

PEARSON STERLING TWO PLC

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2007**

Registered Office:

**80 Strand
London
WC2R 0RL**

**Registered in England
Number 2911143**

PEARSON STERLING TWO PLC

Directors

D H Colville
M G Day
J C Makinson (resigned on 30 May 2007)
A J Midgley (appointed on 30 May 2007)

Directors' Report for the year ended 31 December 2007

The directors present their report and the audited financial statements for Pearson Sterling Two Plc (the "company") for the year ended 31 December 2007.

Principal Activities

The company is an investment holding company. The directors believe that the company will continue in this activity for the foreseeable future.

The company's risks, including financial risks, are managed at the Pearson Group level, rather than at an individual business unit level. For this reason, the company's directors believe that a discussion of the company's risks would not be appropriate. The principal risks and uncertainties of the Pearson Group, which include those of the company, are discussed on page 19 of the Pearson Group's annual report which does not form part of this report.

Furthermore, given the nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the company.

Results and Dividends

The profit for the year after taxation amounted to £548,000 (2006: £471,000). The profit for the year has been transferred to reserves. During the period no dividend was paid (2006: nil).

The directors listed above held office during the year and up to the date of signing the accounts.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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Directors' Report for the year ended 31 December 2007 (continued)

Provision of information to Auditors

In the case of each of the persons who are directors at the time when this report is approved, the following applies:

- so far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware; and
- each director has taken all the steps that he/ she ought to have taken as a director in order to make himself/ herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The Company has previously passed an elective resolution under the Companies Act 1985 dispensing with, amongst other things, the need for the annual appointment of auditors. Under the Companies Act 2006, the relevant sections of which came into force on 1 October 2007, this resolution remains in force in relation to the annual appointment of auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as auditors of the Company.

By order of the board



J S Burton
Secretary
18 April 2008

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Profit and Loss Account for the year ended 31 December 2007

	<u>Notes</u>	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Interest receivable from ultimate parent undertaking		782	673
Profit on ordinary activities before taxation		782	673
Tax on profit on ordinary activities	4	<u>(234)</u>	<u>(202)</u>
Profit for the financial year		<u>548</u>	<u>471</u>

The company has no recognised gains and losses other than those included in the loss above and, therefore, no statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and the profit for the year stated above and their historical cost equivalents.

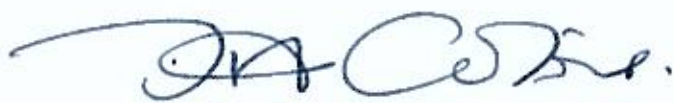
All the above results are derived from continuing operations.

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Balance Sheet at 31 December 2007

	<u>Notes</u>	<u>2007</u> <u>£000</u>	<u>2006</u> <u>£000</u>
Current assets			
Amounts due from parent undertaking	5	<u>14,278</u>	<u>13,698</u>
Creditors: amounts falling due within one year			
Corporation tax		(234)	(202)
Net current assets		<u>14,044</u>	<u>13,496</u>
Total assets less current liabilities		<u>14,044</u>	<u>13,496</u>
Net assets		<u>14,044</u>	<u>13,496</u>
Capital and Reserves			
Called up share capital	7	12,500	12,500
Profit and loss account	6	<u>1,544</u>	<u>996</u>
Total shareholders' funds	8	<u>14,044</u>	<u>13,496</u>

The financial statements on pages 4 to 7 were approved by the board of directors on 18 April 2008, and signed on its behalf by:



Director

PEARSON STERLING TWO PLC

Notes to the financial statements for the year ended 31 December 2007

1. Accounting policies

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principle accounting policies, which have been applied consistently through the year, are set out below.

- a) Basis of accounting - The financial statements are prepared under the historical cost convention.
- b) Corporation tax payable is provided on taxable profits at the current rate.

2. Directors' emoluments and employee costs

The directors are employed by another group undertaking and are remunerated by that undertaking in respect of their services as group employees. They received no emoluments from the company in respect of qualifying services. No one was employed by the company at any time during the year (2006: no one).

3. Auditors' remuneration

Auditors' remuneration is borne by a fellow group company.

4. Taxation on profit on ordinary activities

	<u>2007</u>	<u>2006</u>
	£000	£000
Current tax:		
UK corporation tax on profits of the year	(234)	(202)
Total current tax	(234)	(202)

The tax assessed for the year and for the prior year equals that resulting from applying the standard rate of corporation tax in the UK (30%) to the profit before tax.

There is no unprovided deferred tax liability or unrecognised deferred tax asset in these financial statements.

5. Amounts due from ultimate parent undertaking

Amounts due from ultimate parent undertaking are unsecured, and repayable on demand; interest is charged at a rate of LIBOR + 25 basis points.

6. Reserves

	<u>2007</u>
	£000
At 1 January	996
Profits for the financial year	548
At 31 December	<u>1,544</u>

7. Share capital

	<u>2007</u>	<u>2006</u>
	£000	£000
Authorised		
12,500,000 (2006: 12,500,000) ordinary shares of £1 each	12,500	12,500
Allotted, called up and fully paid		
12,500,000 (2006: 12,500,000) ordinary shares of £1 each	12,500	12,500

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Notes to the financial statements for the year ended 31 December 2007 (continued)

8. Reconciliation of movements in shareholders' funds

	<u>2007</u> £000	<u>2006</u> £000
Opening shareholders' funds	13,496	13,025
Profit for the financial year	<u>548</u>	<u>471</u>
Closing shareholders' funds	<u>14,044</u>	<u>13,496</u>

9. Related party transactions

The company is a wholly owned subsidiary within the Pearson plc group and utilises the exemption contained in FRS8 Related Party Disclosures not to disclose any transactions with entities that are part of the Pearson group. The address at which the Pearson plc consolidated financial statements are publicly available is shown in note 11.

10. Cash flow statement

The company is a wholly owned subsidiary of Pearson plc and is included in the consolidated financial statements of Pearson plc, which are publicly available. The company has taken advantage of the exemption in FRS 1 "Cash flow statements (revised 1996)" from the requirement to present a cash flow statement on the grounds that it is a small company.

11. Ultimate parent undertaking

The immediate and ultimate parent undertaking is Pearson plc, a company incorporated in England and Wales. Pearson plc is the parent undertaking of the only group to consolidate these financial statements at 31 December 2007. Copies of the consolidated financial statements for Pearson plc may be obtained from The Secretary, Pearson plc, 80 Strand, London, WC2R 0RL.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEARSON STERLING TWO LIMITED

We have audited the financial statements of Pearson Sterling Two Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



*PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
18 April 2008*