

**PEARSON**



**Sanford Bernstein Conference**

**Robin Freestone  
Chief Financial Officer**

26 September 2007

# Agenda

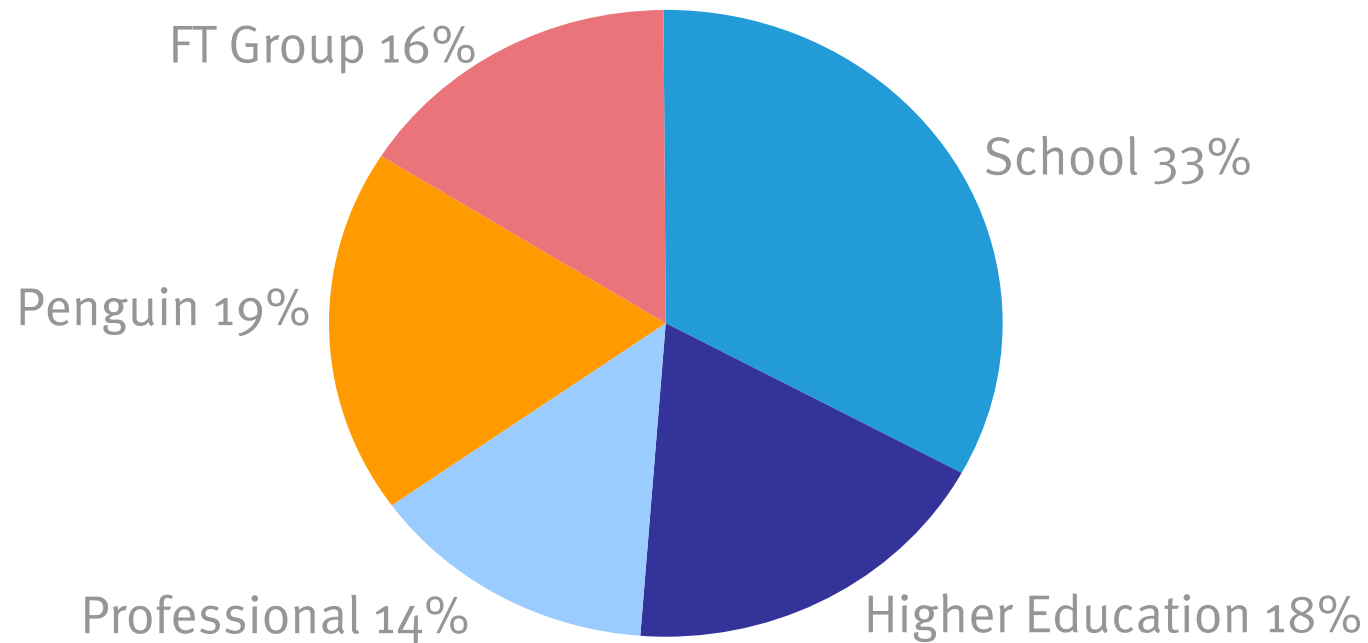
**Pearson overview**

**Our business priorities**

**Sustaining our financial progress**

# Pearson today

## Revenue by business



**2006 revenues: £4.4bn**

Note: includes Government Solutions



# Pearson today

## Education



## Penguin

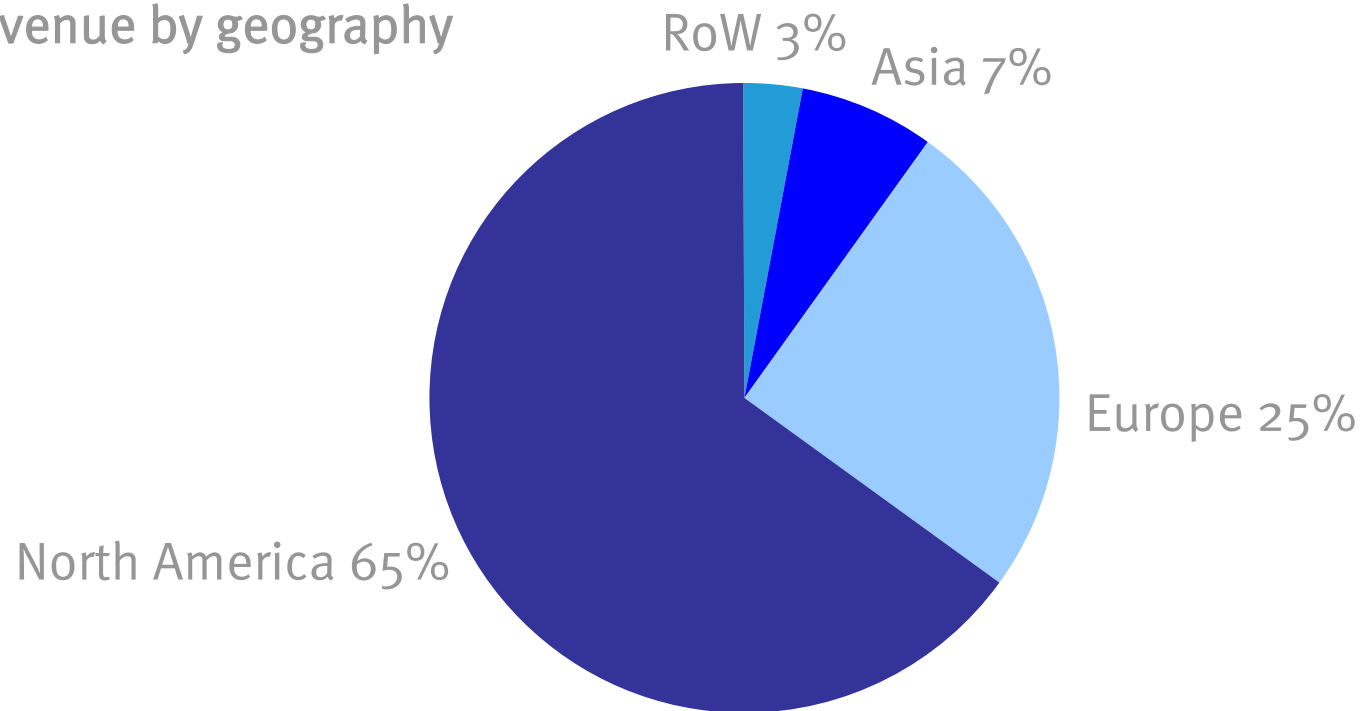


## FT Group



# Pearson today

Revenue by geography



Note: includes Government Solutions

# 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 Adult, 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	

**\$2.8bn**

**\$3.0bn**  
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# **Our business priorities**

**Content +**

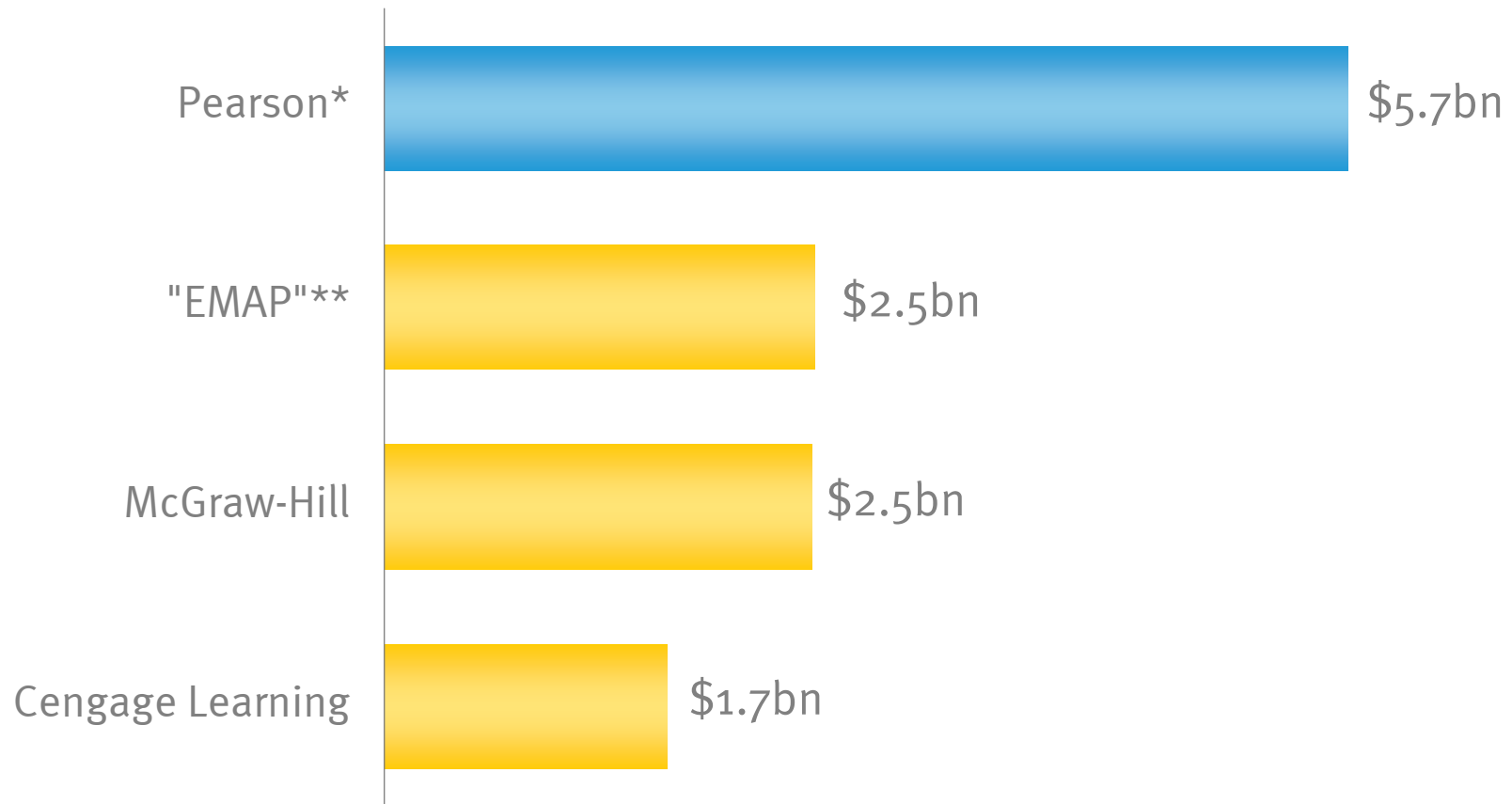
**Technology and services**

**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





# 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	●	●	●	●
International Education*	●	●	●	●
Professional testing	●			

\* Non-US



Market leader



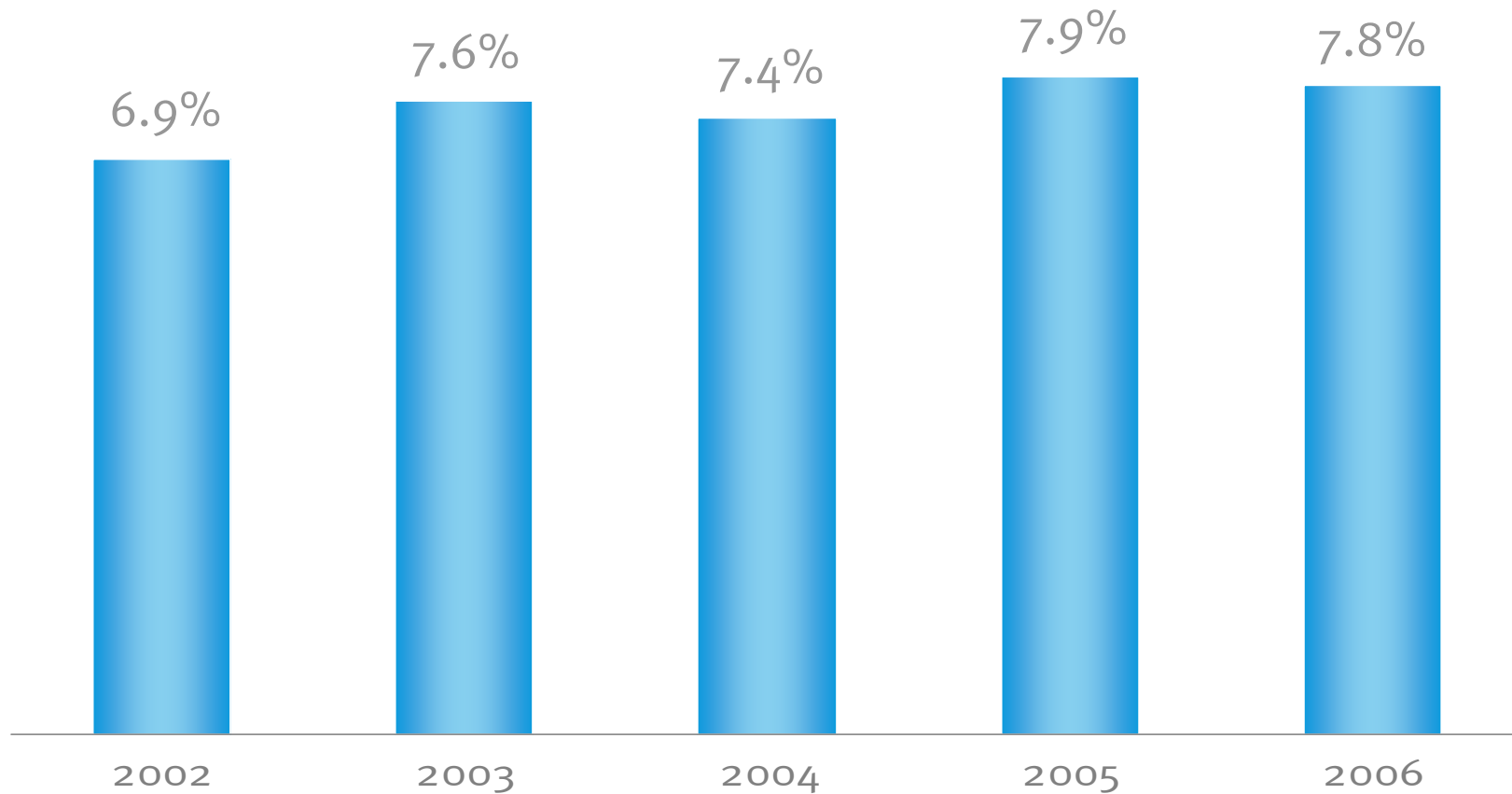
Market participant



# Our business priorities - Education

Sustained investment in content

Education pre-publication expenditure as % of sales



# Our business priorities - Education

Our investments have allowed us to grow market share...

	Pearson position (total US K-12 market)	
	2006	1999
Social studies	#1	#3
Reading / literature	#2	#3
Math	#1	#1
Science	#1/#2	#2/#3

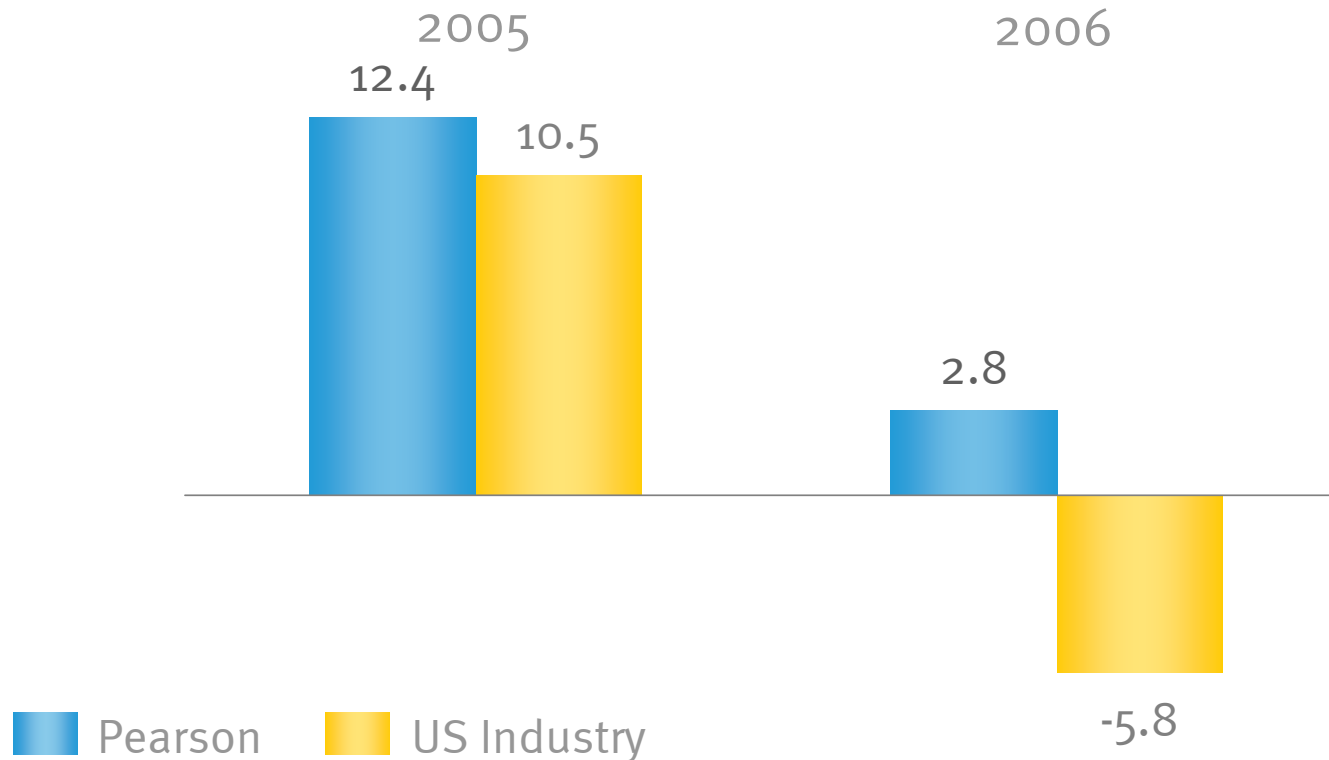
Source: Pearson



# Our business priorities - Education

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

US basal & supplemental growth, %



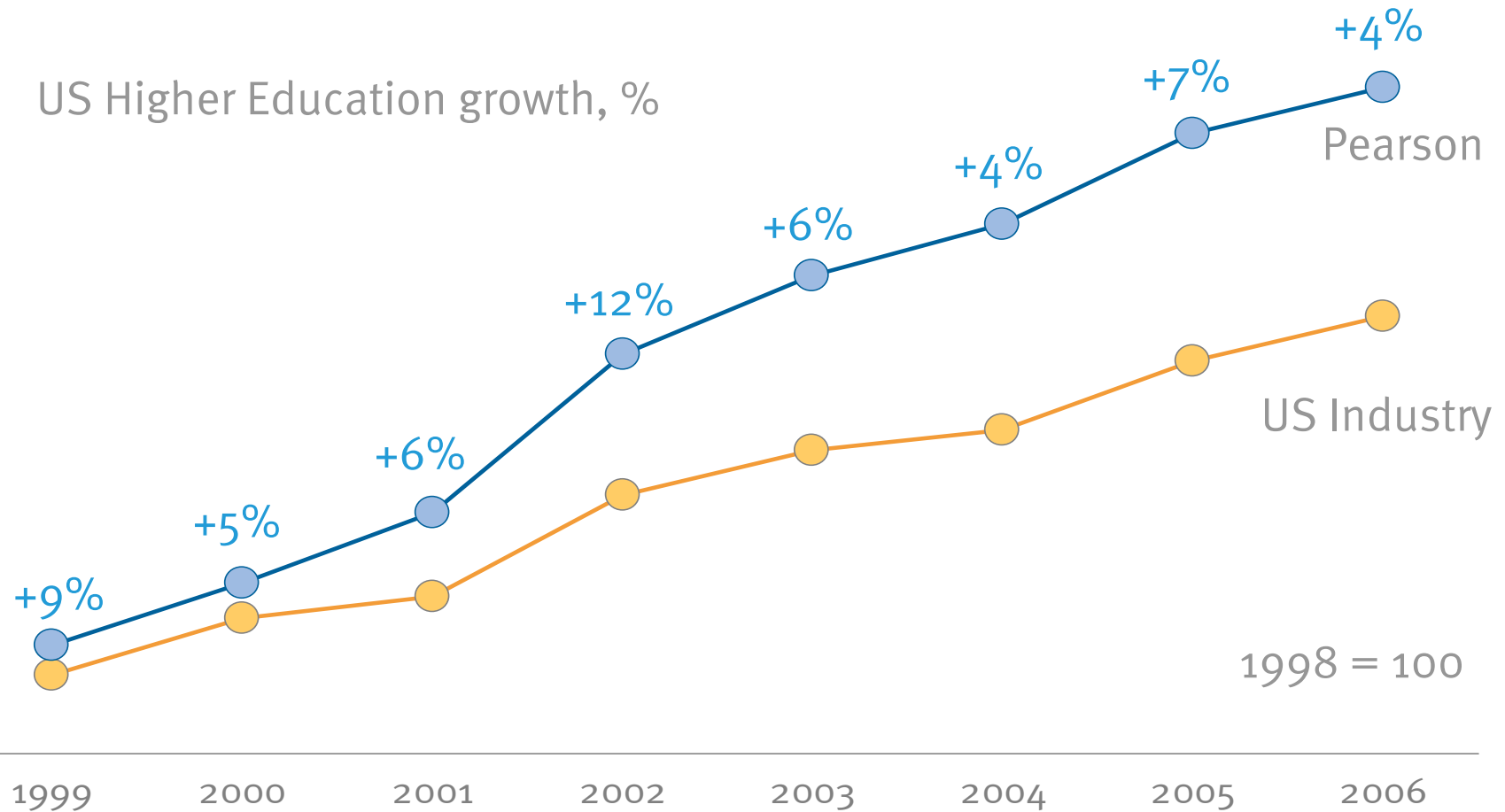
Sources: Pearson, AAP



# Our business priorities - Education

## ...and college

US Higher Education growth, %



Sources: Pearson, AAP



# Our business priorities - Education

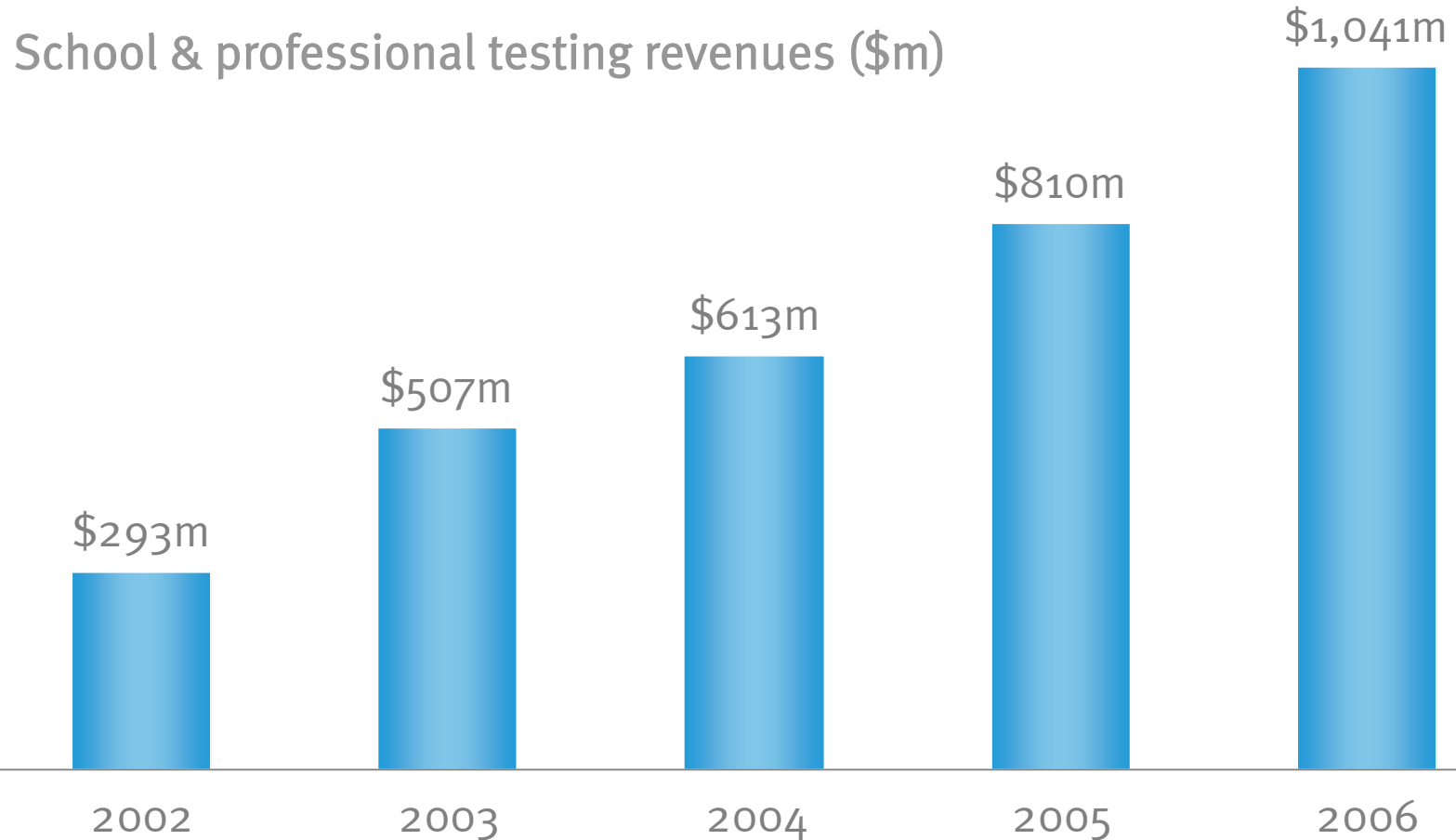
Content + technology + services

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

Content + technology + services



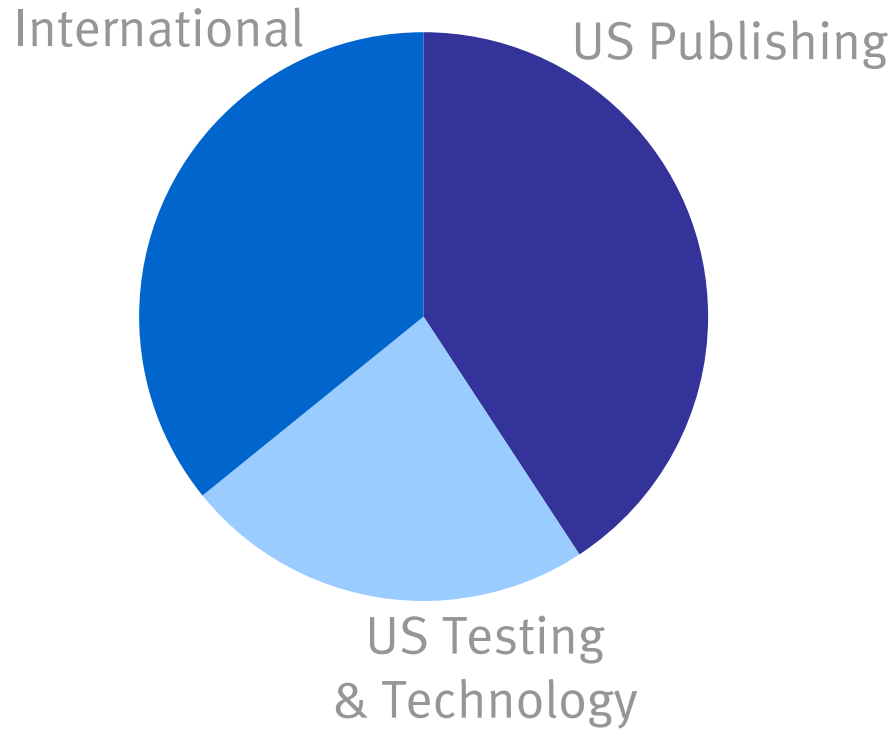
Source: Pearson



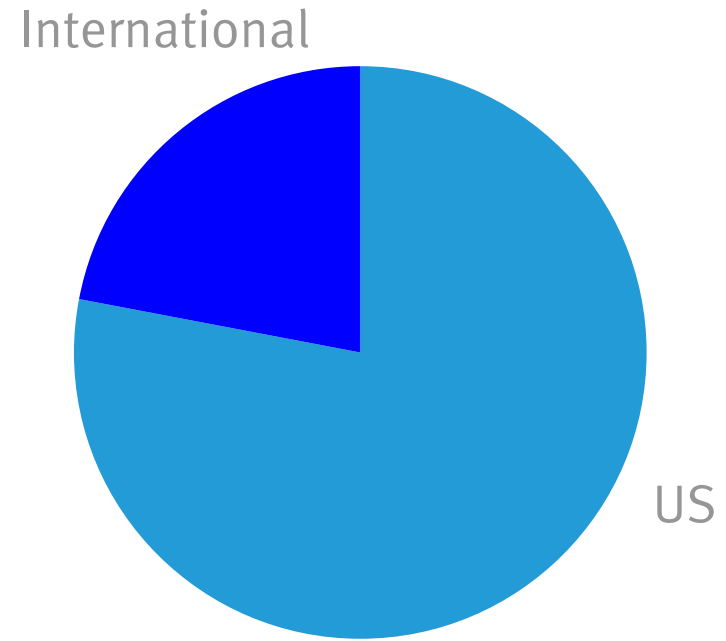
# Our business priorities - Education

## International

### School



### Higher Education



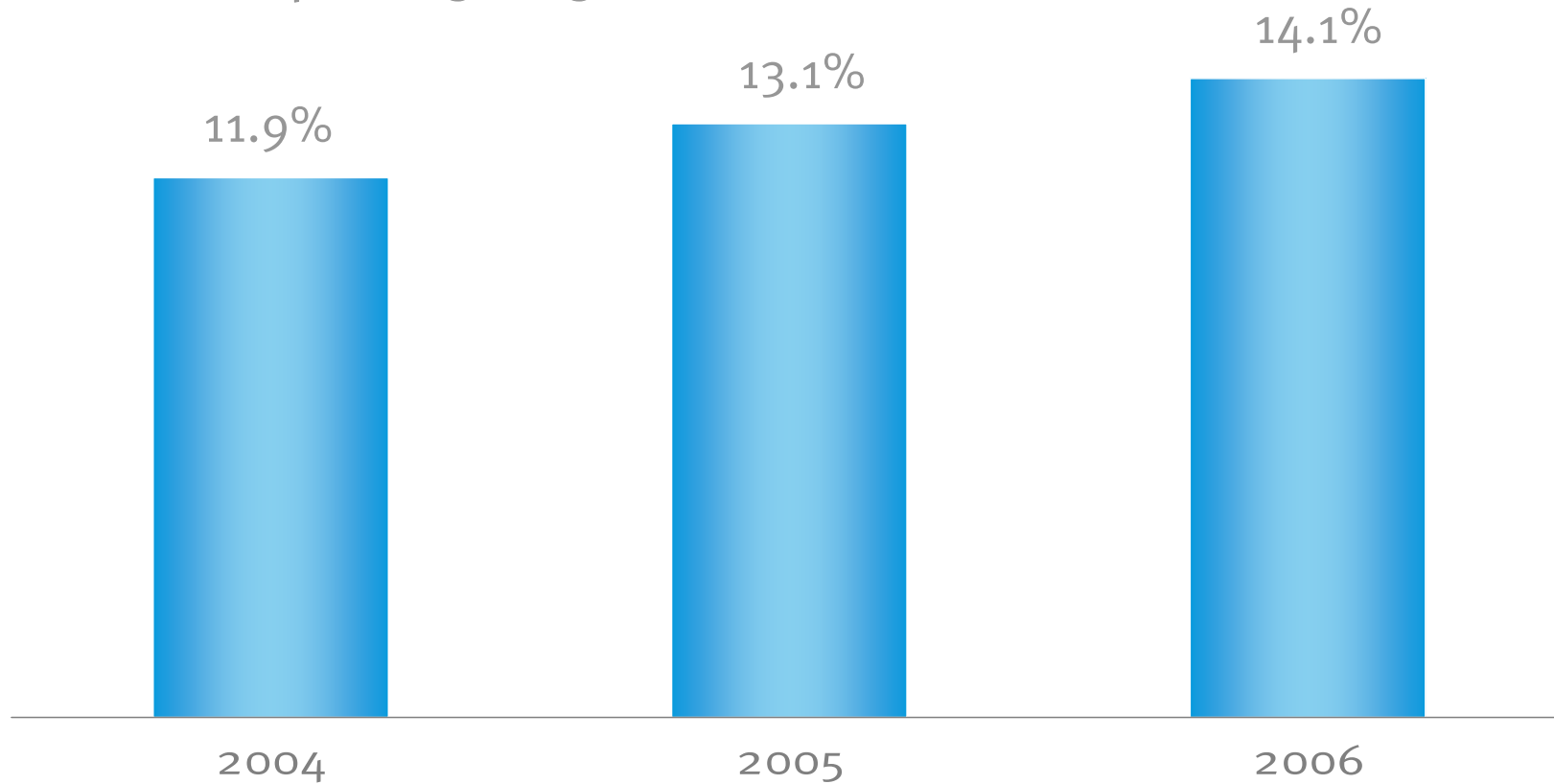
Note: 2005 data



# Our business priorities - Education

## Efficiency

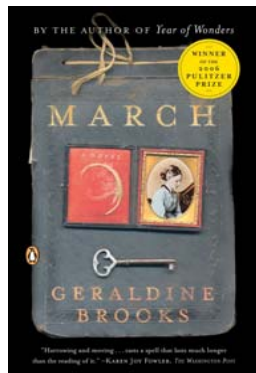
Education operating margins



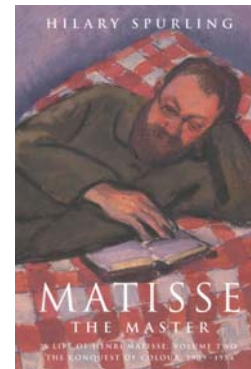
# Our business priorities - Penguin

Strong content

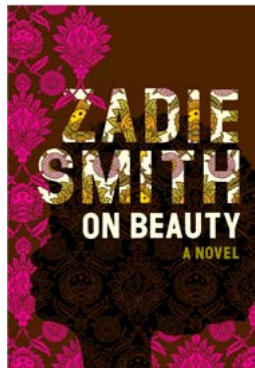
PUBLISHER OF THE YEAR 2007



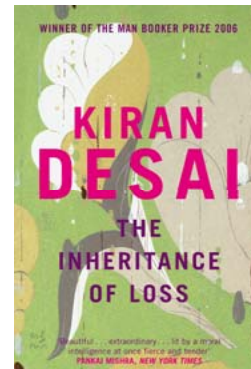
**Pulitzer Prize for fiction**  
*March*  
Geraldine Brooks



**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**

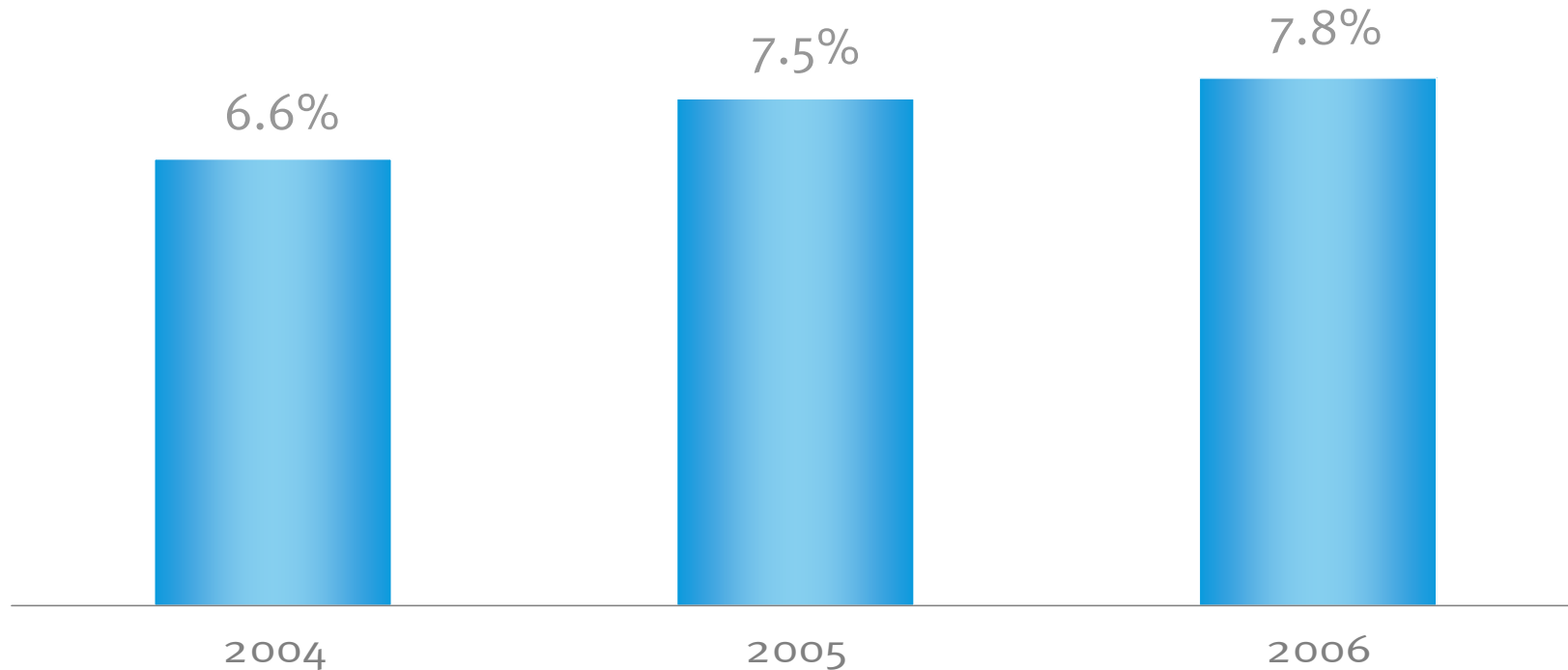
**Supply chain management**

**Working capital**

# Our business priorities - Penguin

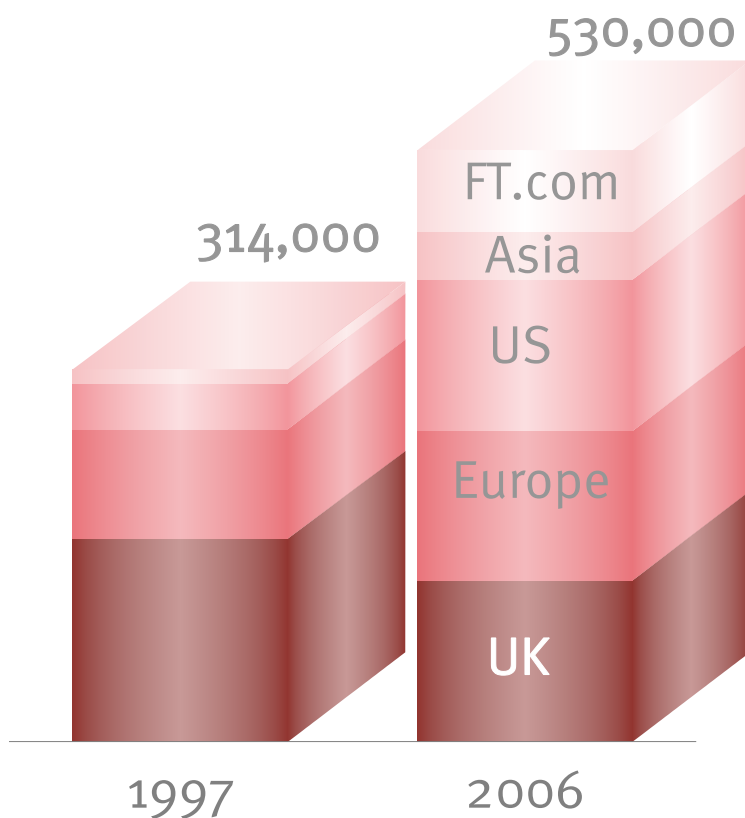
## Efficiency

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

# 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**

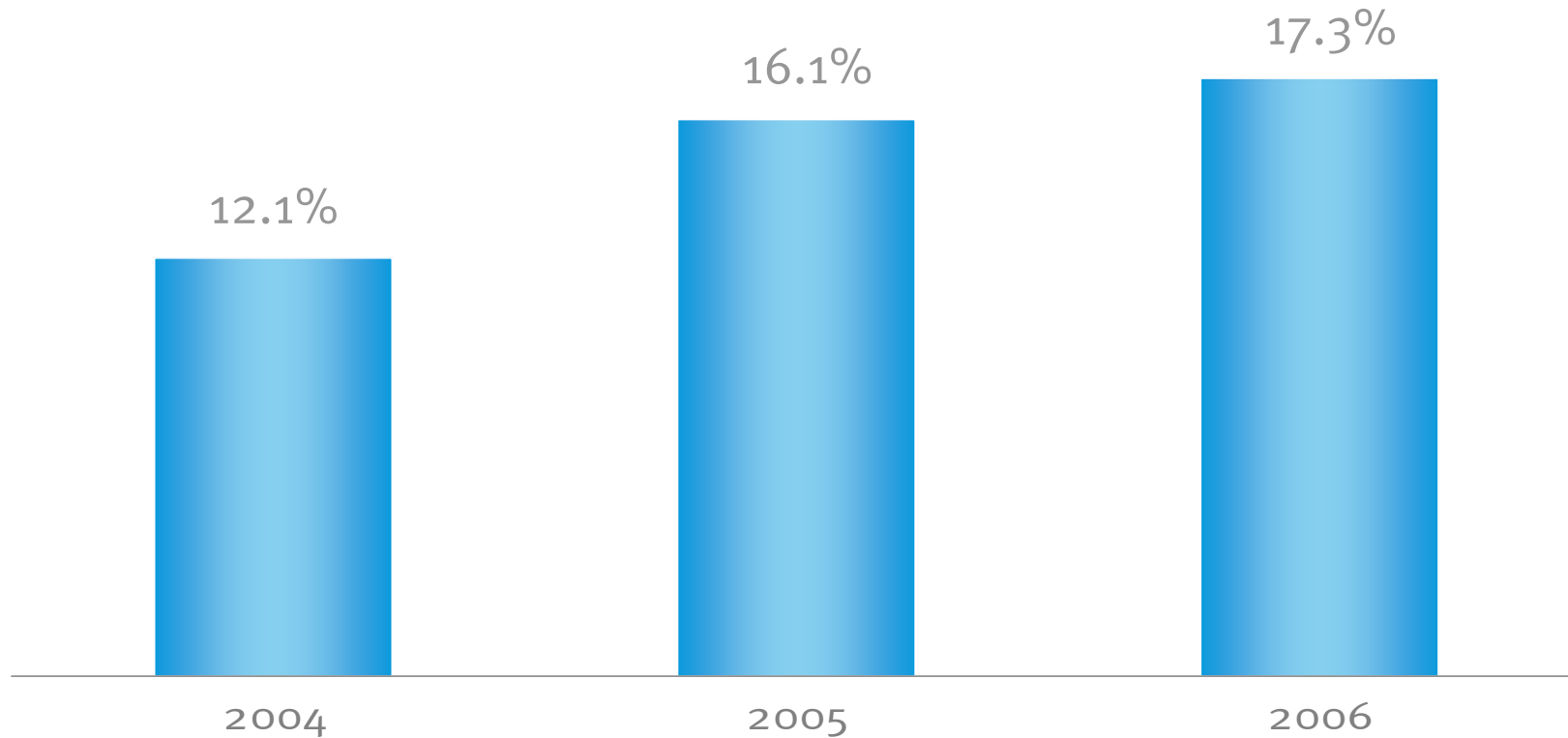


Reader's Digest, a listed magazine and direct marketing company based in New York, is

# Our business priorities – FT Group

## Efficiency

FT Group operating margins



# **Our financial priorities**

**Earnings growth**

**Cash and working capital discipline**

**Significant ROIC improvement**

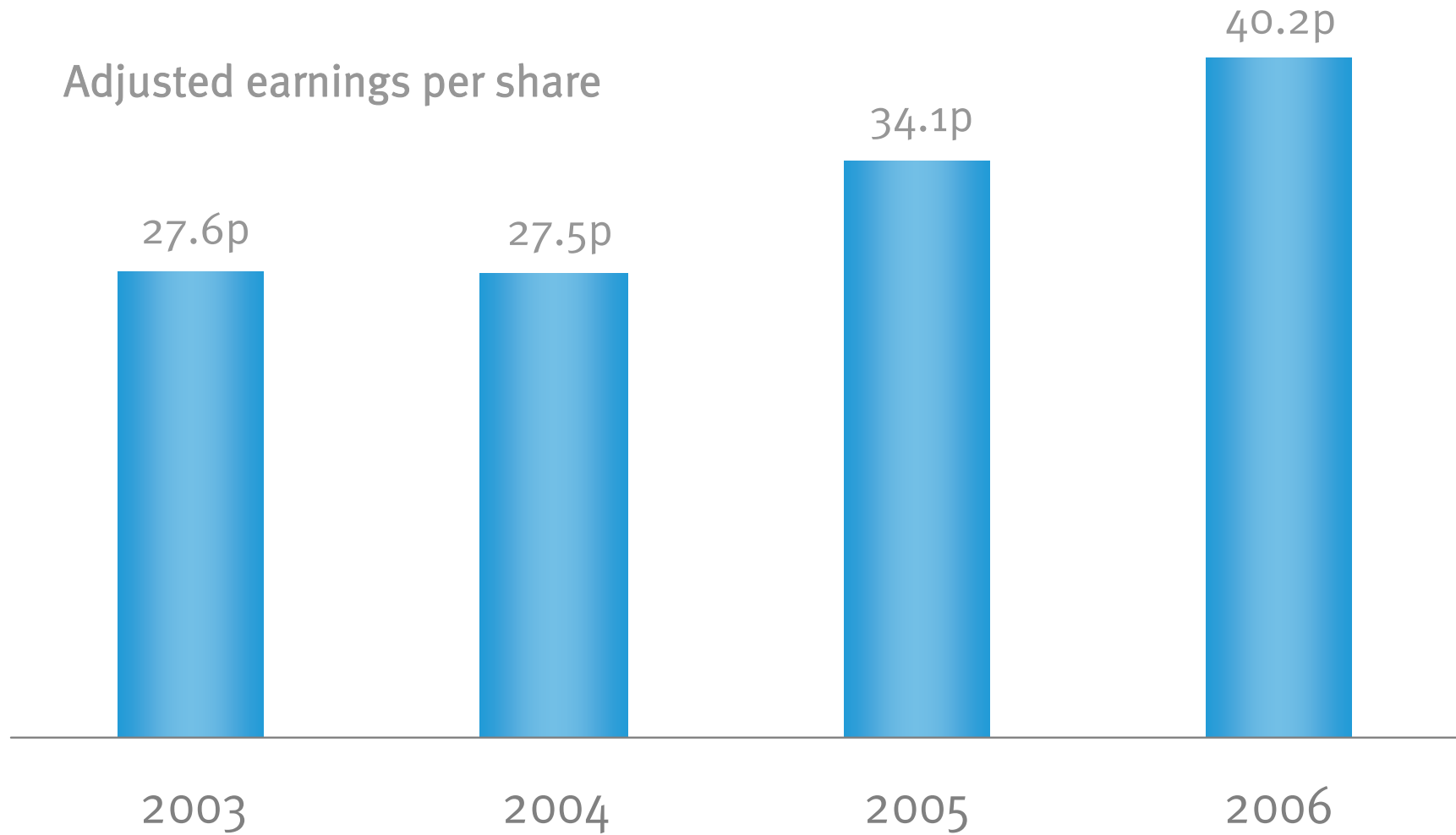
**Continued rigour in capital allocation**



# Sustaining our financial progress

Good progress on earnings...

Adjusted earnings per share



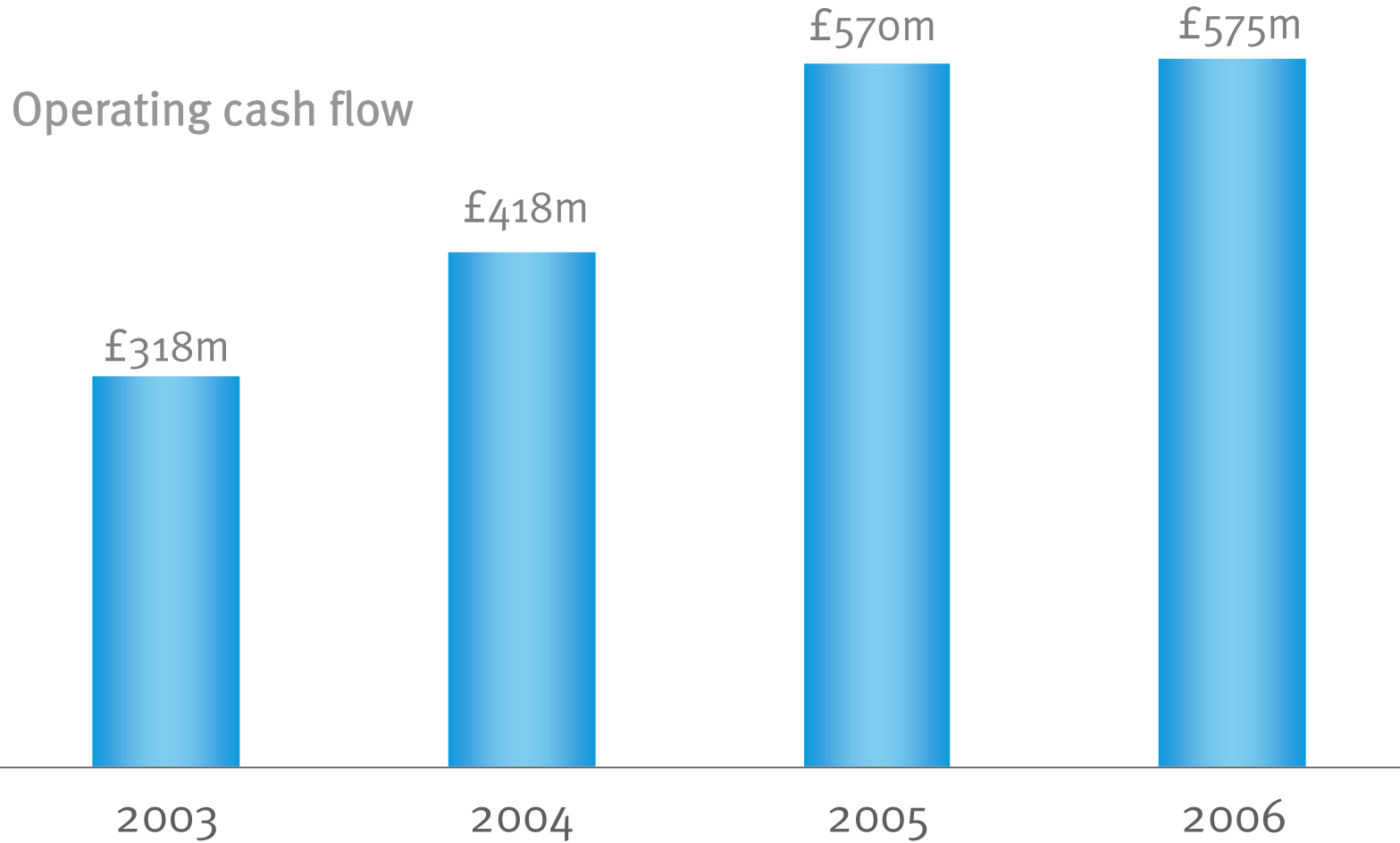
# Sustaining our financial progress

...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

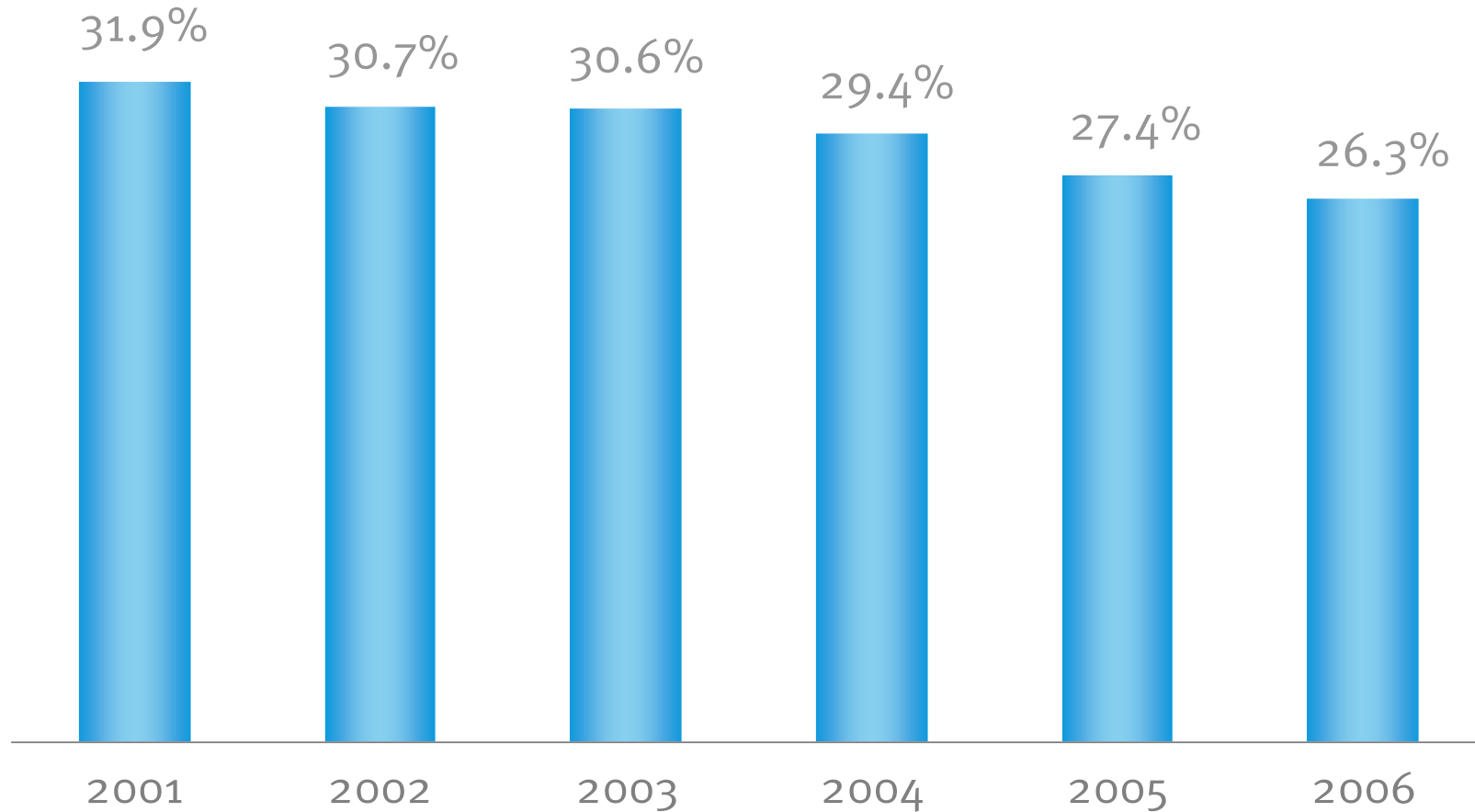
Consistent cash generation...



# Sustaining our financial progress

...less capital tied up in working capital

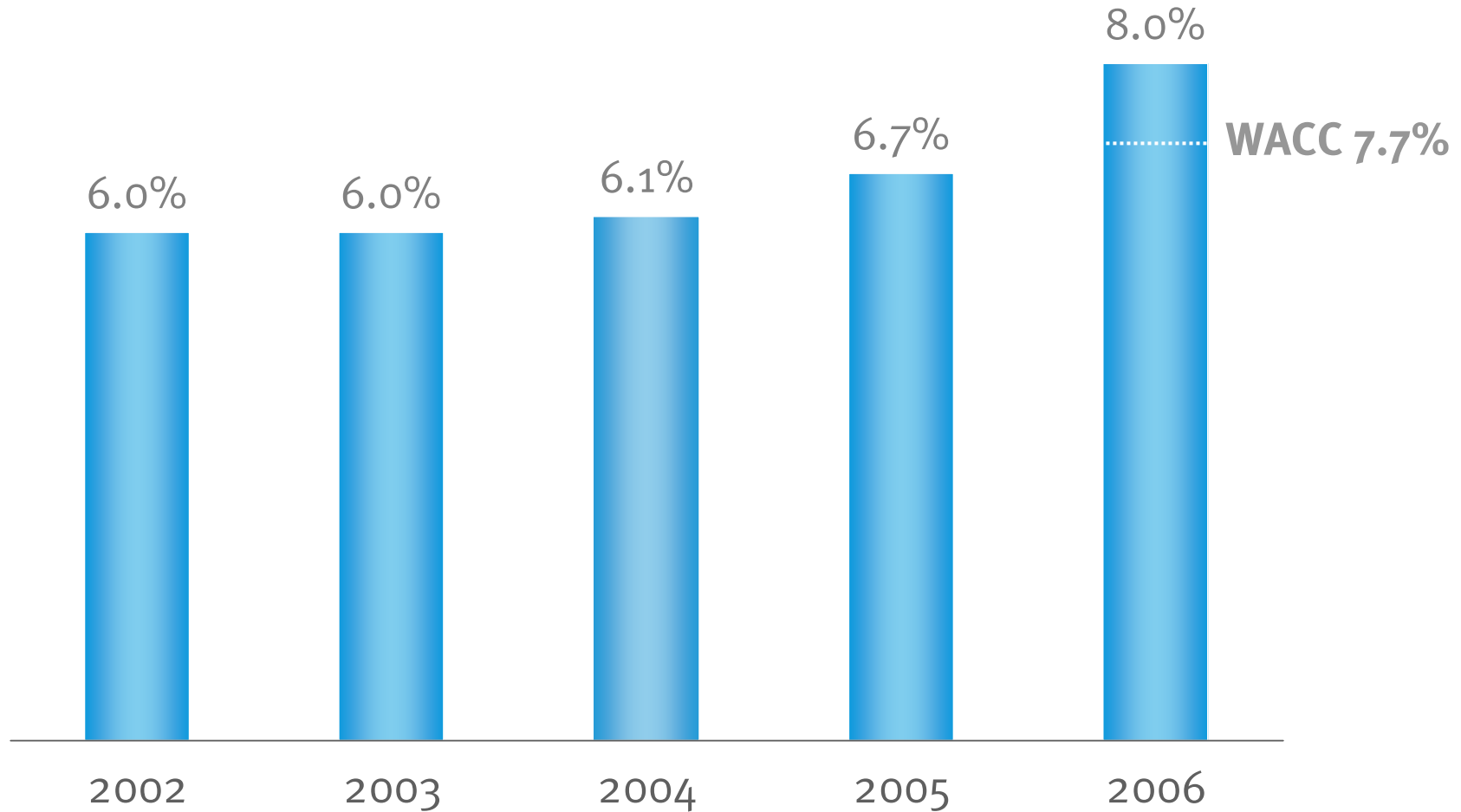
Average working capital/sales



Includes capitalised pre-publication costs and author advances

# Sustaining our financial progress

## ROIC improvement



## **H1 2007 financial highlights**

**Sales up 6%**

**Operating profit up 48%**

**Adjusted EPS up to 3.1p**

**Dividend up 6%**

**Full-year guidance raised**

# **Sustaining our financial progress**

Continued rigour in capital allocation

**Organic investment**

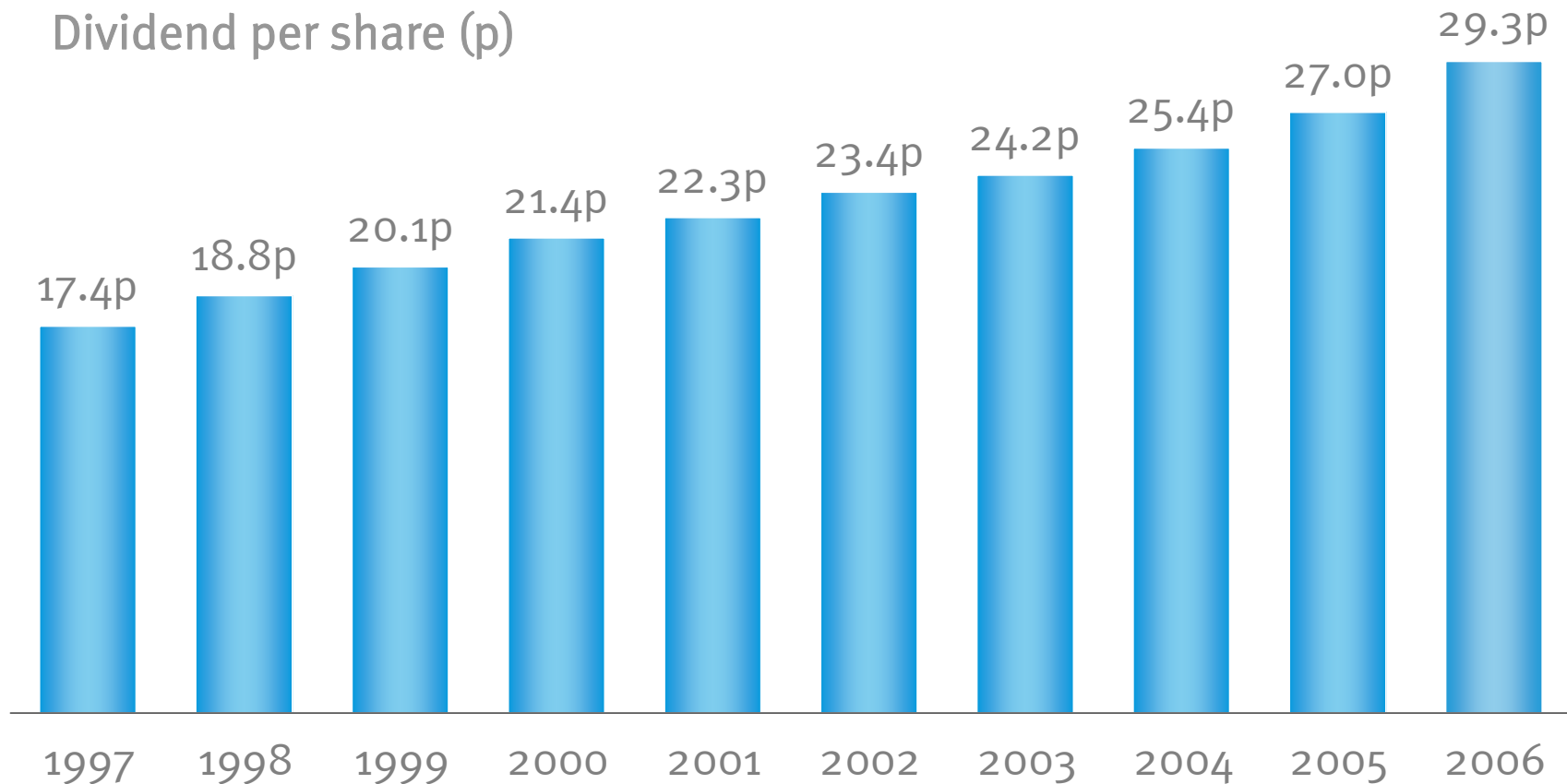
**Bolt-on acquisitions and disposals**

**Dividend growth**

# Sustaining our financial progress

## Consistent returns of cash to shareholders

Dividend per share (p)



Source: Pearson



# Summary

**Strong businesses**

**Clear business priorities**

**Sustaining our financial progress**

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