

PEARSON

The Pearson logo consists of the word "PEARSON" in a white, serif, all-caps font. Below the text is a white, curved line that starts under the "P", arches over the "A", "R", and "S", and ends under the "N".

2008 results

Monday 2 March 2009

Forward-looking statements

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

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

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

Record results

£m	2008	2007	Headline growth	CER growth
Sales	4,811	4,162	<i>16%</i>	<i>8%</i>
Operating profit	762	619	<i>23%</i>	<i>11%</i>
Margin	15.8%	14.9%	<i>0.9 ppts</i>	
Adjusted eps	57.7p	46.7p	<i>24%</i>	
Operating cash flow	796	684	<i>16%</i>	
ROIC	9.2%	8.9%	<i>0.3ppts</i>	
Dividend	33.8p	31.6p	<i>7.0%</i>	

A record of performance

	2004	2005	2006	2007	2008
Operating profit*	£355m	£470m	£552m	£619m	£762m
EPS	27.5p	34.1p	43.1p	46.7p	57.7p
Cash flow	£418m	£570m	£575m	£684m	£796m
ROIC	6.3%	7.3%	8.1%	8.9%	9.2%

*Continuing operations

Our strategy

Content +

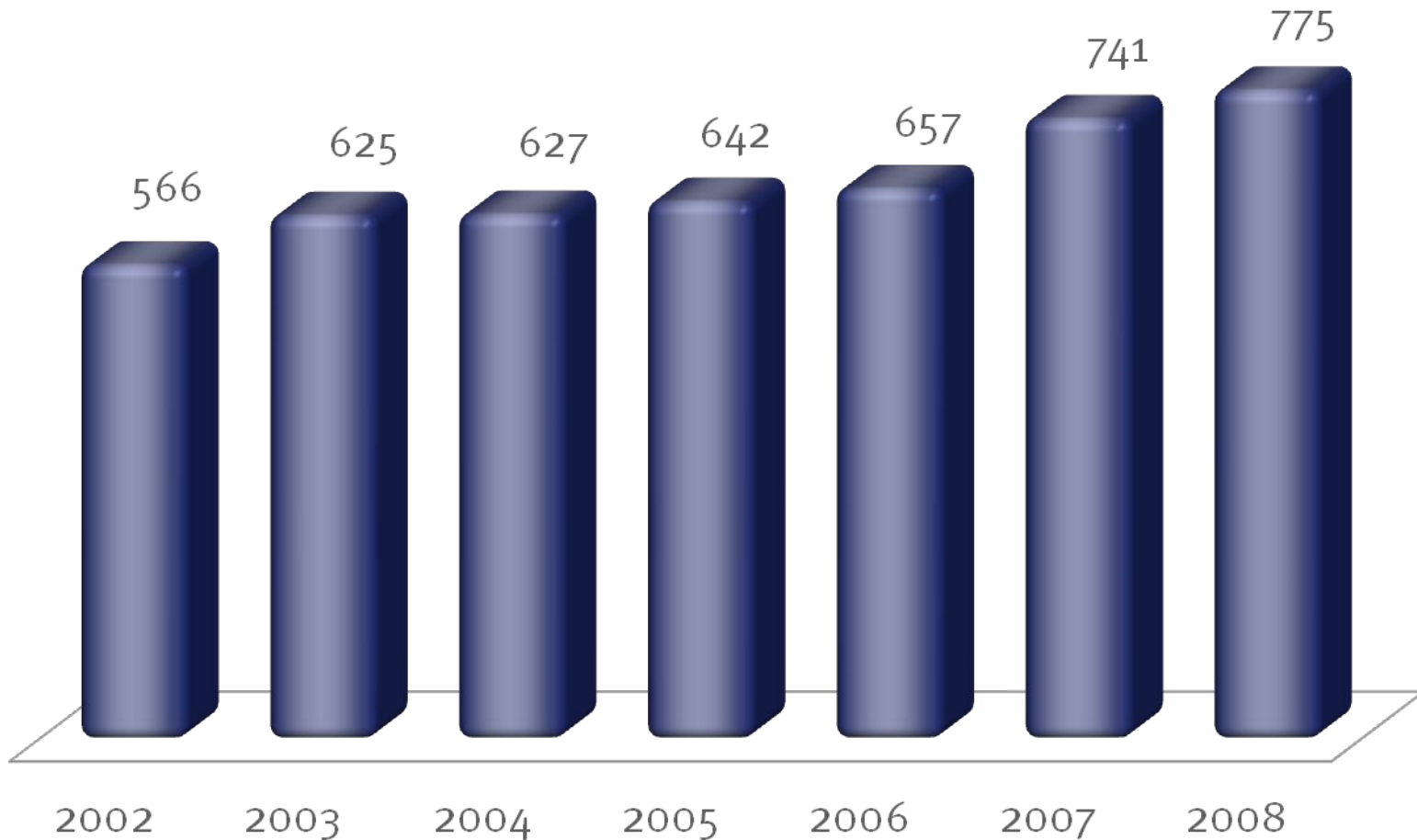
Technology and services

International expansion

Efficiency

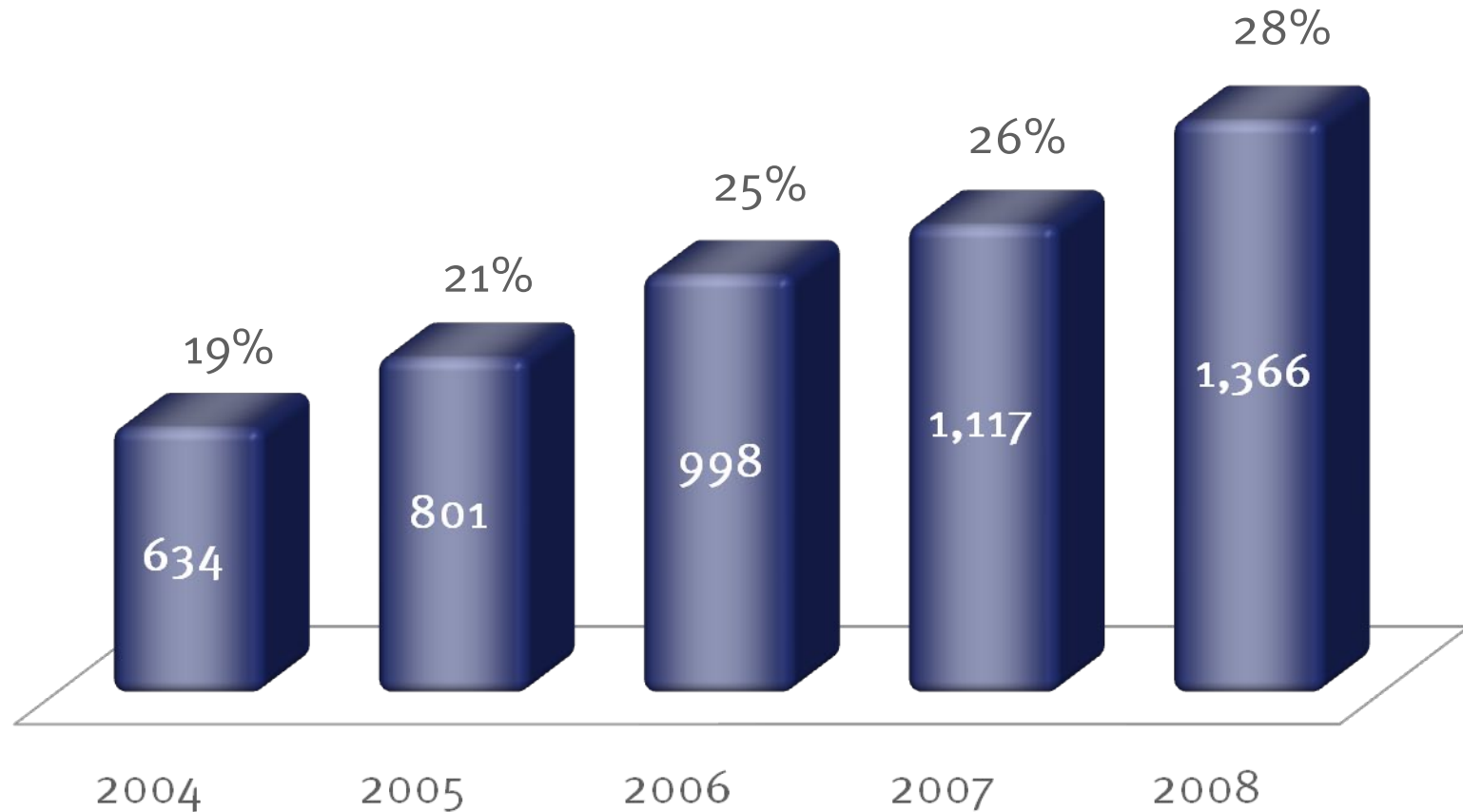
Content

Education & Penguin pre-publication expenditure & authors advances, \$m



Technology and services

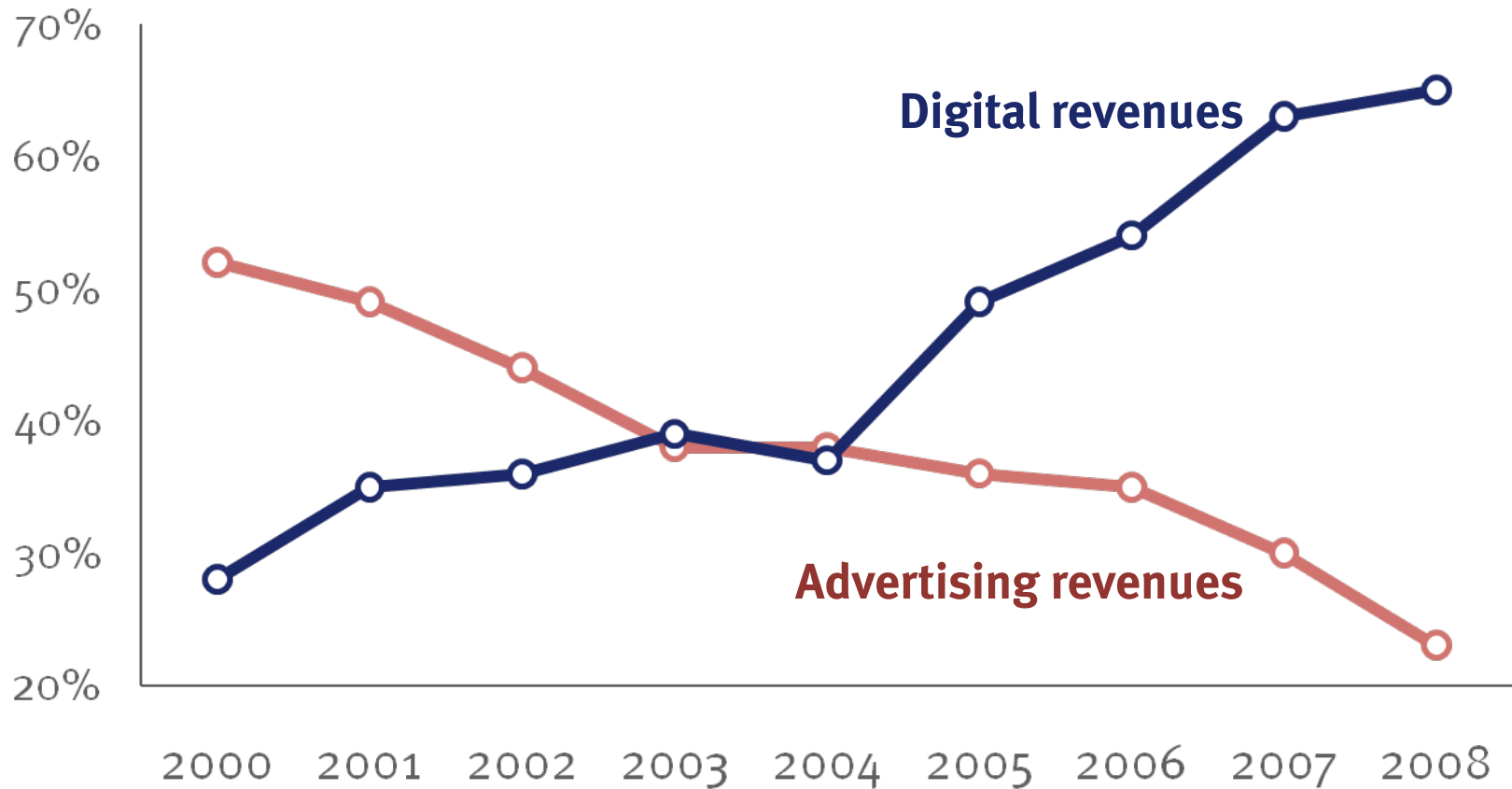
Pearson digital revenues, £m/% of sales*



* As reported

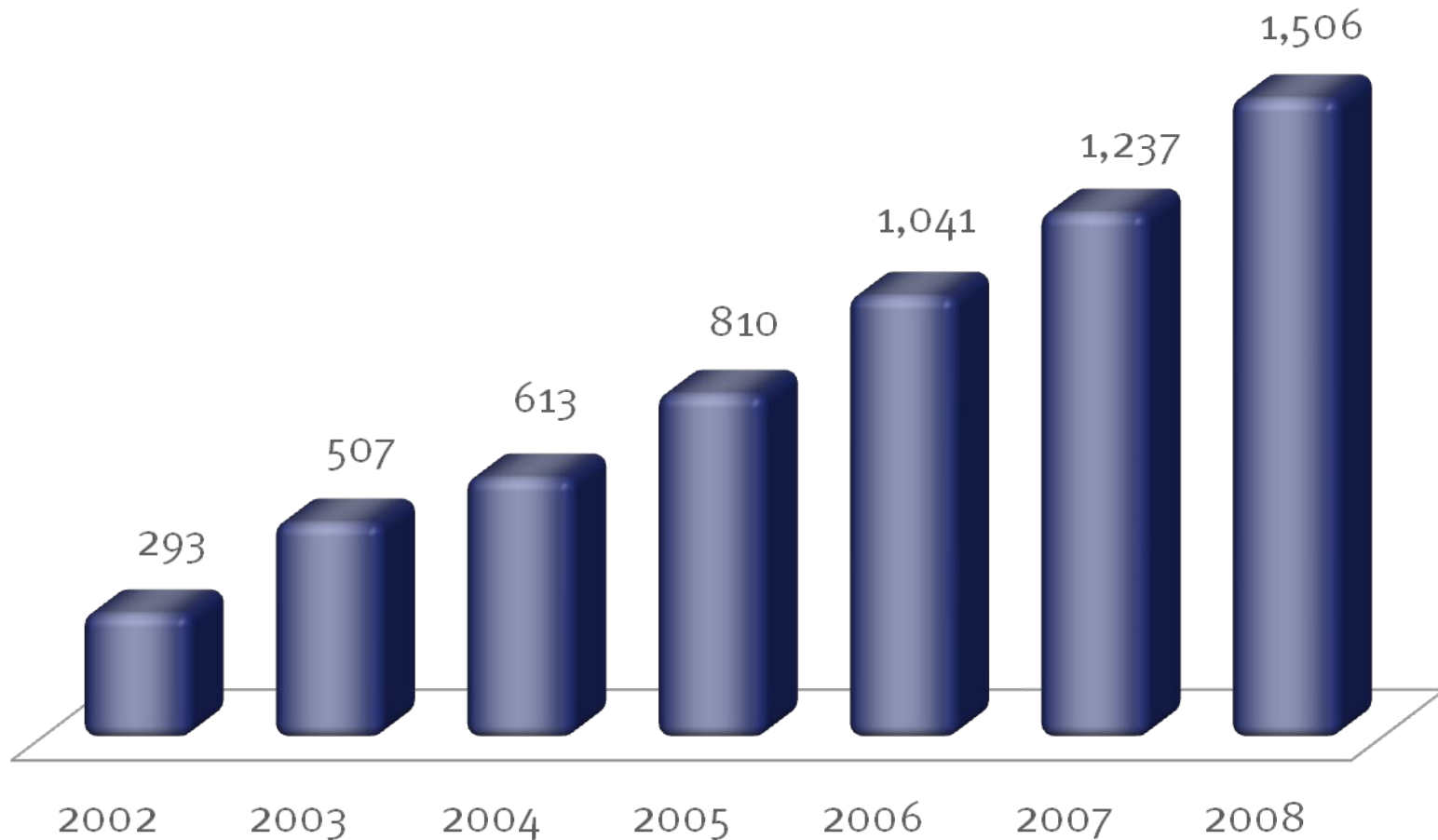
Technology and services

FT Group revenue mix, %



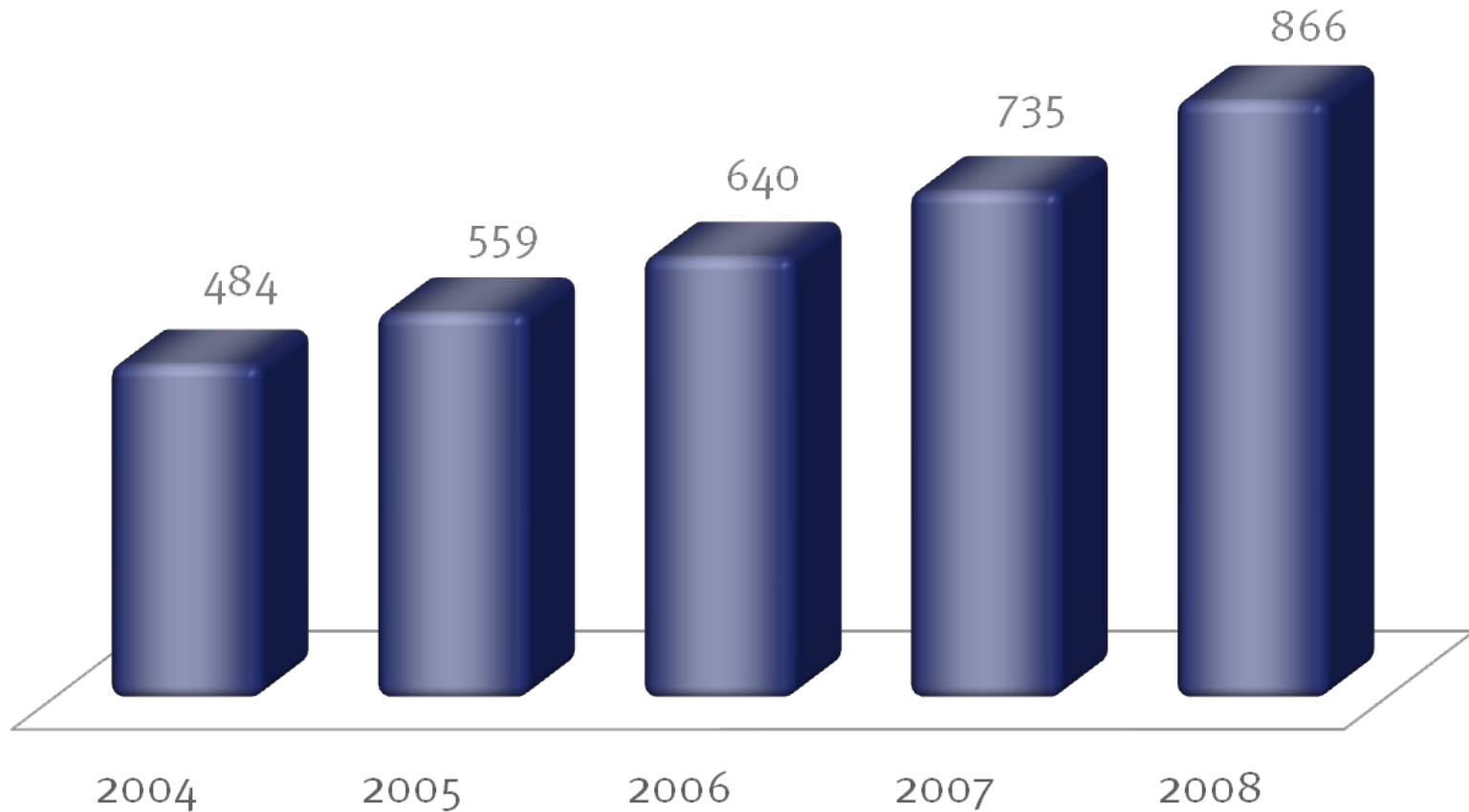
Technology and services

Worldwide School & Professional testing revenues, \$m



International expansion

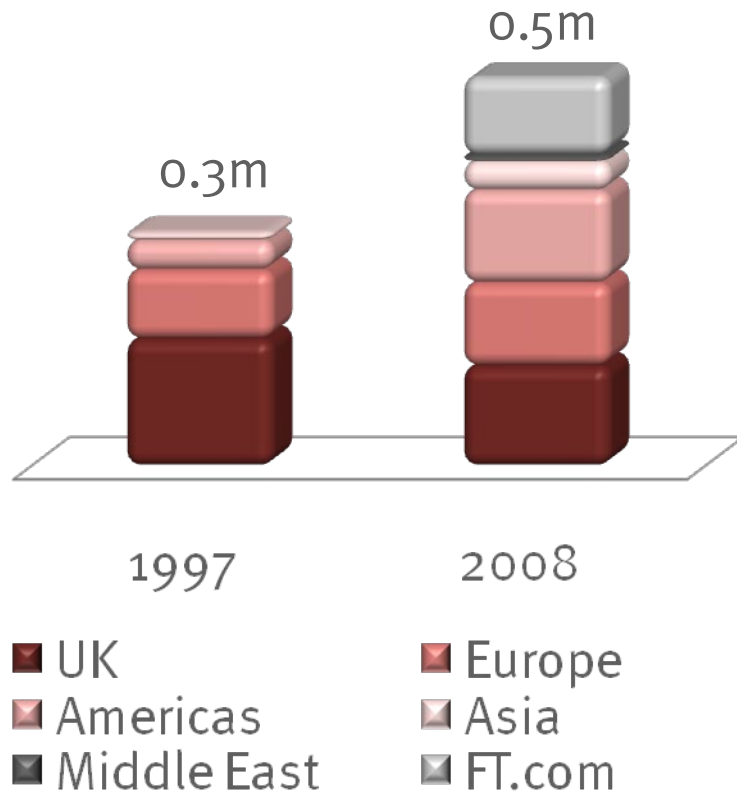
International education revenues, £m



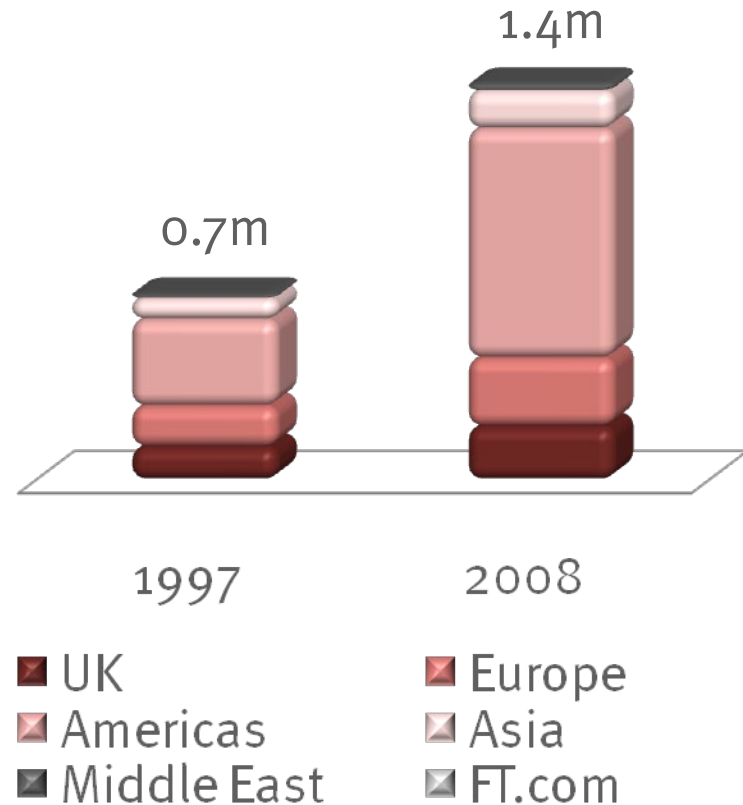
International expansion

FT Publishing: global circulation

Financial Times

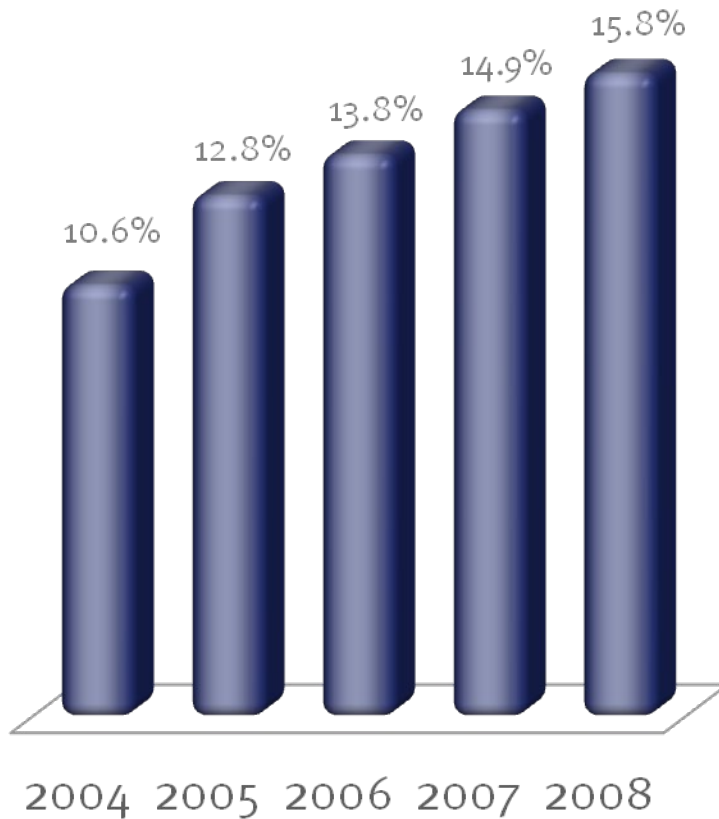


The Economist

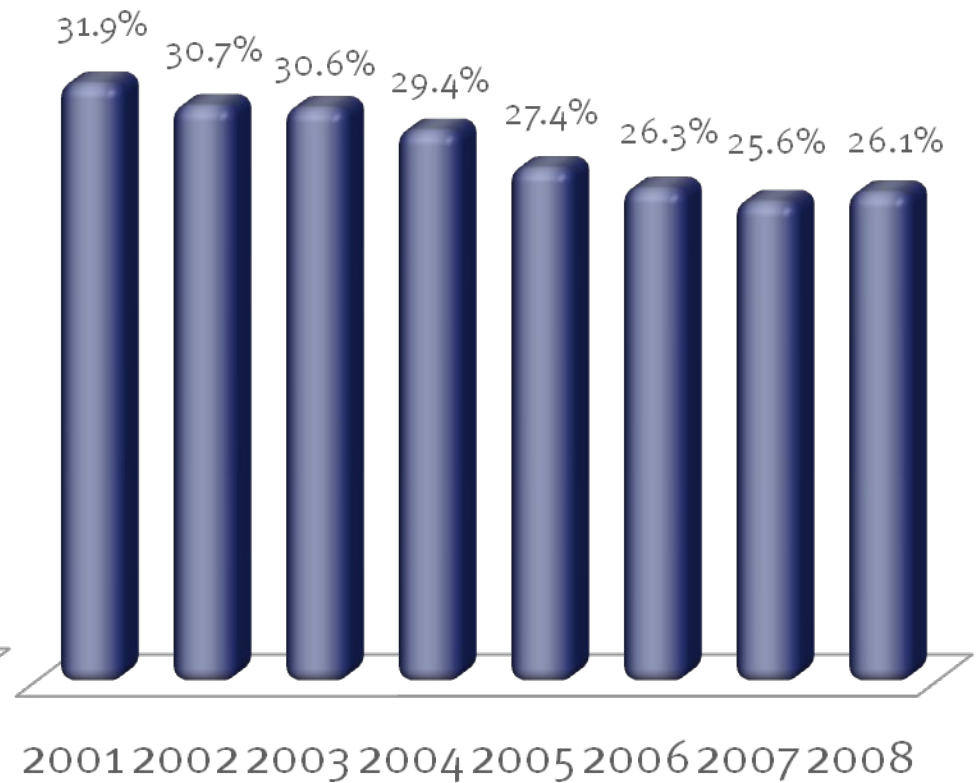


Efficiency

Operating margin



Ave working capital/sales



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2008 financial highlights

Sustained growth in all businesses

Record sales, profits, EPS, cash

Further progress on margins

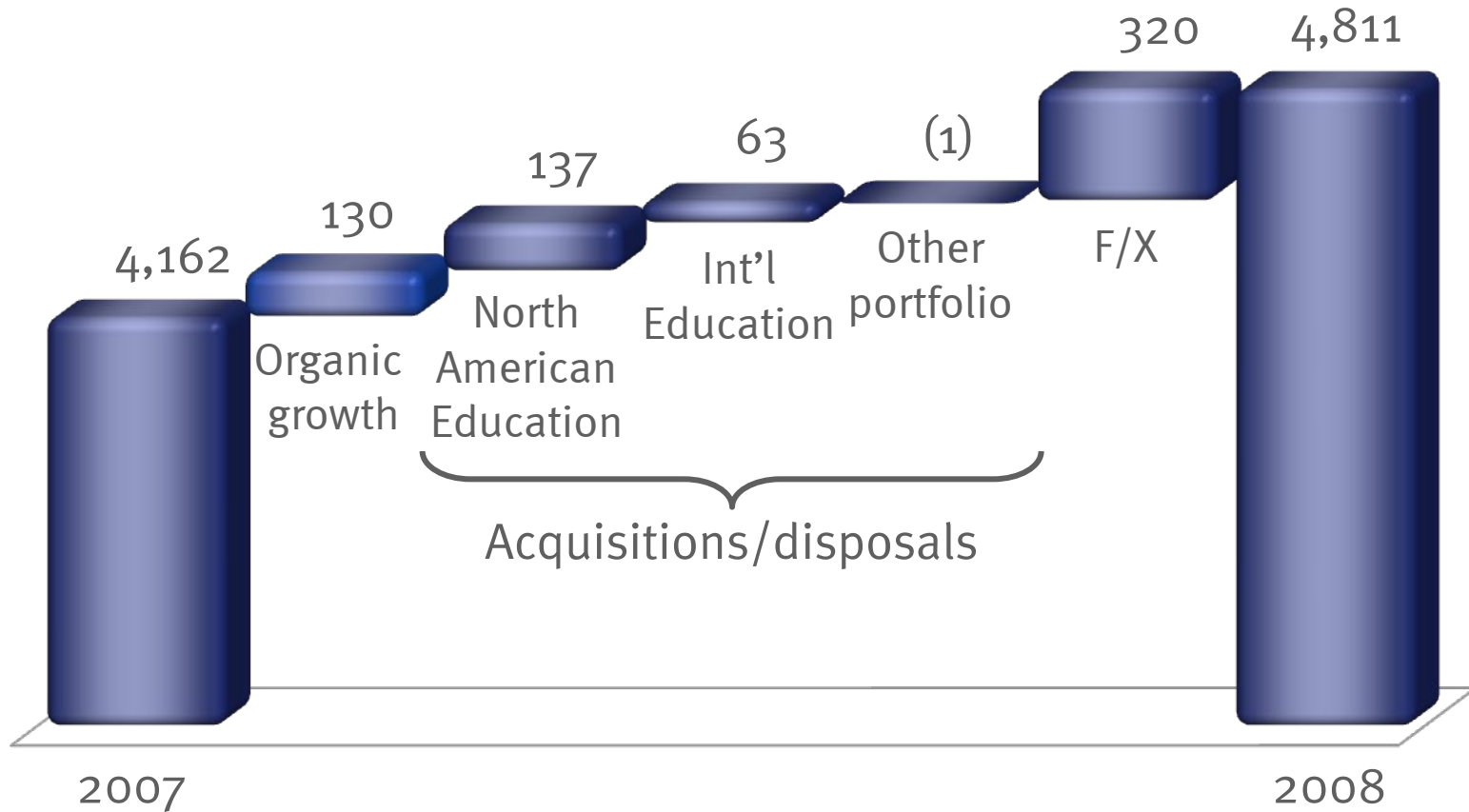
Early action to prepare for tougher times

Strong balance sheet; steady cash returns to shareholders

Sales growth

£m	2008	2007	CER growth	Underlying growth
North American Education	2,002	1,667	<i>11%</i>	<i>3%</i>
International Education	866	735	<i>11%</i>	<i>2%</i>
Professional	244	226	<i>1%</i>	<i>1%</i>
Pearson Education	3,112	2,628	<i>10%</i>	<i>2%</i>
FT Publishing	390	344	<i>9%</i>	<i>4%</i>
Interactive Data	406	344	<i>10%</i>	<i>9%</i>
FT Group	796	688	<i>9%</i>	<i>7%</i>
Penguin	903	846	<i>0%</i>	<i>3%</i>
Total	4,811	4,162	<i>8%</i>	<i>3%</i>

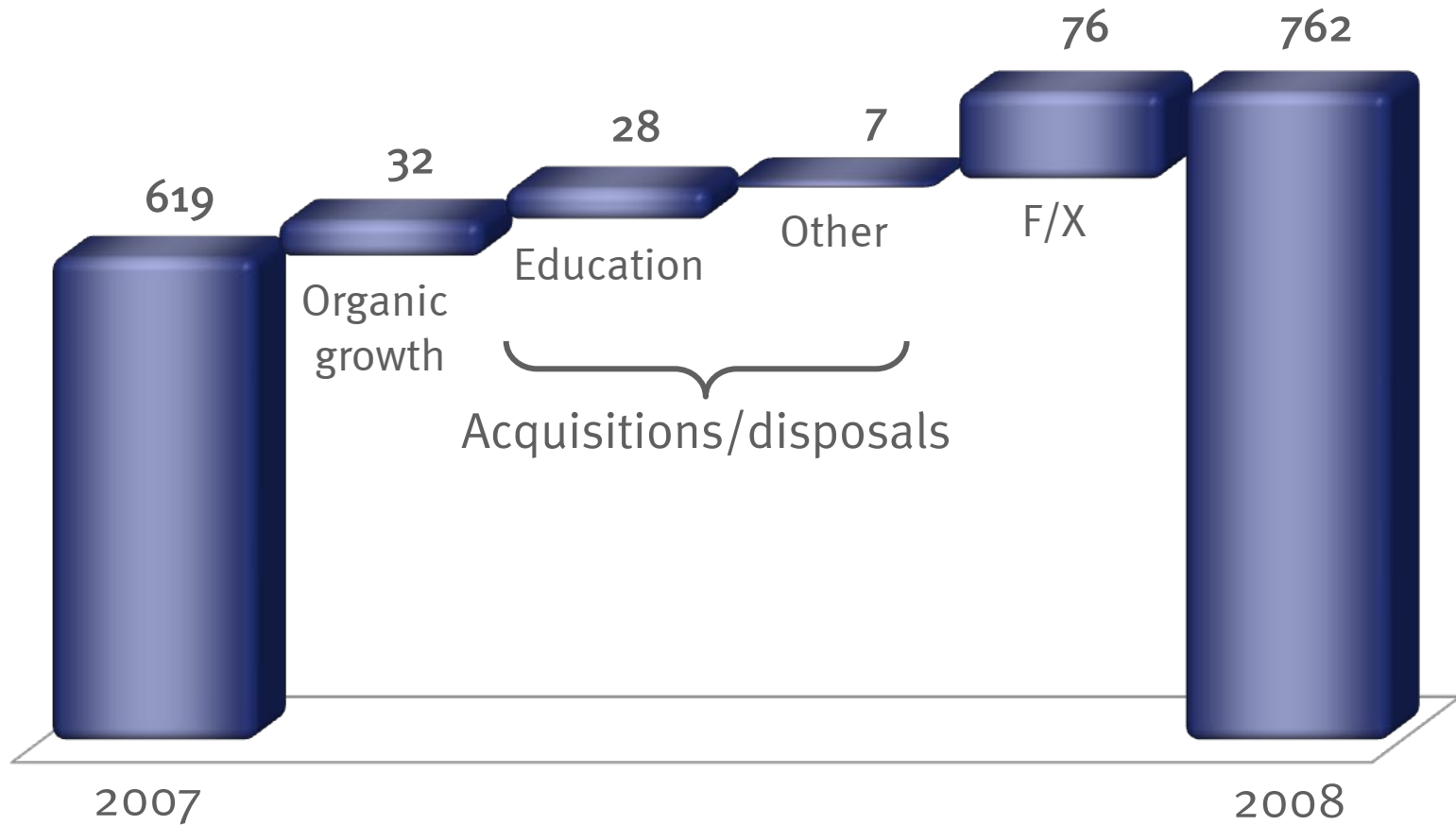
Sales growth, £m



Profit growth

£m	2008	2007	CER growth	Underlying growth
North American Education	303	273	5%	(2)%
International Education	135	92	26%	16%
Professional	36	27	26%	26%
Pearson Education	474	392	11%	4%
FT Publishing	74	56	9%	0%
Interactive Data	121	97	15%	13%
FT Group	195	153	13%	8%
Penguin	93	74	4%	4%
Total	762	619	11%	5%

Profit growth, £m



Margin improvement

	Margins				
%	2004	2005	2006	2007	2008
North American Education	15.4%	16.5%	16.7%	16.4%	15.1%
International Education	5.6%	9.1%	11.4%	12.5%	15.6%
Professional	(3.0)%	1.1%	8.1%	11.9%	14.8%
FT Publishing	(0.9)%	6.8%	9.6%	16.3%	19.0%
Interactive Data	24.9%	26.9%	26.8%	28.2%	29.8%
Penguin	6.6%	7.5%	7.8%	8.7%	10.3%
Pearson	10.6%	12.8%	13.8%	14.9%	15.8%

Continuing operations

Adjusted EPS

£m	2008	2007	Headline growth
Operating profit	762	634	20%
Interest	(88)	(85)	(4)%
Taxation	(178)	(145)	(23)%
<i>Tax rate</i>	<i>26.4%</i>	<i>26.4%</i>	
Profit after tax	496	404	23%
Minorities	(36)	(32)	(13)%
Adjusted earnings	460	372	24%
<i>Shares in issue</i>	<i>797.0</i>	<i>796.8</i>	
Adjusted EPS	57.7p	46.7p	24%

Statutory P&L

£m	2008	2007	Headline growth
Operating profit	676	574	18%
Interest	(88)	(85)	(4)%
Finance costs – IAS39 / IAS21	(3)	(21)	↑
Profit before tax	585	468	25%
Taxation	(172)	(131)	(31)%
Profit after tax	413	337	23%
Discontinued operations	(90)	(27)	↓
Profit for the year	323	310	4%
Basic EPS (total)	36.6p	35.6p	3%
Basic EPS (continuing)	47.9p	39.0p	23%

Operating cash flow

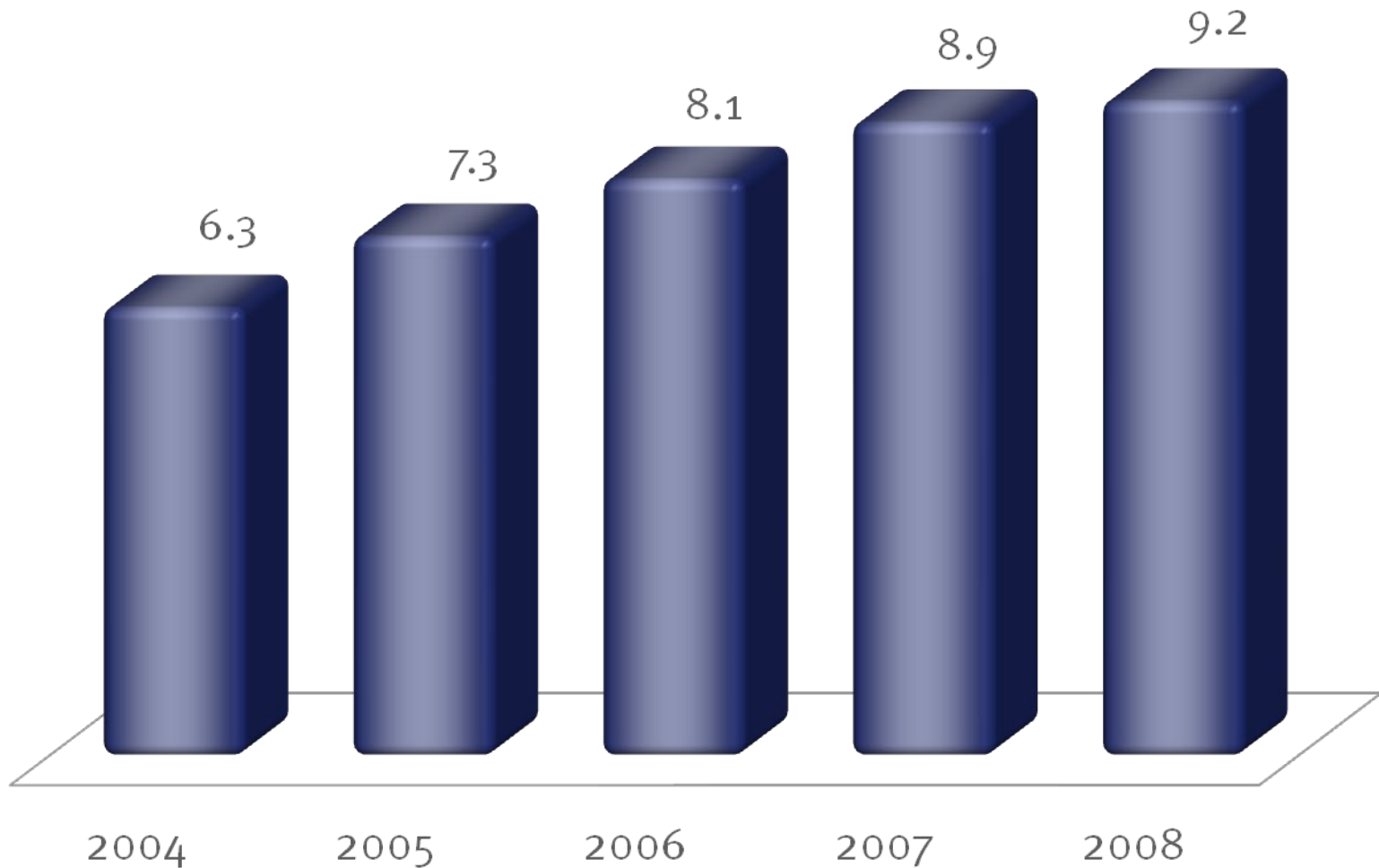
£m	2008	2007	var
Operating profit	762	634	128
Working capital	(69)	36	(105)
Net capital expenditure	(121)	(107)	(14)
Depreciation	110	93	17
Dividends from associates	23	32	(9)
Exchange and other movements	91	(4)	95
Operating cash flow	796	684	112
<i>Cash conversion %</i>	<i>104%</i>	<i>108%</i>	

Working capital includes pre-publication

Free cash flow

£m	2008	2007	var
Operating cash flow	796	684	112
Operating tax paid	(89)	(61)	(28)
<i>Cash tax %</i>	<i>12%</i>	<i>10%</i>	
Operating finance charges	(76)	(90)	14
Operating free cash flow	631	533	98
Special pension contribution	-	(100)	100
Other non operating	-	(26)	26
Total free cash flow	631	407	224
Free cash flow / share	79p	51p	28p

Return on invested capital (%)



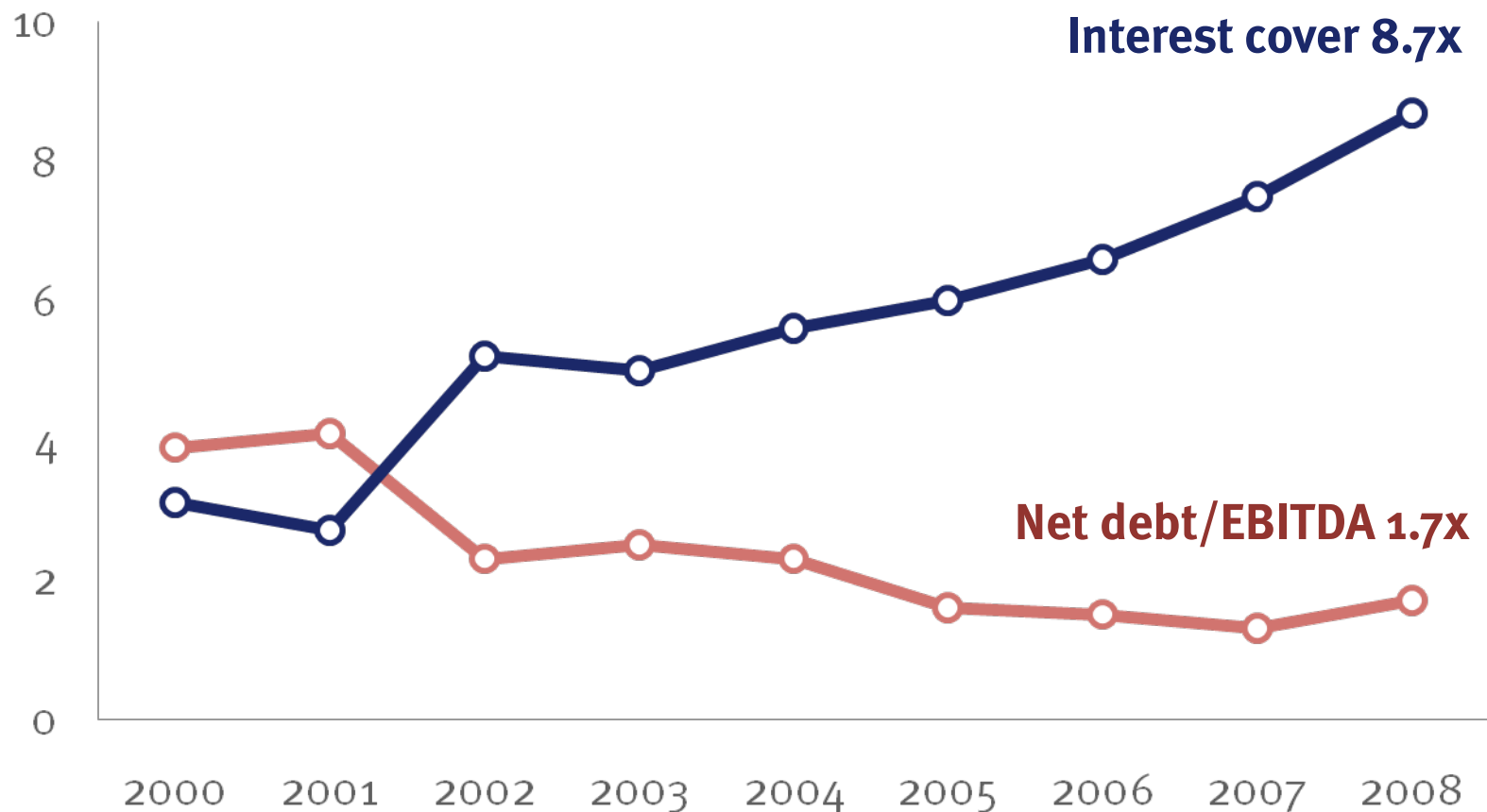
Average capital/actual cash tax

Balance sheet

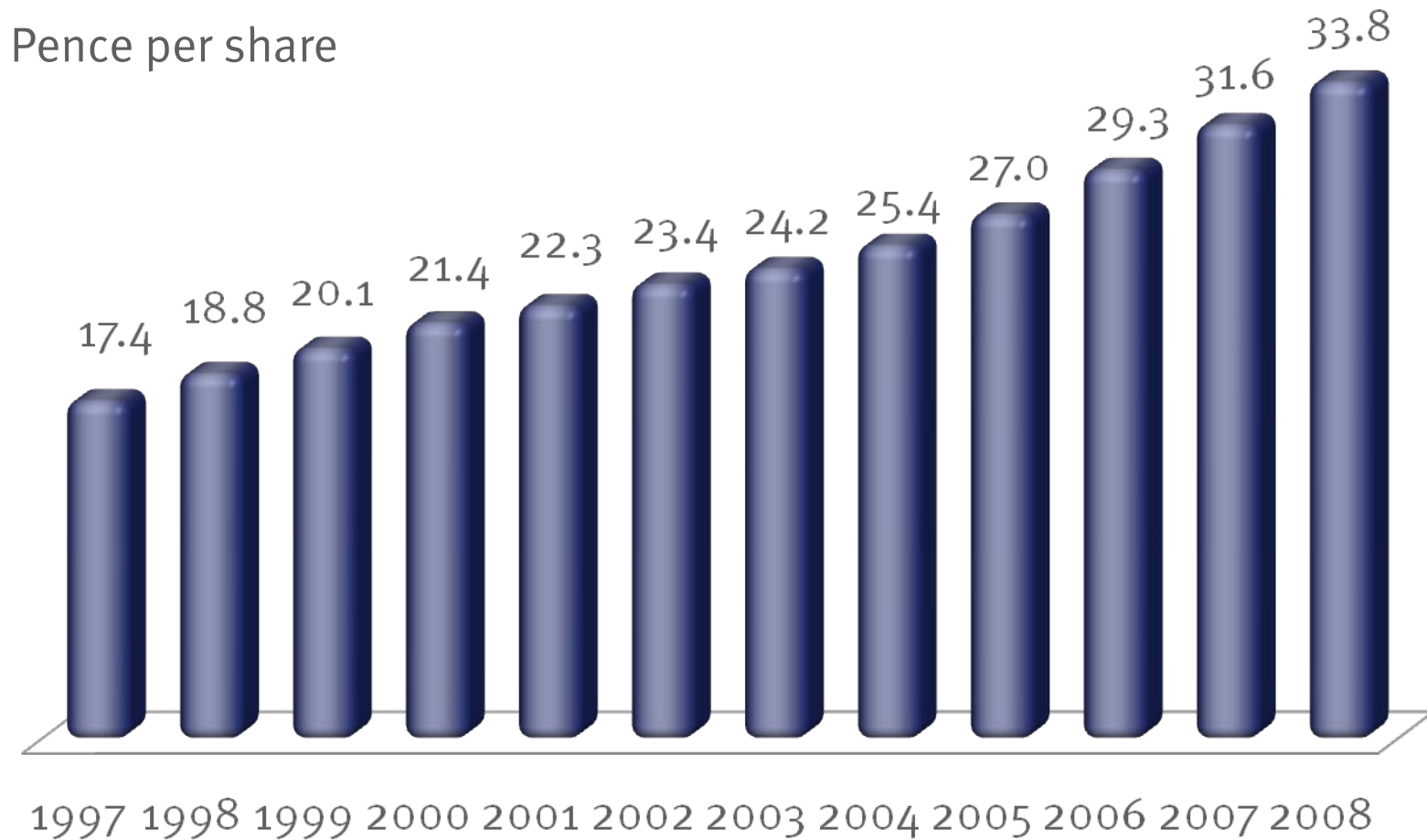
£m	2008	2007	var
Goodwill / intangible assets	5,353	3,910	1,443
Tangible fixed assets	423	362	61
Pre-publication	695	452	243
Working capital	373	239	134
Other net liabilities	(78)	(57)	(21)
Net trading assets	6,766	4,906	1,860
Shareholders' funds	4,750	3,695	1,055
Deferred tax	75	(41)	116
Pensions / other provisions	207	100	107
Minorities	274	179	95
Net debt	1,460	973	487
Capital employed	6,766	4,906	1,860

2007 includes Data Management (Scanners) held for resale

Balance sheet strength



Dividend growth



2009 outlook

Good trading momentum; more challenging conditions

Early actions to prepare

Continuing to invest

Strong cash and balance sheet

Adjusted EPS at or above '08 levels

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Our markets in 2009

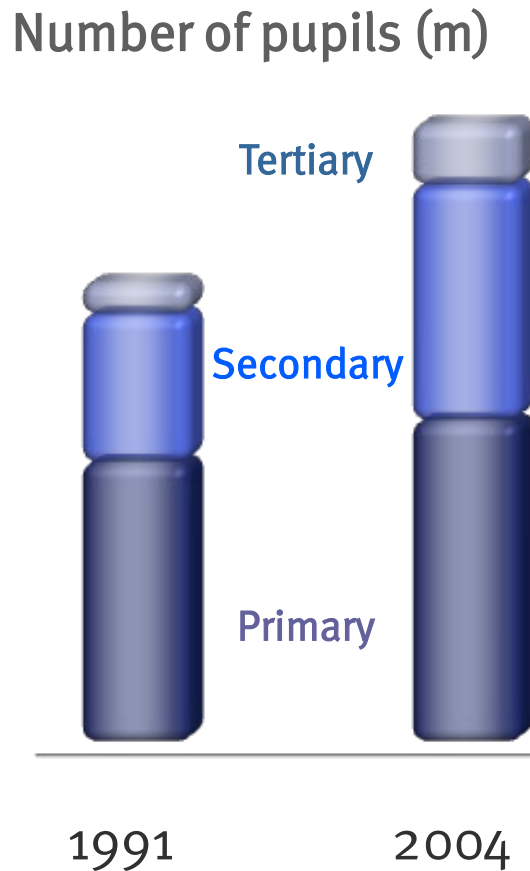
North American Education

- College enrolments and funding robust
- K-12 publishing market weak; testing resilient
- Federal stimulus: funding and reform

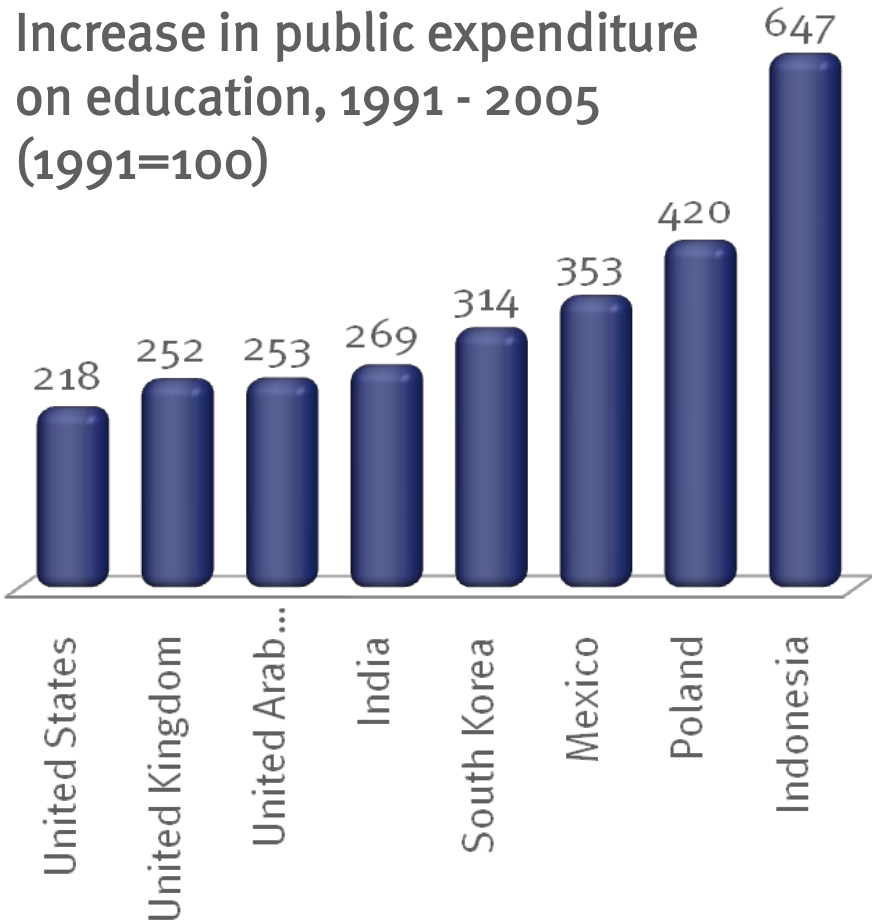
International Education

- Global education spending resilient in '09
- Testing, qualifications, Higher Education relatively unaffected
- Strong secular growth trends

Growth trends in education



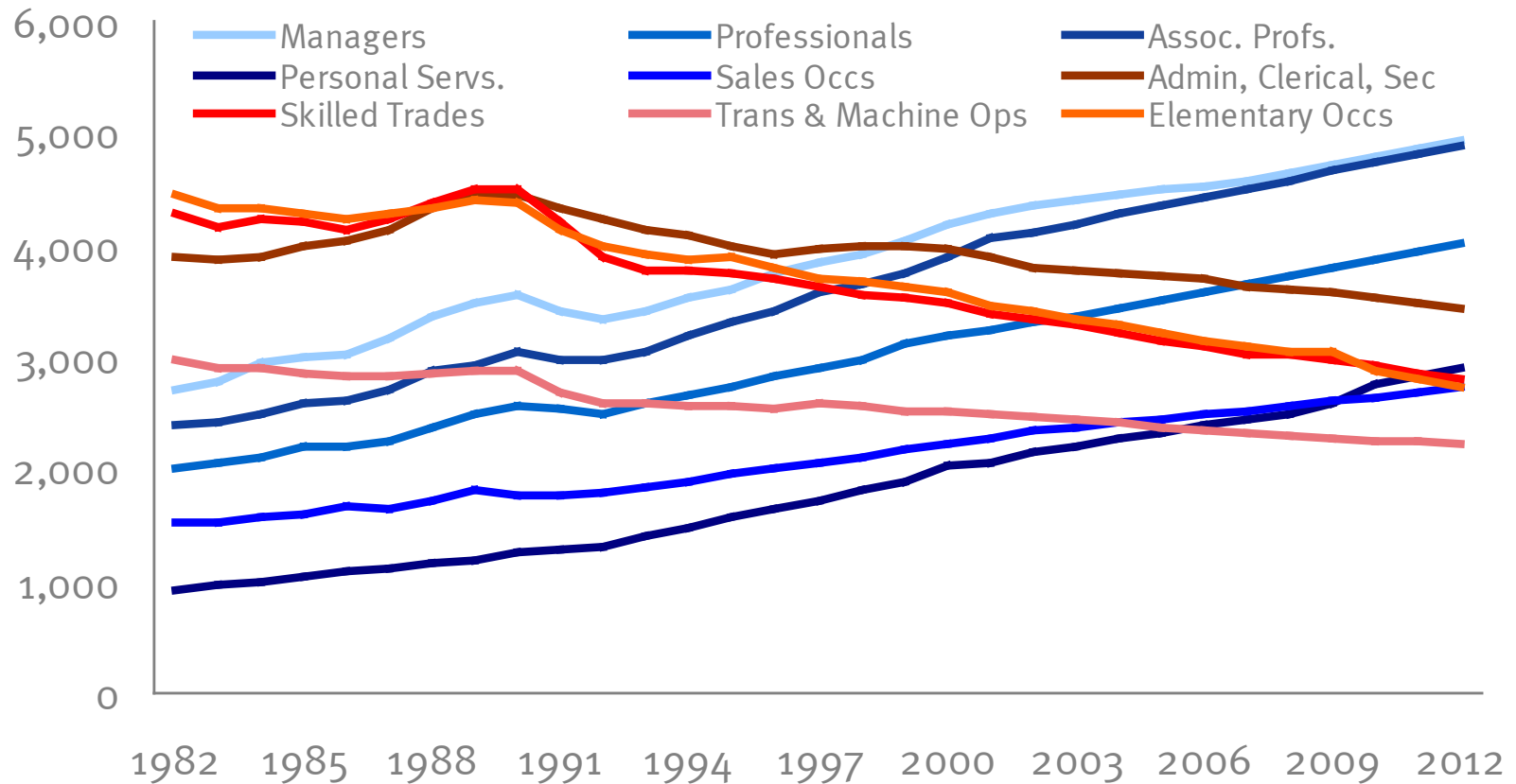
Source: UNESCO, World Bank



Source: World Bank

Growth trends in education

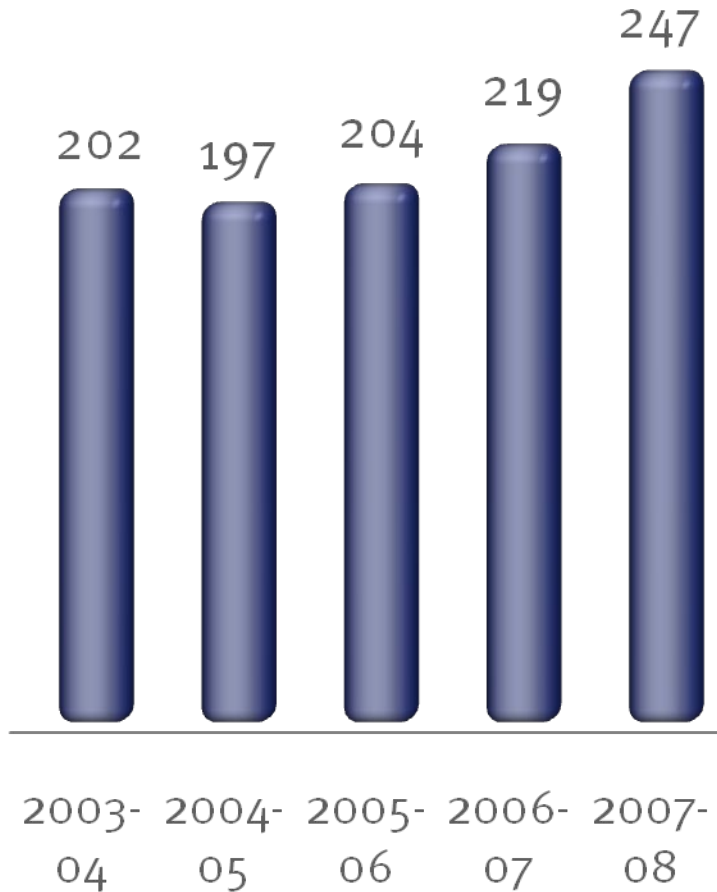
UK occupational trends, 1982-2012 ('000s of employees)



Source: DFES, Working Futures, National Report 2003-04

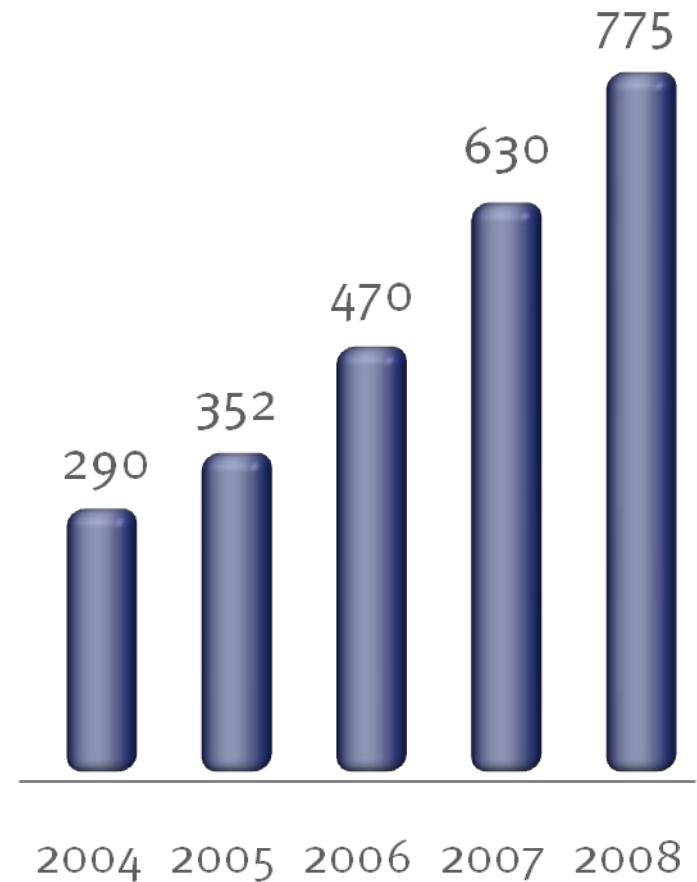
Growth trends in education

Graduate Management Admissions Test volumes, '000



Source: GMAC

BTEC registrations, '000



Source: Pearson

Our markets in 2009

Business information

- Healthy demand for premium content and services
- Advertising market weak
- Subscription businesses resilient

Consumer publishing

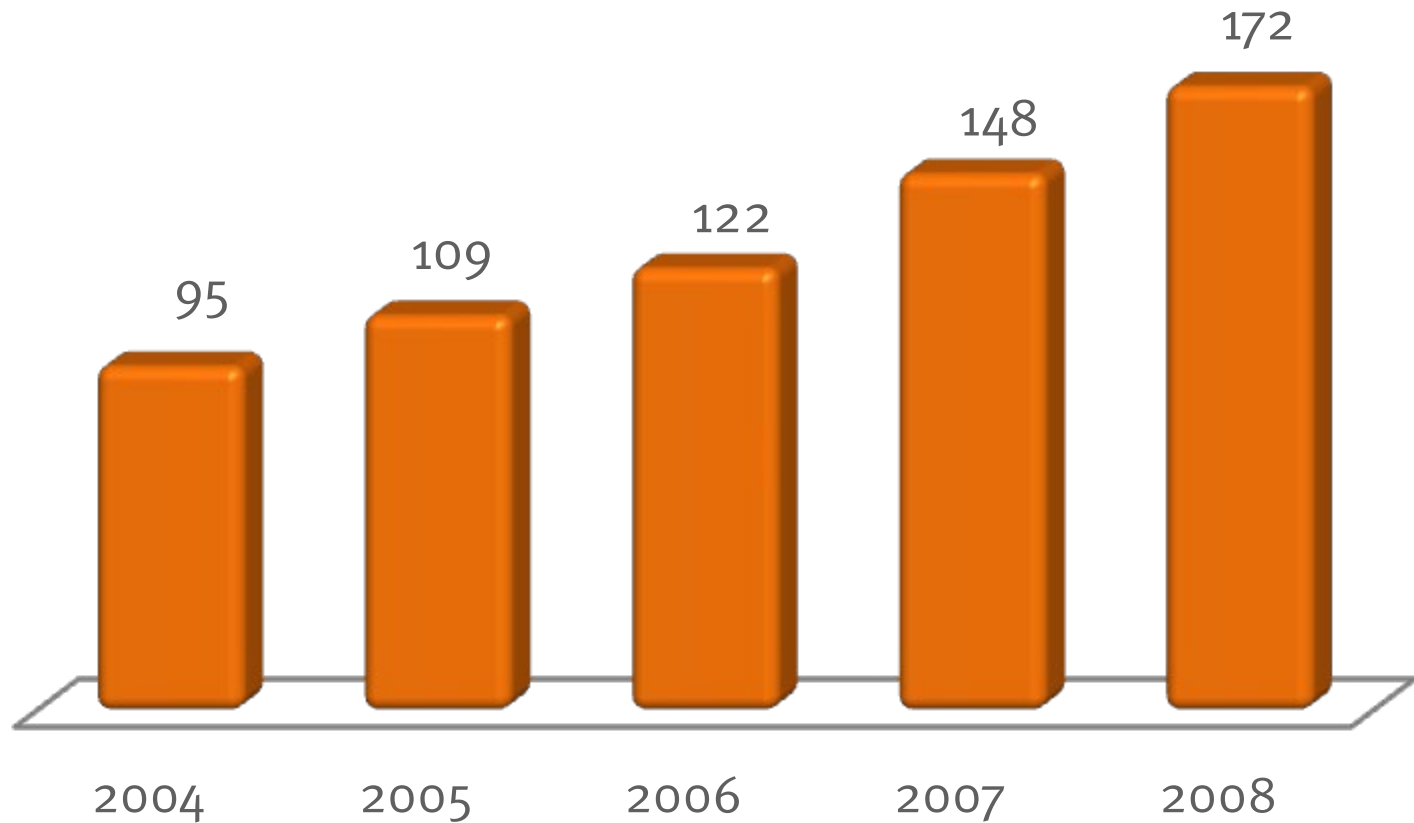
- Healthy demand for bestsellers
- Retailer and consumer confidence low
- Strong growth in digital content, channels, devices

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The Pearson logo, consisting of the word "PEARSON" in a white, serif, all-caps font, is centered in the upper half of the image. Below the text is a thin, white, upward-curving arc that spans the width of the letters.

Strong position in consumer publishing

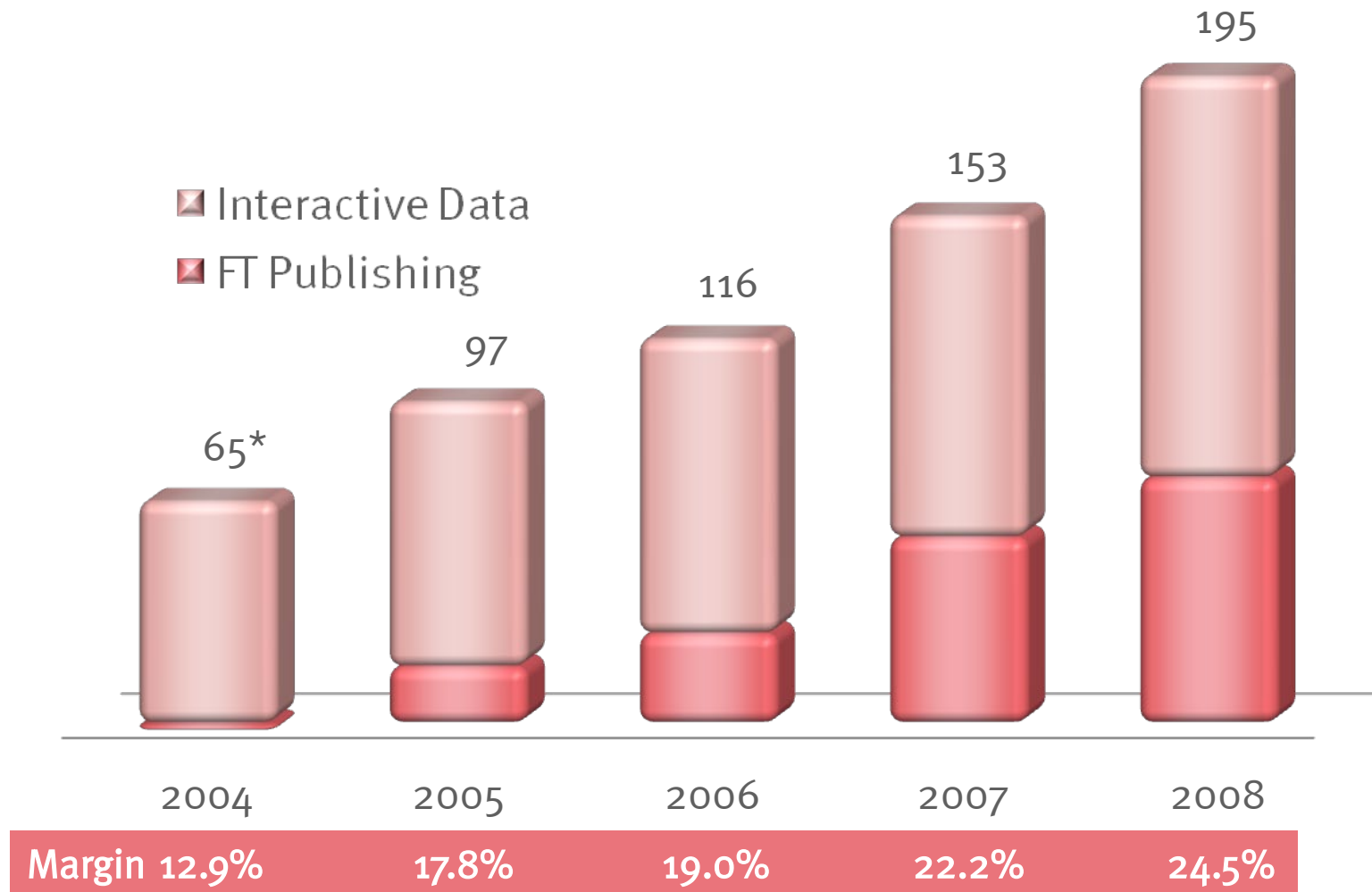
Penguin operating profit, \$m



Margin	2004	2005	2006	2007	2008
Margin	6.6%	7.5%	7.8%	8.7%	10.3%

Strong position in business information

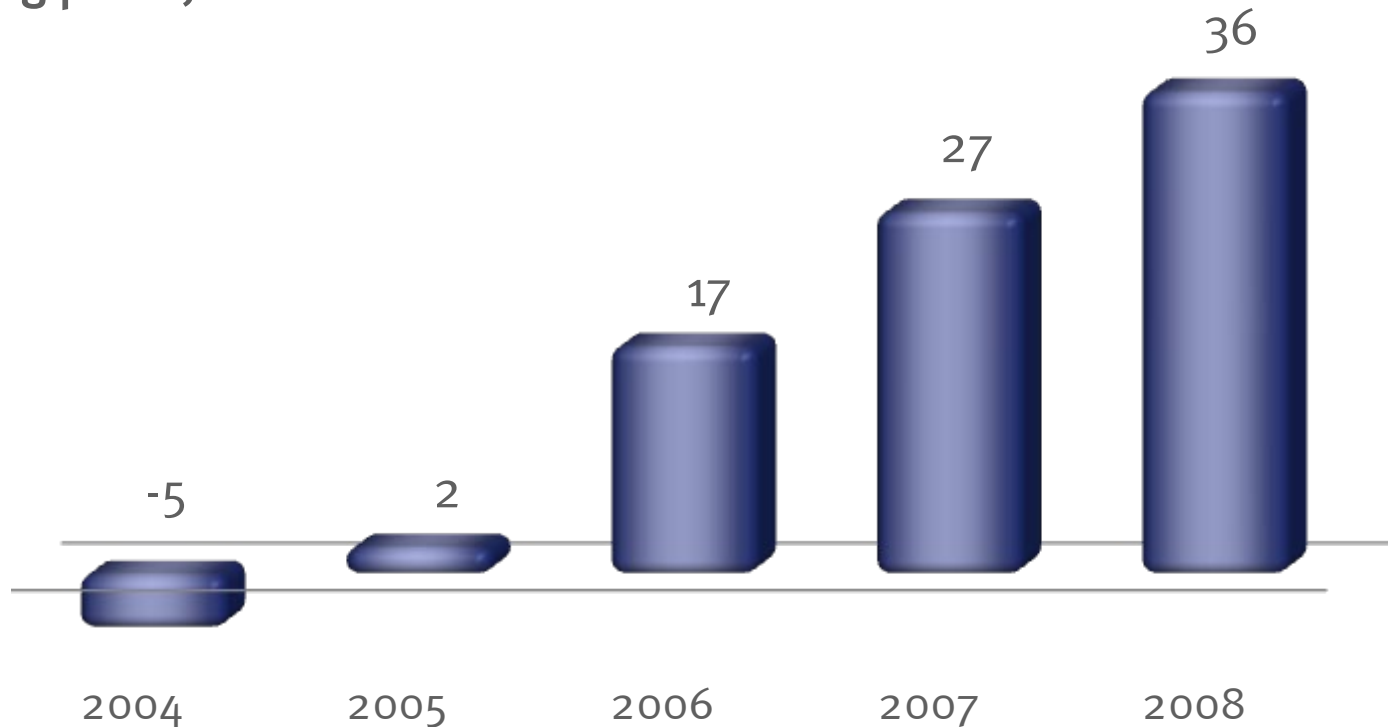
FT Group operating profit, £m



*2004: Interactive Data profits of £67m; FT Publishing losses of £2m

Strong position in Professional Education

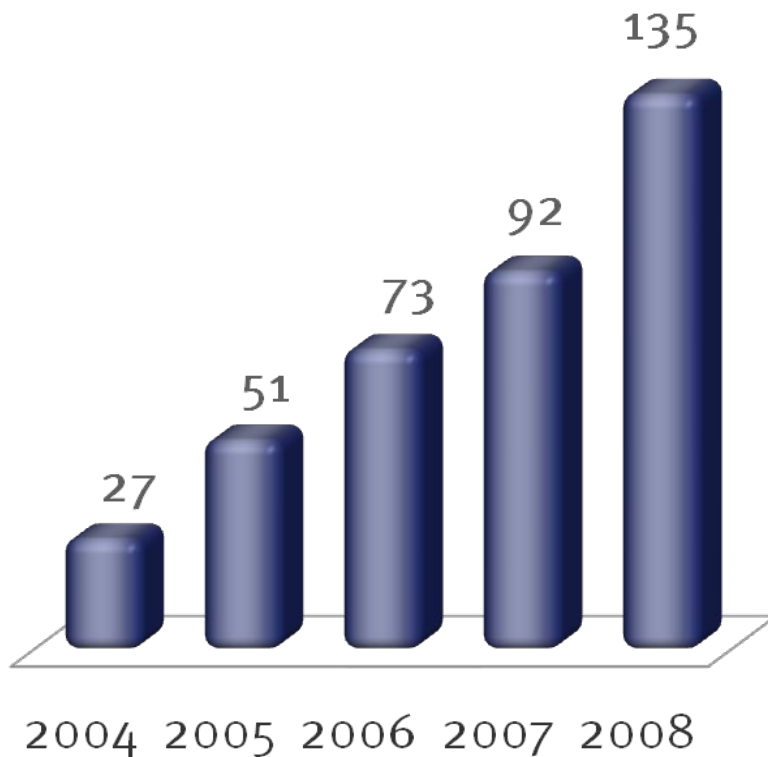
Operating profit, £m



Margin	(3.0)%	1.1%	8.1%	11.9%	14.8%

Strong position in International Education

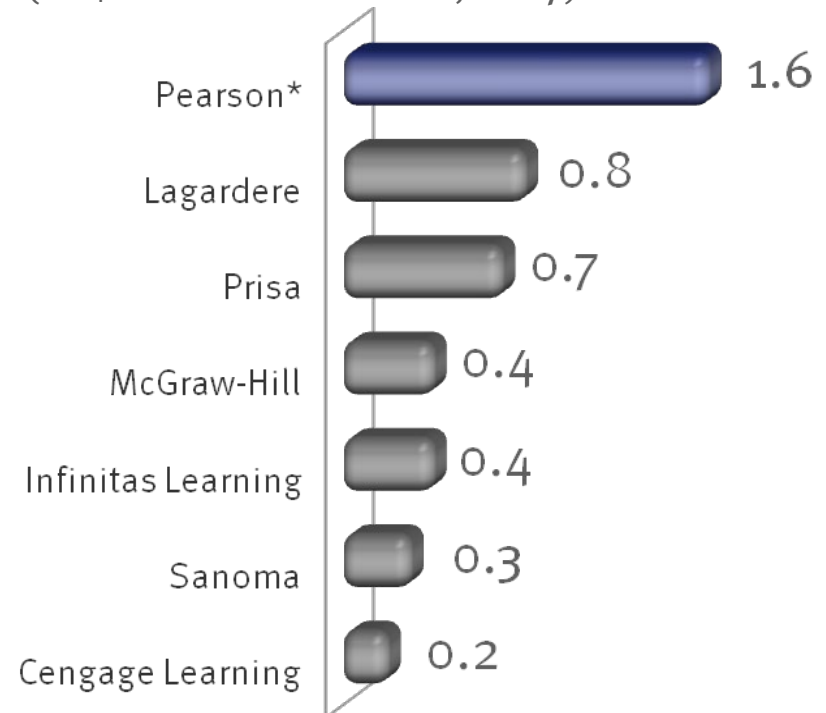
Operating profit, £m



Margin

5.6% 9.1% 11.4% 12.5% 15.6%

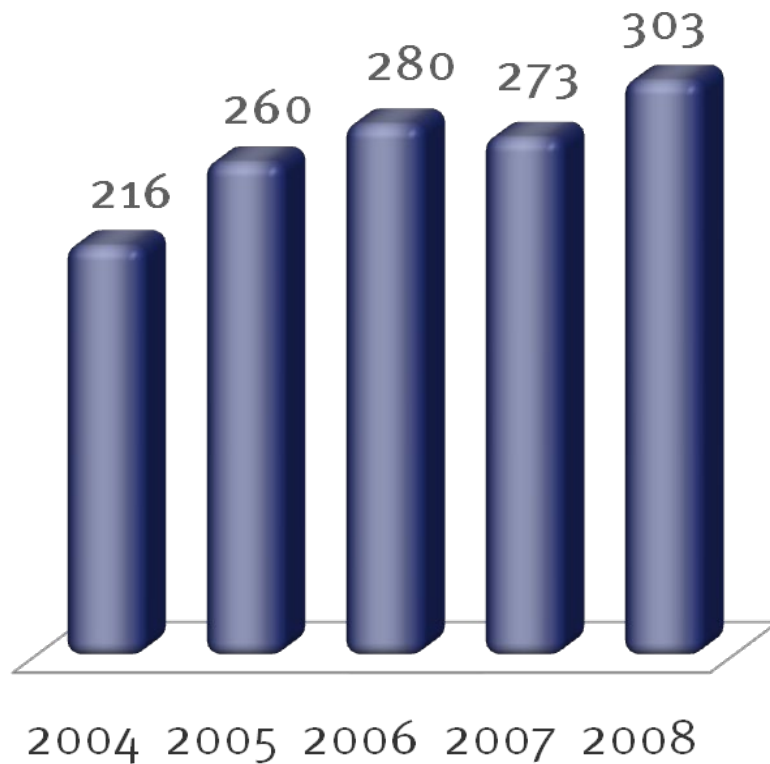
#1 in Int'l education publishing & services
Largest education publisher ex-US
(US\$ revenue in billions, 2007)



Source: Pearson, Company Accounts,
Analyst estimates *Pro forma
including Harcourt International

Strong position in North American Education

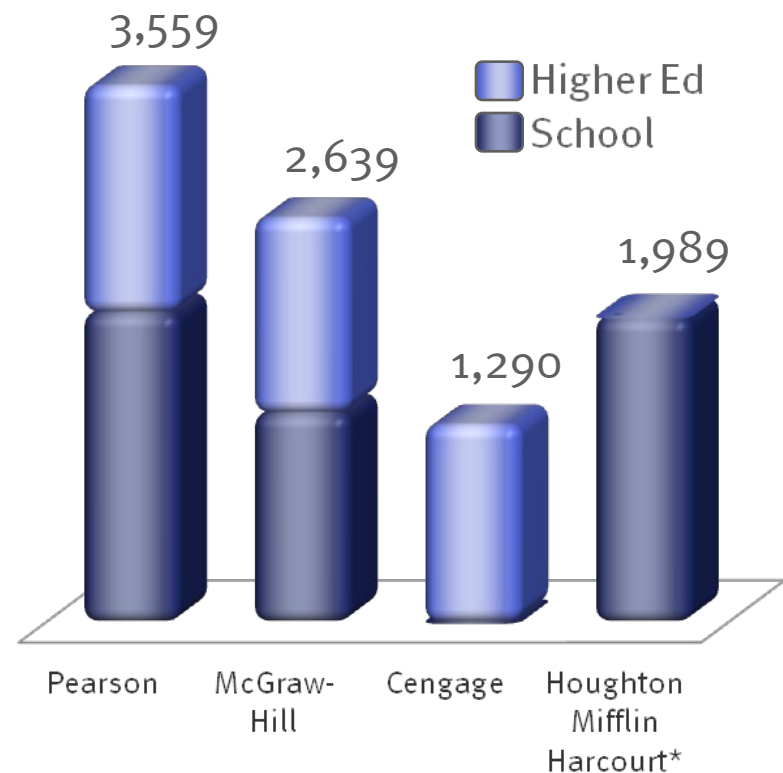
Operating profit, £m



Margin

15.4% 16.5% 16.7% 16.4% 15.1%

2008 revenues, \$m



* 2007 data

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Appendices

Capital allocation: credit rating considerations

£m	2008	2007
Balance sheet net debt	1,460	973
Lease liabilities (@ 8x)	1,192	984
Pension liabilities	118	33
Total	2,770	1,990

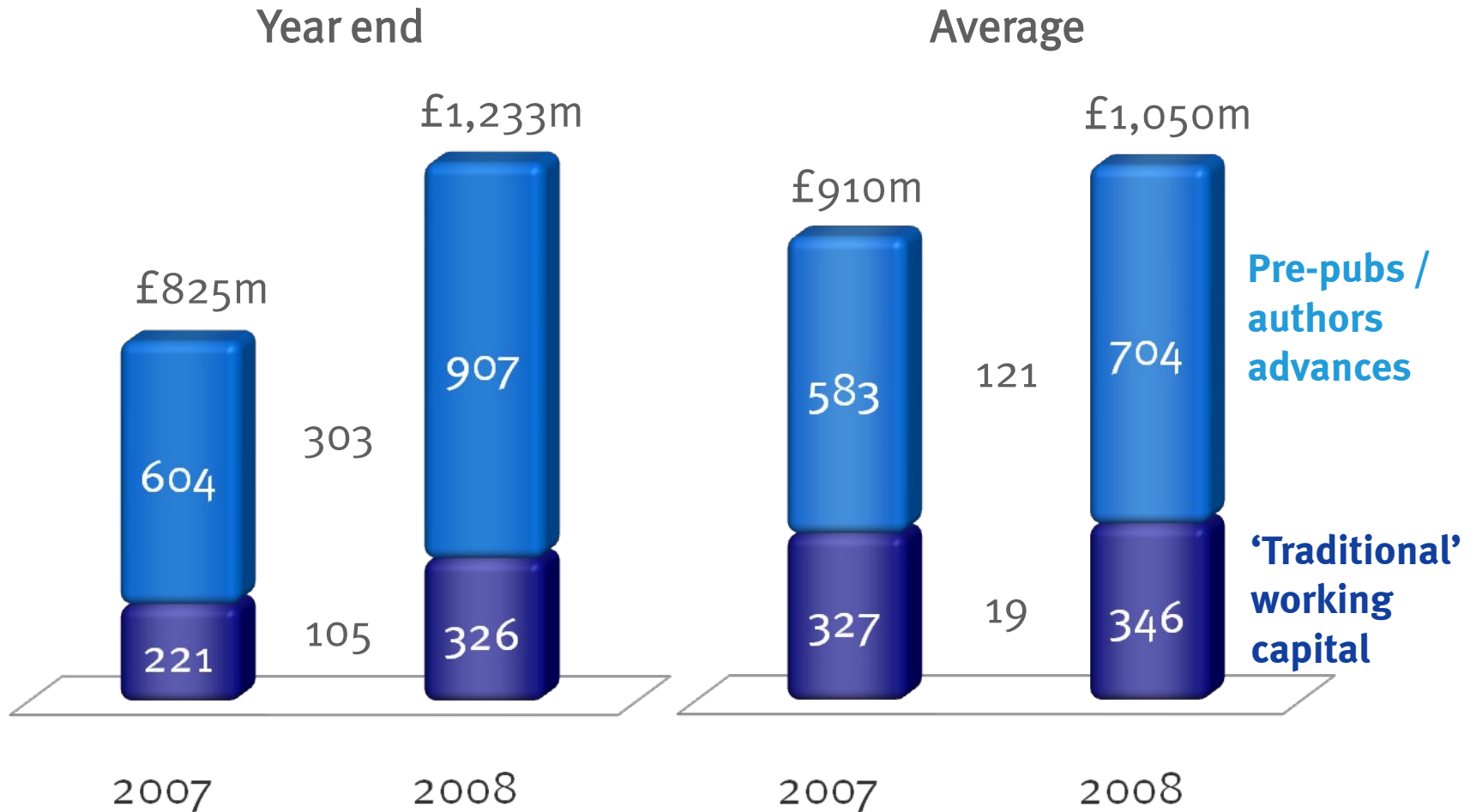
Agency calculations of debt vary

ROIC improvement

£m	2008	2007
Operating profit	762	634
Less actual cash tax	(89)	(61)
<i>Cash tax rate</i>	<i>12%</i>	<i>10%</i>
Return	673	573
Average: gross goodwill	5,283	4,848
gross other intangibles	775	504
pre-publication investments	541	421
tangible fixed and working capital	738	650
Average total invested capital	7,337	6,423
ROIC	9.2%	8.9%

Working capital

Book publishing businesses



Reconciliation: statutory to adjusted earnings

2008

£m	Statutory	Other net gains/losses	Amortisation of acquired intangibles	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	676	-	86	-	-	762
Net finance costs	(91)	-	-	3	-	(88)
Profit before tax	585	-	86	3	-	674
Income tax	(172)	(7)	(31)	(1)	33	(178)
Profit after tax	413	(7)	55	2	33	496
Discontinued operations	(90)	90	-	-	-	-
Profit for the period	323	83	55	2	33	496
Minority Interest	(31)	-	(3)	-	(2)	(36)
Earnings	292	83	52	2	31	460

Reconciliation: statutory to adjusted earnings

2007

£m	Statutory	Other net gains / (losses)	Amortisation of acquired intangibles	Other net finance costs	Tax amortisation benefit	Adjusted earnings
Operating profit	574	15	45	-	-	634
Net finance costs	(106)	-	-	21	-	(85)
Profit before tax	468	15	45	21	-	549
Income tax	(131)	(14)	(19)	(6)	25	(145)
Profit after tax	337	1	26	15	25	404
Discontinued operations	(27)	27	-	-	-	-
Profit for the period	310	28	26	15	25	404
Minority Interest	(26)	-	(4)	-	(2)	(32)
Earnings	284	28	22	15	23	372

Reconciliation: year end net debt

£m	2008	2007
Non current assets		
Derivative financial instruments	181	23
Current assets		
Derivative financial instruments	3	28
Marketable securities	54	40
Cash and cash equivalents	685	560
Non current liabilities		
Borrowings	(2,019)	(1,049)
Derivative financial instruments	(15)	(16)
Current liabilities		
Borrowings	(344)	(559)
Derivative financial instruments	(5)	-
Total net debt	(1,460)	(973)

Reconciliation: pre-publication costs

£m	2008	2007
Opening balance	452	402
Exchange	166	(6)
New spend capitalised	297	230
Acquisitions (net)	24	18
Amortisation	(244)	(192)
Closing balance	695	452
Total education sales	3,112	2,628
Amortisation as a % of sales	7.8%	7.3%

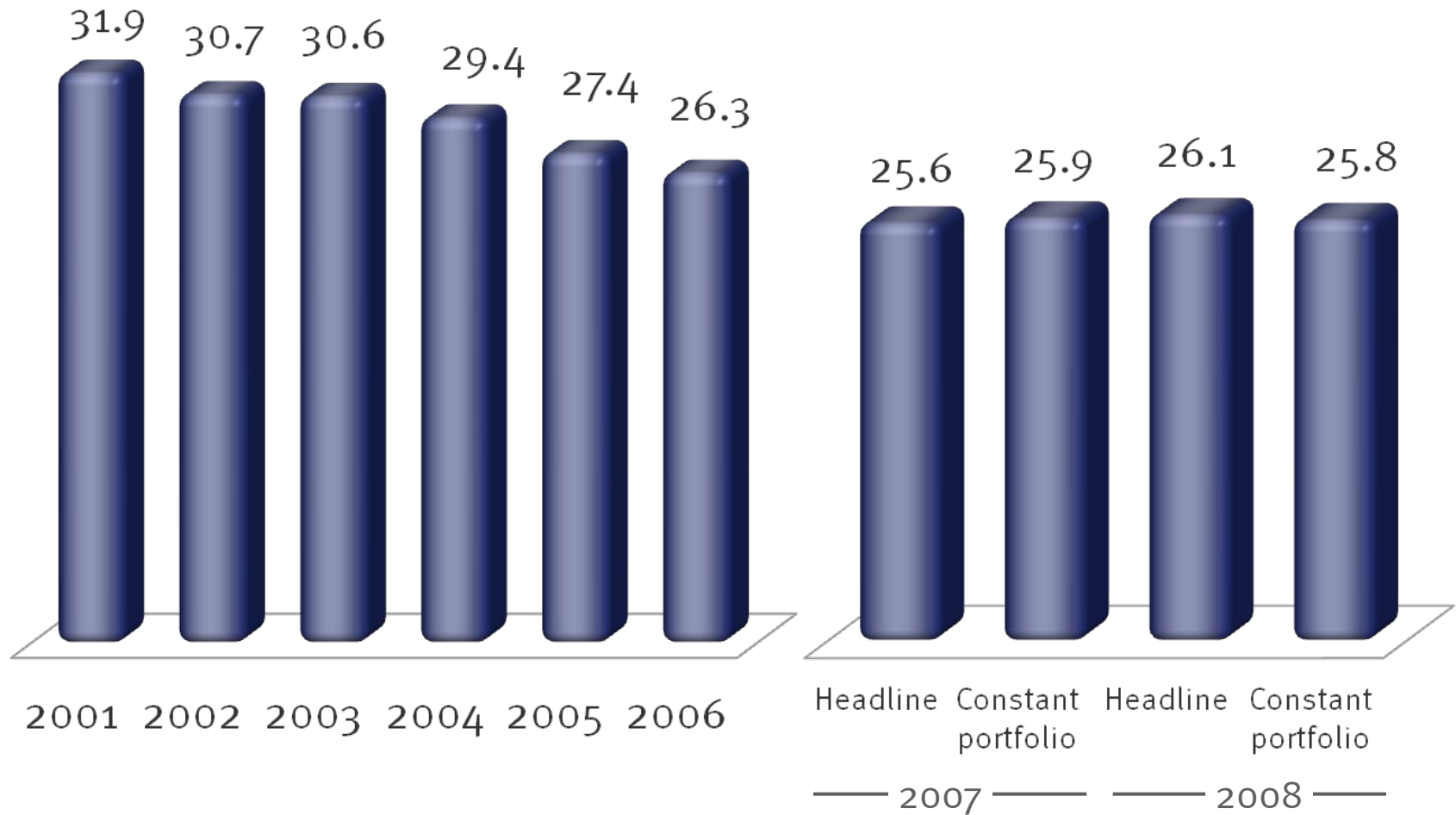
2007 includes Data Management (scanners) classified as discontinued for statutory reporting

Retirement benefit obligations

£m	2008	2007
Income statement		
Operating charge		
Defined benefit schemes	37	31
Defined contribution schemes	41	39
Post retirement medical benefit schemes	6	1
	84	71
Interest	(8)	(10)
Total	76	61
Balance sheet		
UK pension scheme asset	49	62
Other pension scheme liabilities	(65)	(20)
Post retirement medical benefit liability	(68)	(47)
Other pension accruals	(34)	(28)
Total	(118)	(33)

Cash and working capital discipline

Average working capital/sales



Includes capitalised pre-publication costs and author advances