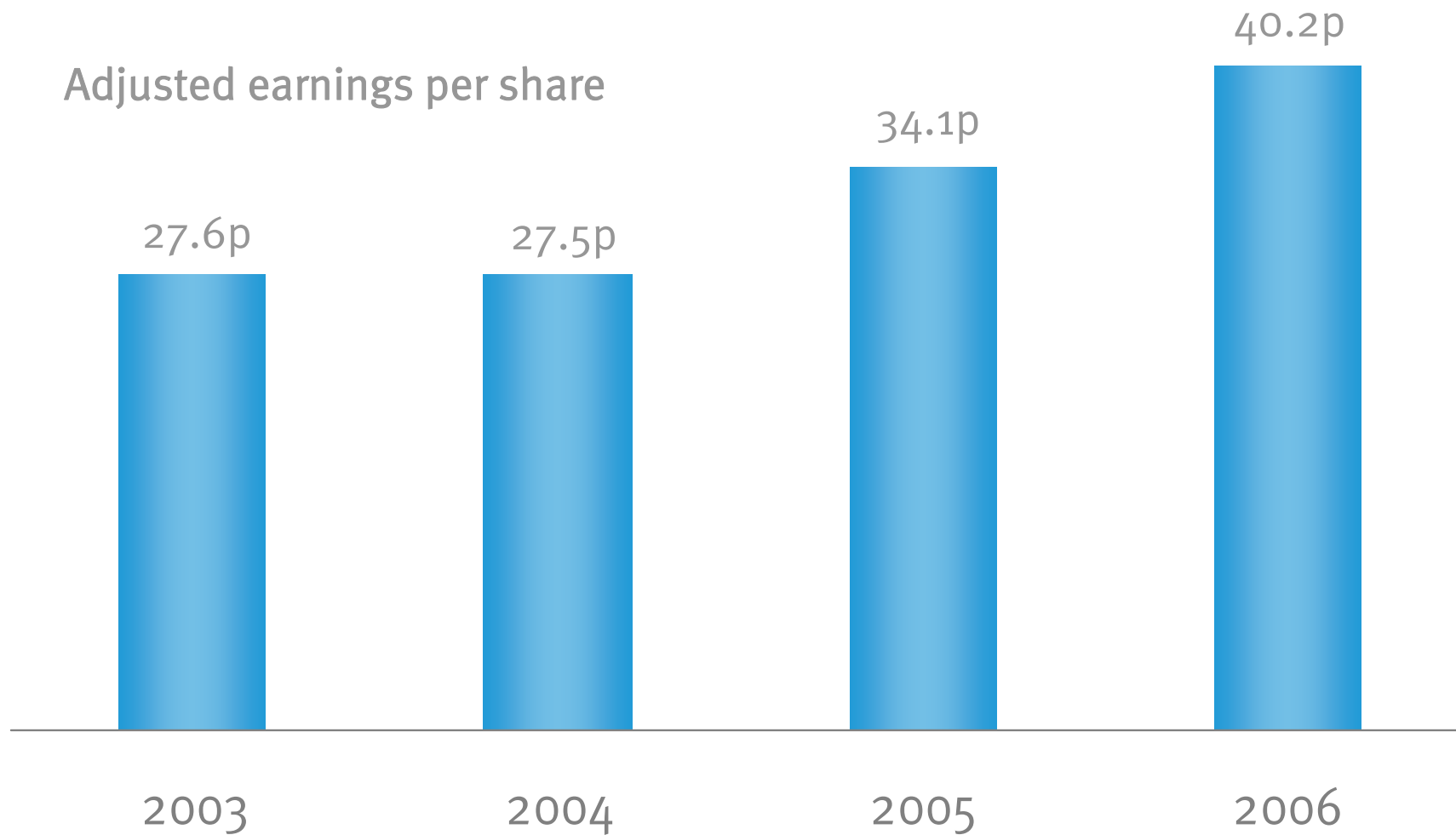
**Continued rigour in capital allocation**



# Sustaining our financial progress

Good progress on earnings...

Adjusted earnings per share



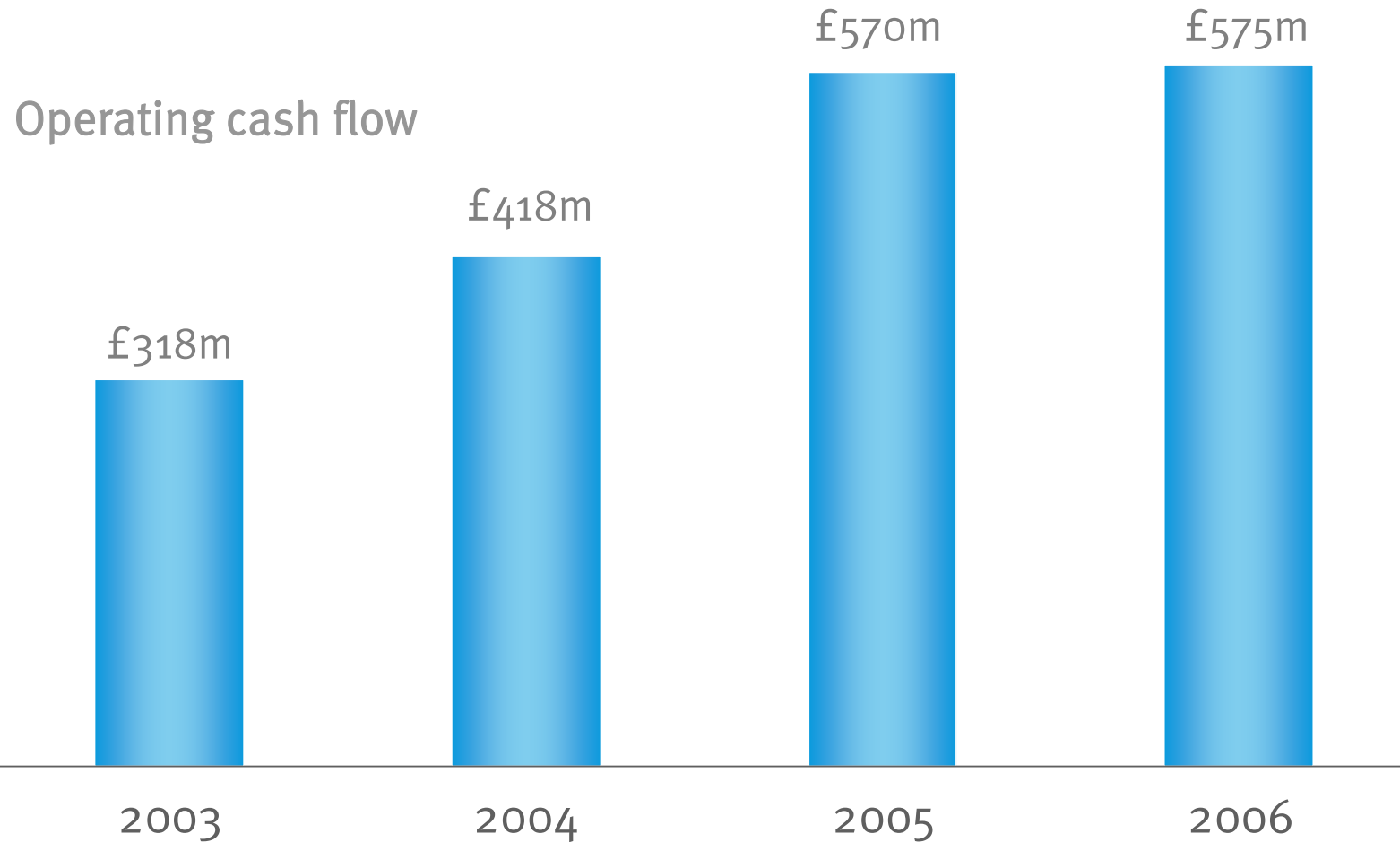
# Sustaining our financial progress

...underpinned by margin improvement in all divisions

£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%
<b>Pearson</b>	<b>13.4%</b>	<b>12.4%</b>	<b>10.8%</b>

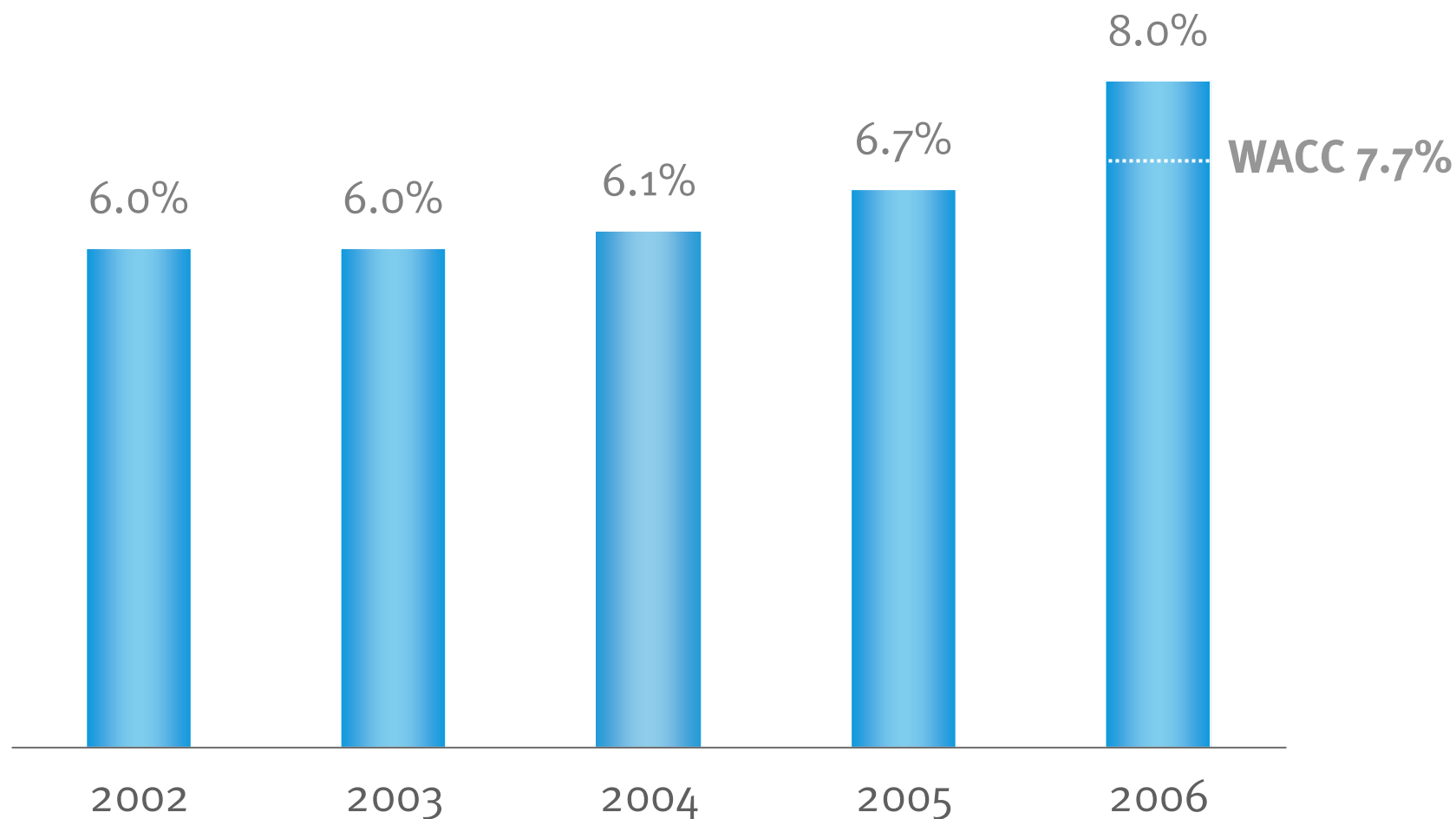
# Sustaining our financial progress

Consistent cash generation...



# Sustaining our financial progress

## ROIC improvement



## 9 months 2007 financial highlights

**Sales up 6%**

**Operating profit up 20%**

**Full-year guidance raised in School,  
Higher Education, Professional and IDC**



# **Sustaining our financial progress**

Continued rigour in capital allocation

**Organic investment**

**Bolt-on acquisitions and disposals**

**Dividend growth**

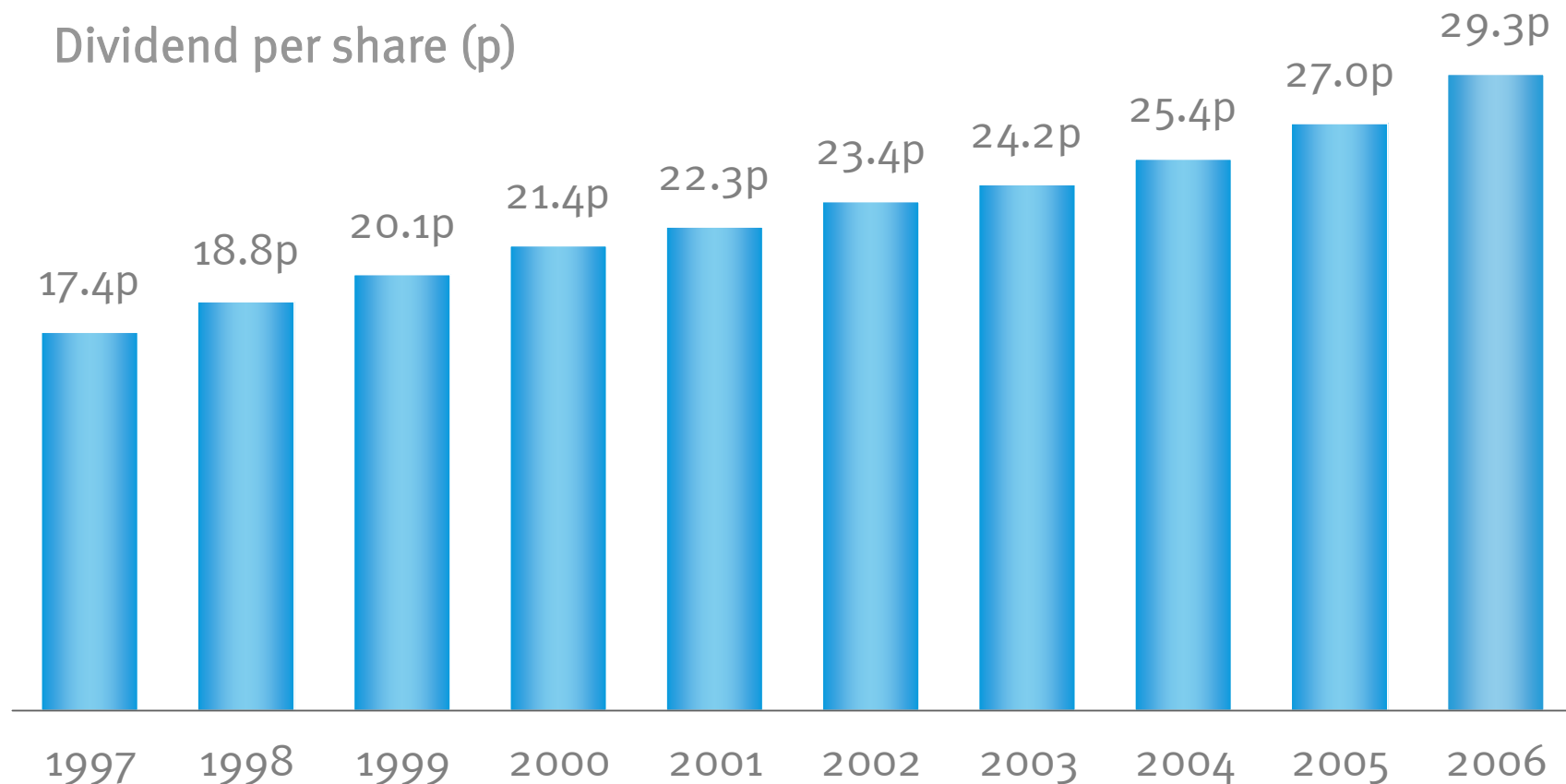
# Pearson today

## Consistent evolutionary portfolio change

Year	Acquisitions	Disposals
2002	Abrams, DDC, SPS	RTL, Forum, PH Direct
2003	Edexcel, LessonLab, Comstock	El Mundo
2004	Altona Ed, BBC Children's, Causeway, Dominie Press, KAT, Futuresource	Capella Education, Business.com
2005	AGS, BBC Active, Co-nect, Index Books, IS Teledata	Recoletos, Marketwatch
2006	Promissor, NES, PowerSchool, Chancery, PBM, Ellis, EET, Quote.com, Mergermarket	Government Solutions
2007	Harcourt Assessment & International, eCollege	Les Echos
	<b>\$2.8bn</b>	<b>\$3.4bn</b>
		PEARSON

# Sustaining our financial progress

## Consistent returns of cash to shareholders



Source: Pearson

## **Summary**

**Strong businesses**

**Clear business priorities**

**Sustaining our financial progress**

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**Morgan Stanley – Barcelona**