

2010 results presentation

Monday 28 February 2011

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.

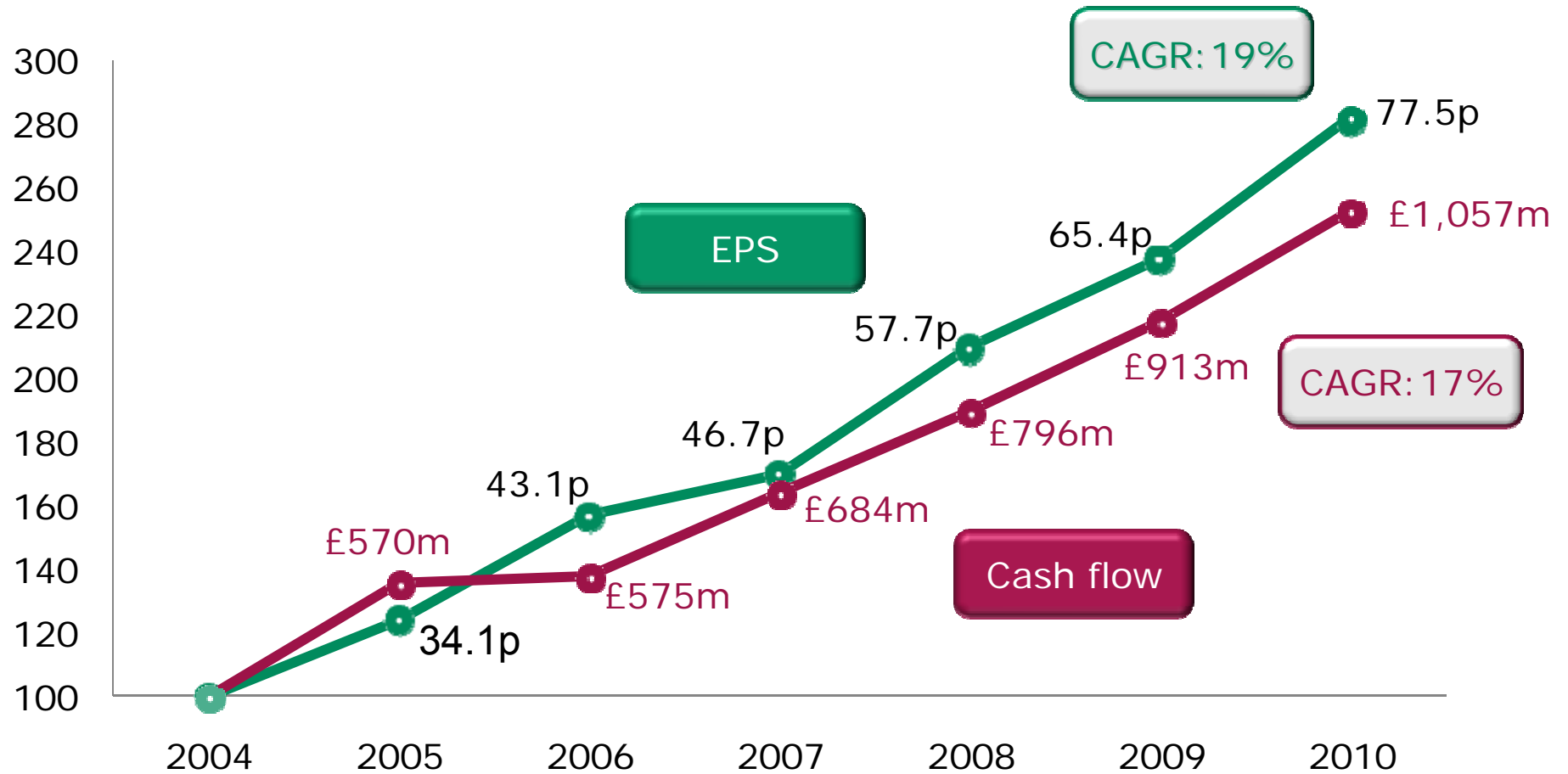
Highlights

Financial highlights

£m	2010	2009	Headline growth	CER growth
Sales	5,663	5,140	10%	8%
Operating profit	857	710	21%	15%
Adjusted eps	77.5p	65.4p	19%	
Operating cash flow	1,057	913	16%	
Dividend	38.7p	35.5p	9%	

Durability and growth

Earnings and cash

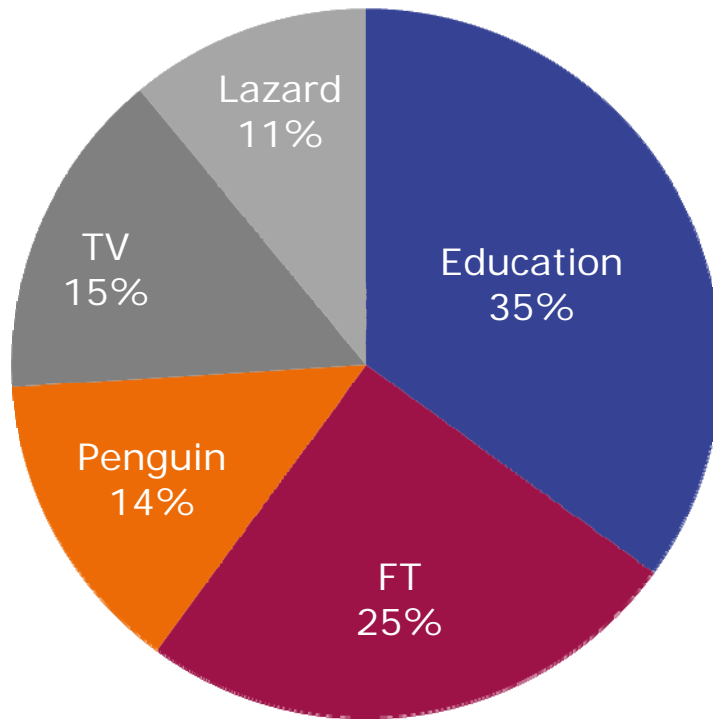


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Change

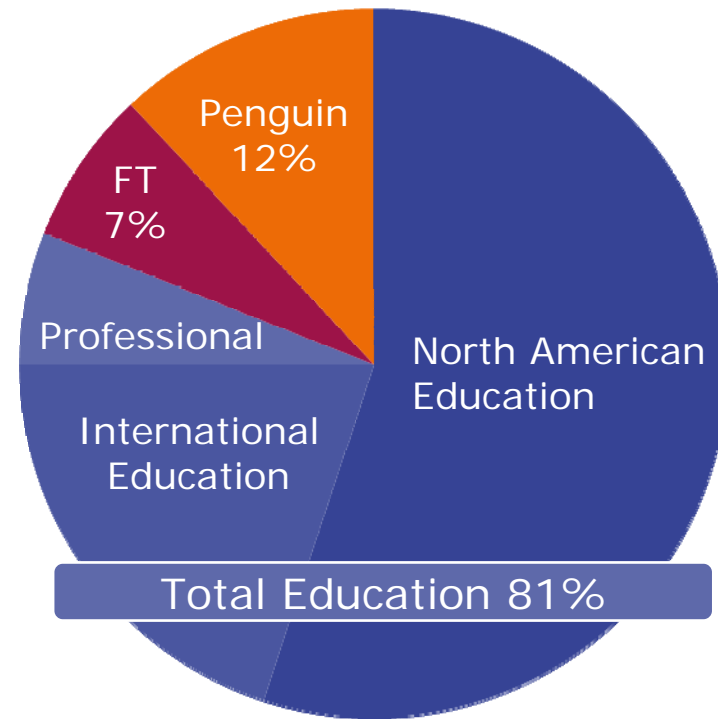
Operating profit

1999



£449m
UK GAAP

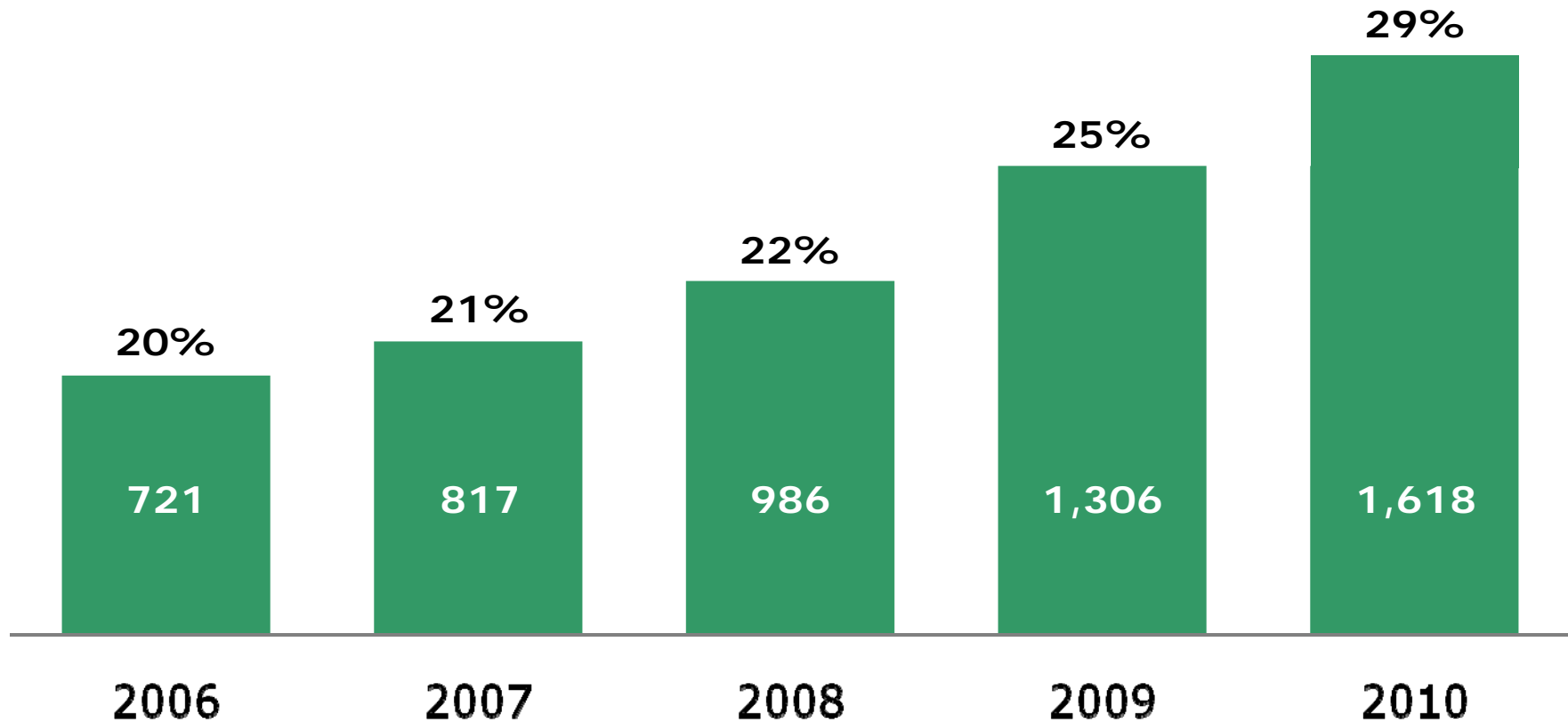
2010



£857m
IFRS

Rapid growth in digital businesses

Pearson's digital revenues, £m / % of sales

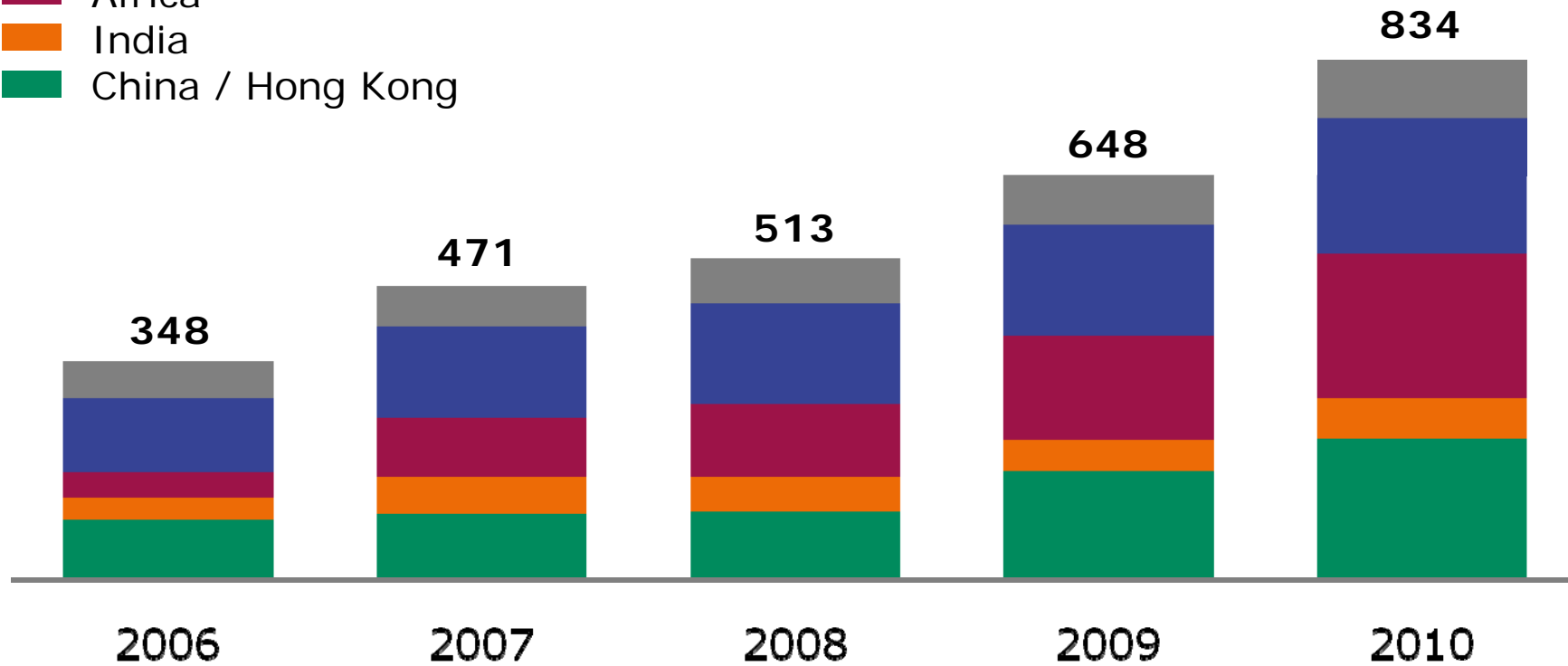


At constant exchange rate (excludes Interactive Data)

Rapid growth in emerging markets

Pearson revenues, \$m

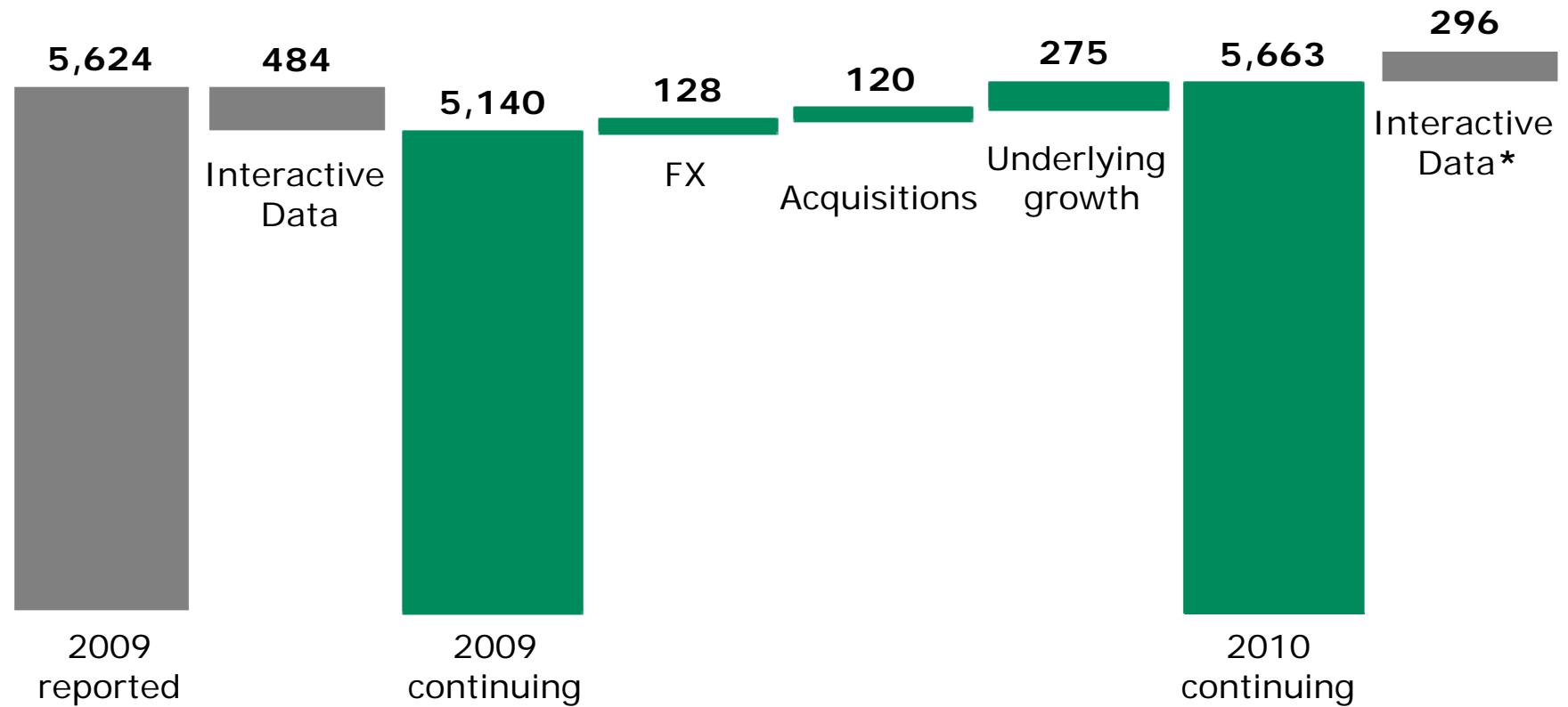
- Middle East
- Central / Latin America
- Africa
- India
- China / Hong Kong



Financial review

Sales growth

£m



*To 29th July 2010

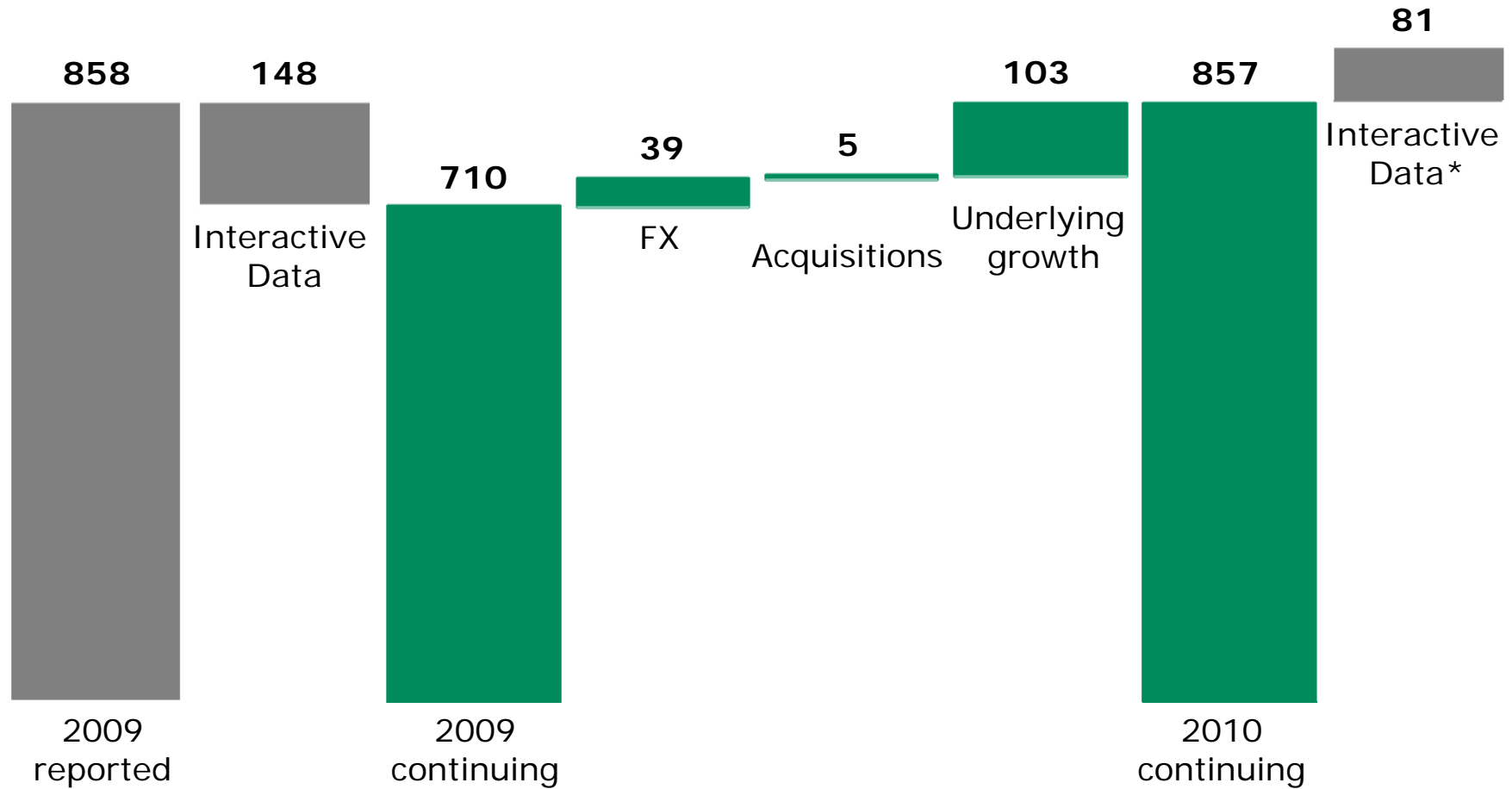
Sales growth

£m	2010	2009	<i>CER growth</i>	<i>Underlying growth</i>
North American Education	2,640	2,470	5%	4%
International Education	1,234	1,035	16%	6%
Professional	333	275	20%	6%
Education	4,207	3,780	9%	5%
FT Group	403	358	12%	9%
Penguin	1,053	1,002	2%	6%
Total	5,663	5,140	8%	5%

Continuing operations (excludes Interactive Data)

Operating profit growth

£m



*To 29th July 2010

Profit growth

£m	2010	2009	<i>CER growth</i>	<i>Underlying growth</i>
North American Education	469	403	14%	12%
International Education	171	141	10%	8%
Professional	51	43	16%	5%
Education	691	587	13%	11%
FT Group	60	39	54%	49%
Penguin	106	84	10%	26%
Total	857	710	15%	14%

Continuing operations (excludes Interactive Data)

Margins

	2006	2007	2008	2009	2010
NA Education	16.7%	16.4%	15.1%	16.3%	17.8%
Int'l Education	11.4%	12.5%	15.6%	13.6%	13.9%
Professional	8.1%	11.9%	14.8%	15.6%	15.3%
Education	14.6%	14.9%	15.2%	15.5%	16.4%
FT Group	9.6%	16.3%	19.0%	10.9%	14.9%
Penguin	7.8%	8.7%	10.3%	8.4%	10.1%
Pearson	12.7%	13.7%	14.6%	13.8%	15.1%

Continuing operations

Adjusted EPS

£m	2010	2009	Headline growth
Operating profit	938	858	9%
Interest	(85)	(97)	
Taxation	(215)	(194)	
<i>Tax rate</i>	25.2%	25.5%	
Profit after tax	638	567	13%
Minorities	(17)	(44)	
Adjusted earnings	621	523	19%
<i>Shares in issue</i>	801.2	799.3	
Adjusted EPS	77.5p	65.4p	19%

Statutory P&L

£m	2010	2009	Headline growth
Operating profit	743	619	20%
Interest	(85)	(98)	13%
Finance costs – IAS39 / IAS21	12	2	▲
Profit before tax	670	523	28%
Taxation	(146)	(146)	-
Profit after tax	524	377	39%
Discontinued operations	776	85	▲
Profit for the year	1,300	462	181%
Basic EPS (total)	161.9p	53.2p	204%
Basic EPS (continuing)	66.0p	47.0p	40%

Operating cash flow

£m	2010	2009	var
Operating profit	938	858	80
Working capital	149	105	44
Net capital expenditure	(135)	(121)	(14)
Depreciation	133	129	4
Dividends from associates and JVs	23	22	1
Exchange and other movements	(51)	(80)	29
Operating cash flow	1,057	913	144
Cash conversion %	113%	106%	

Working capital includes pre-publication

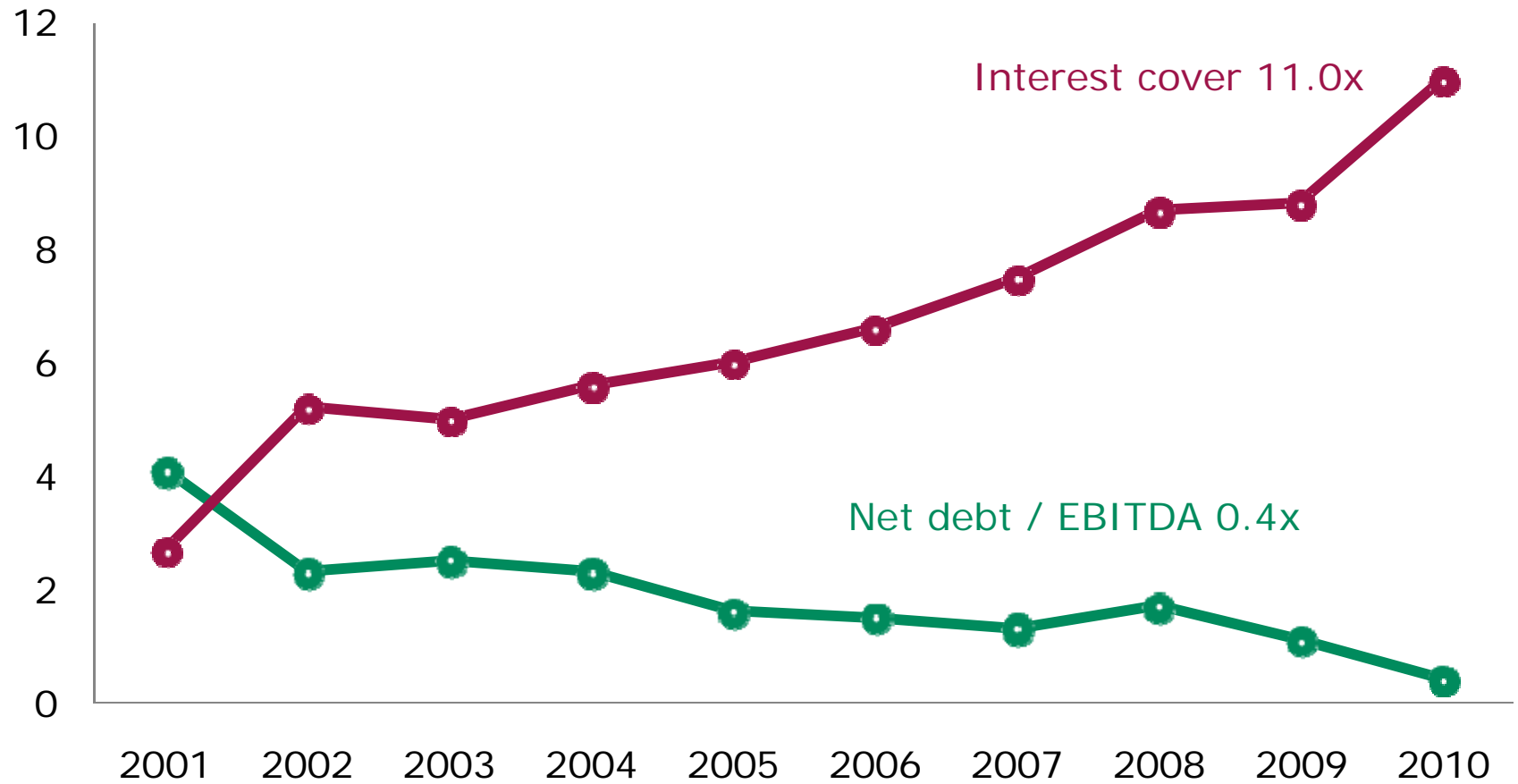
Free cash flow

£m	2010	2009	var
Operating cash flow	1,057	913	144
Tax paid	(85)	(103)	18
Cash tax %	9%	12%	
Net interest paid	(68)	(87)	19
Free cash flow	904	723	181
Free cash flow / share	112.8p	90.5p	

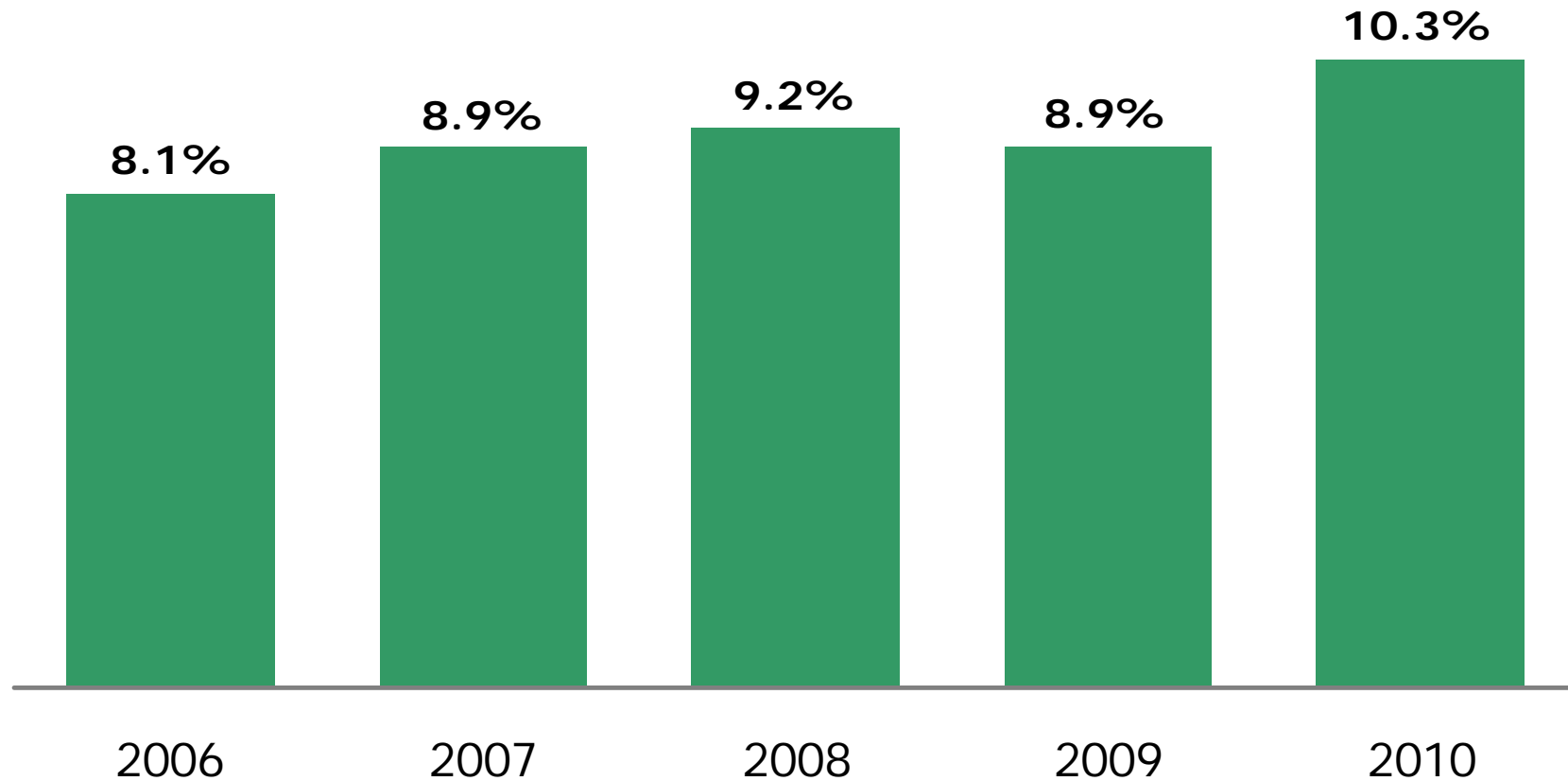
Balance sheet

£m	2010	2009	var
Goodwill / intangible assets	5,467	5,129	338
Tangible fixed assets	366	388	(22)
Pre-publication	647	650	(3)
Deferred revenue	(559)	(487)	(72)
Working capital	645	648	(3)
Other net liabilities	(128)	(107)	(21)
Net trading assets	6,438	6,221	217
Shareholders' funds	5,538	4,345	1,193
Deferred tax	195	86	109
Pensions	148	339	(191)
Other provisions	60	68	(8)
Minorities	67	291	(224)
Net debt	430	1,092	(662)
Capital employed	6,438	6,221	217
\$/£	1.57	1.61	

Balance sheet strength

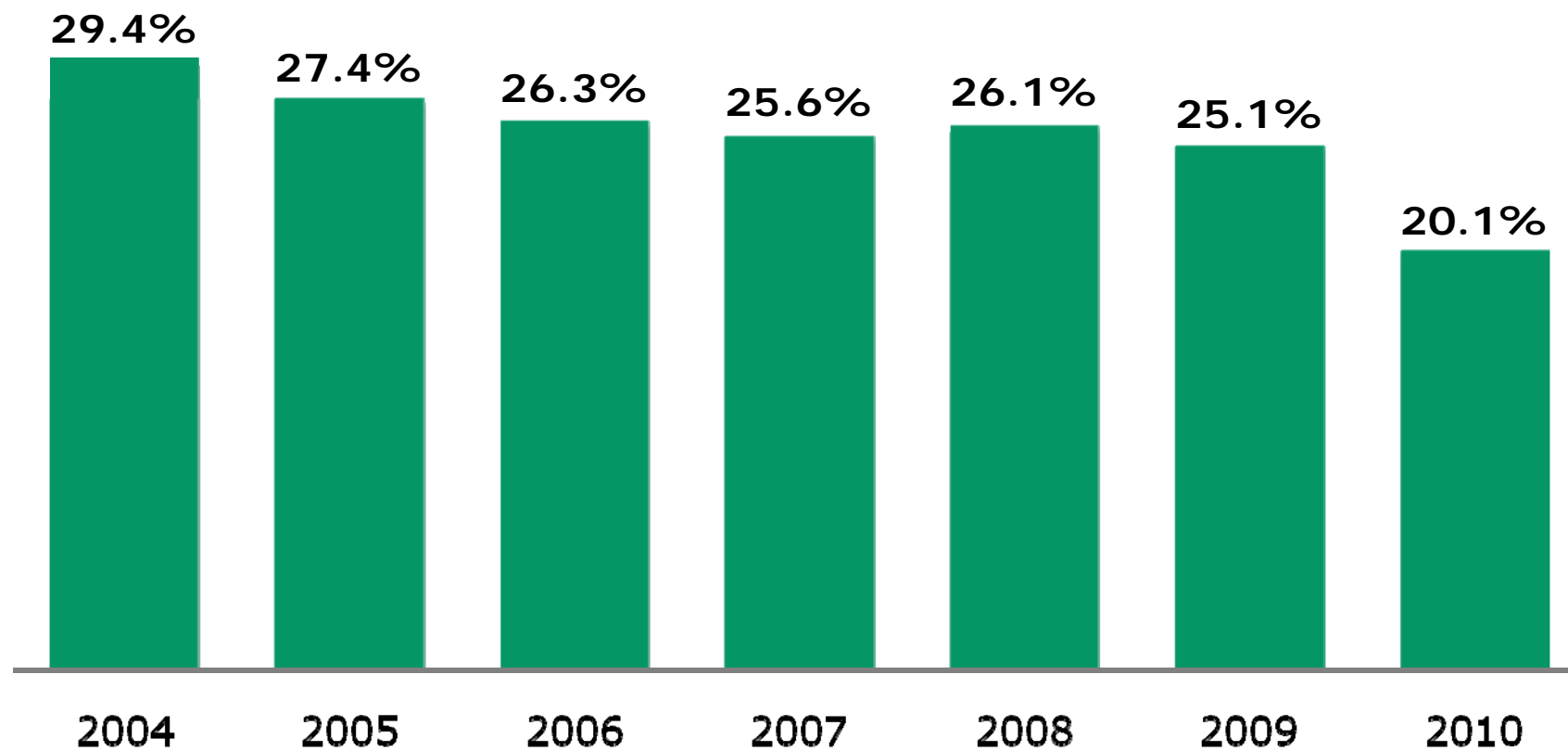


Return on invested capital

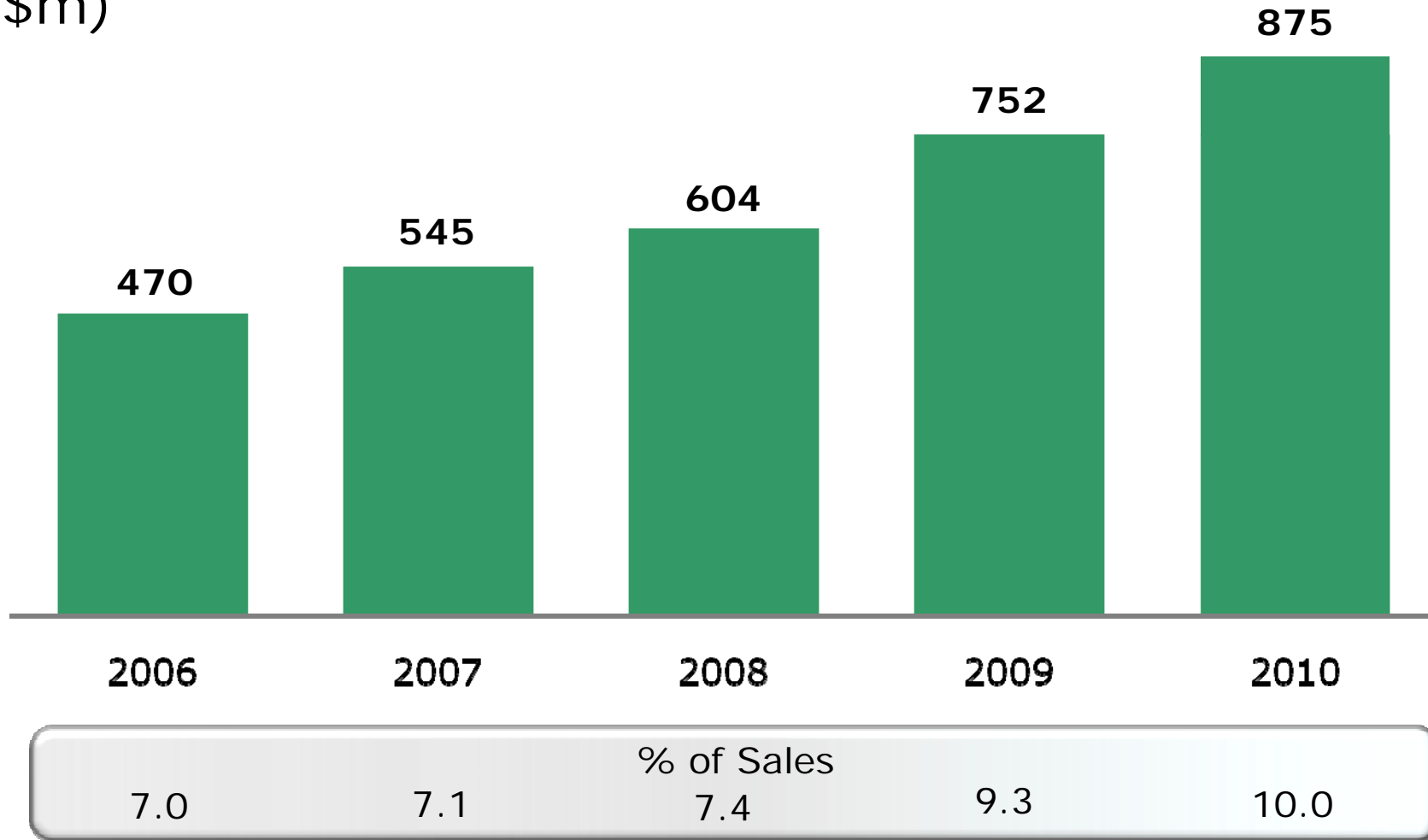


Average capital / actual cash tax

Working capital / sales

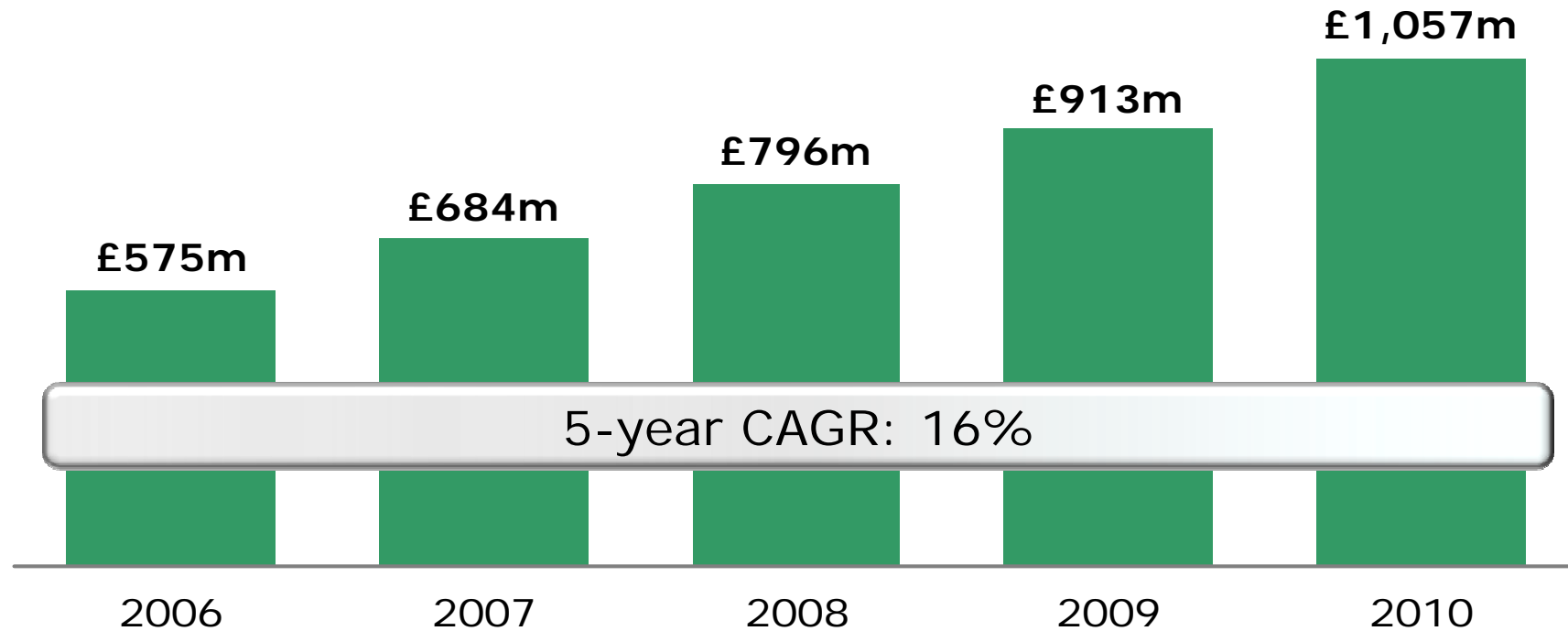


Deferred revenue (\$m)



Continuing operations

Operating cash flow



	2006	2007	2008	2009	2010
Cash conversion %	97	108	104	106	113
FCF per share (p)	54.2	51.1	79.2	90.5	112.8

Uses of cash

Organic investment

Bolt-on acquisitions

Dividends

Bolt-on acquisitions

2002-2010

Disposal proceeds

\$5.1bn

Investment in acquisitions

\$4.2bn

ROIC on acquisitions*

12%*

*Proforma to include 2010 acquisitions

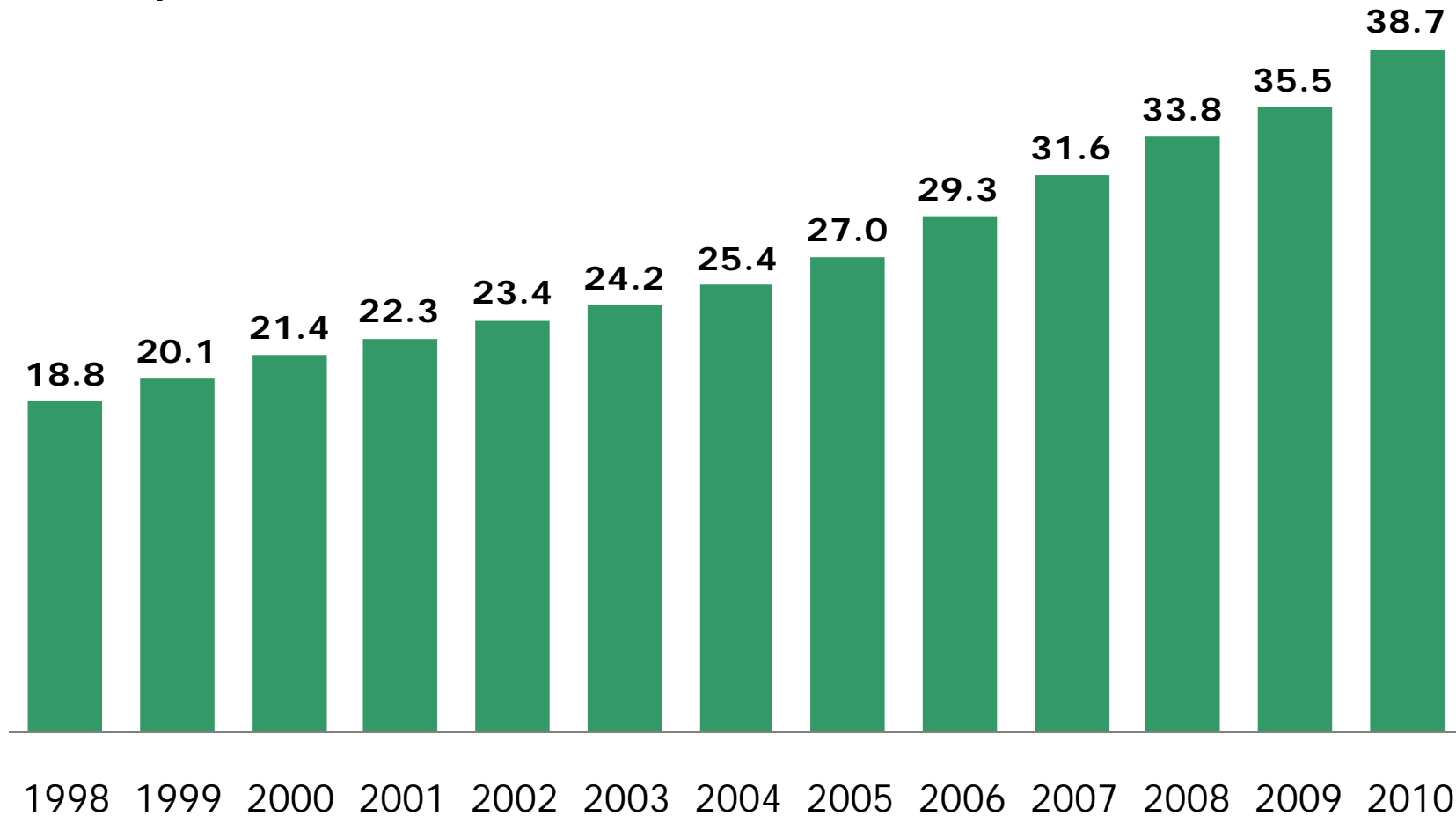
Debt level: credit rating agency view

£m	2010	2009
Net debt	430	1,092
Lease liabilities (@ 8x)	1,312	1,224
Pension liabilities	148	339
Total	1,890	2,655

Agency calculations of debt vary

Dividend growth

Pence per share



2011 priorities

Further sales growth and margin improvement

Strong cash conversion

Investment in organic growth and acquisitions

Strategy

Change in our markets

Fiscal

Geopolitical

Educational

Digital

Change in consumer publishing

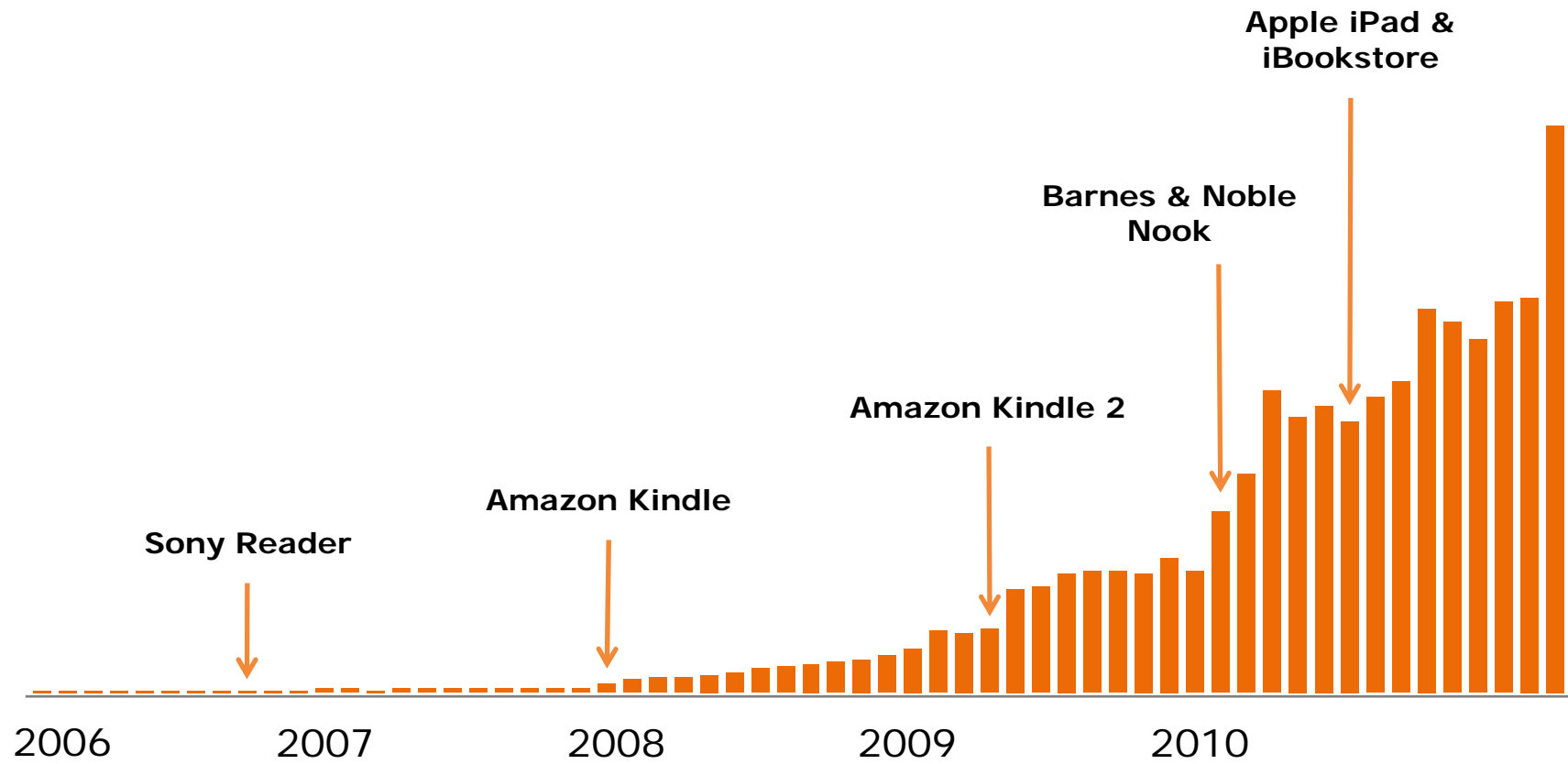
Digital readers

New business models

Sales channel disruption

eBook growth

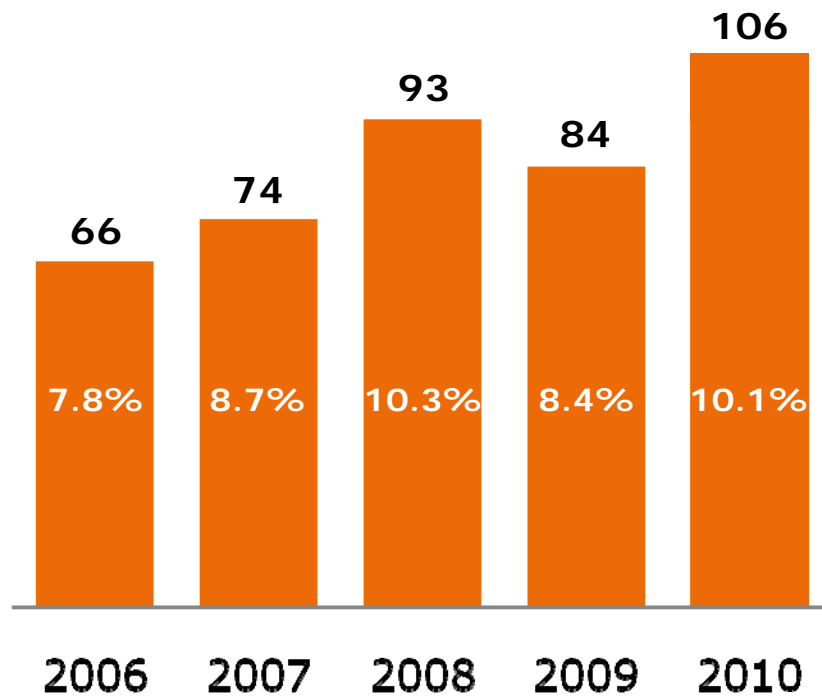
Penguin eBook monthly sales volumes



Changing Penguin

Our record

Profits £m / margin %



Our priorities

Digital growth

Operational advantage

Developing economies

Change in business information

Digital readers

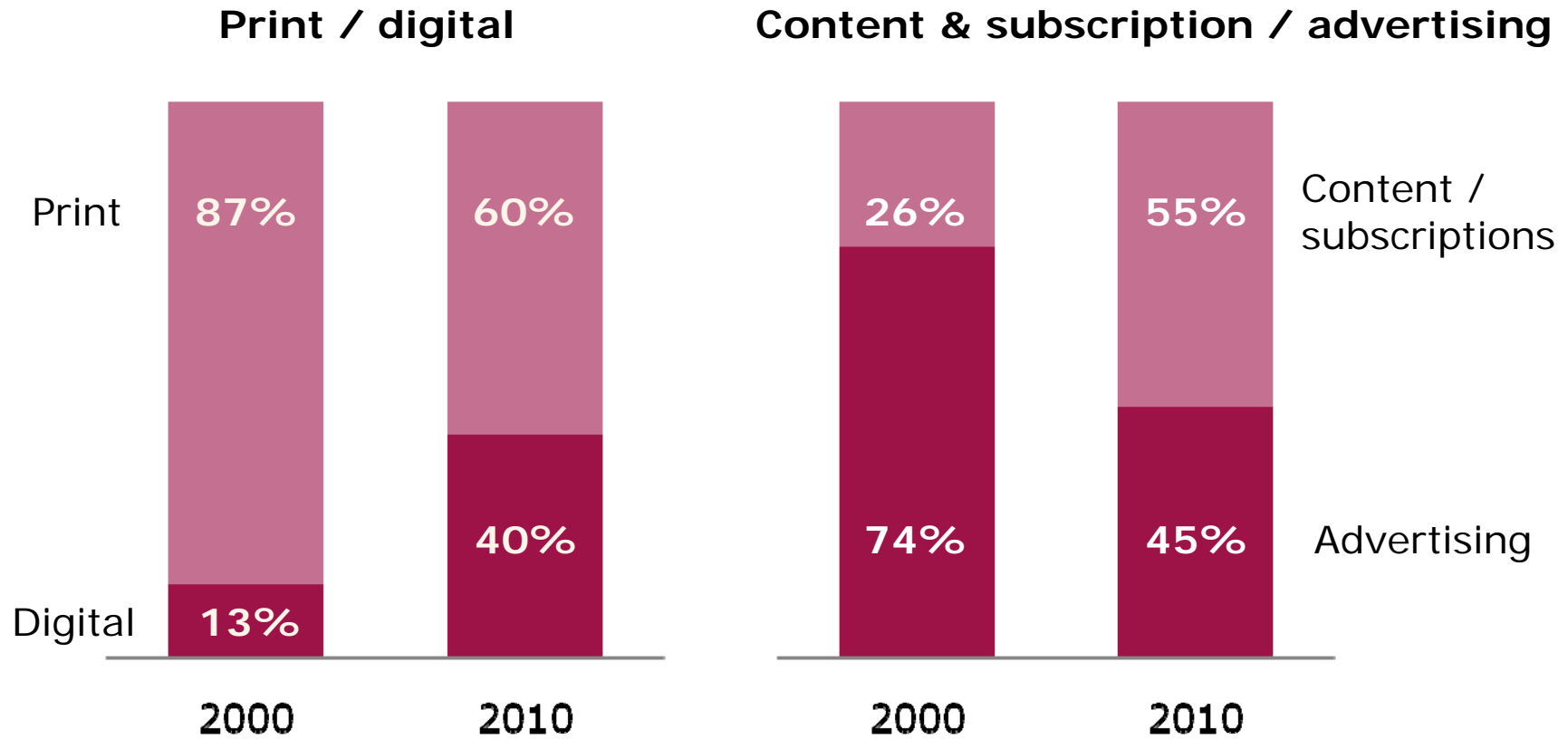
Premium business models

Recovery in markets, financial sector

Emerging economies

Digital and subscription revenues

FT Group revenue mix

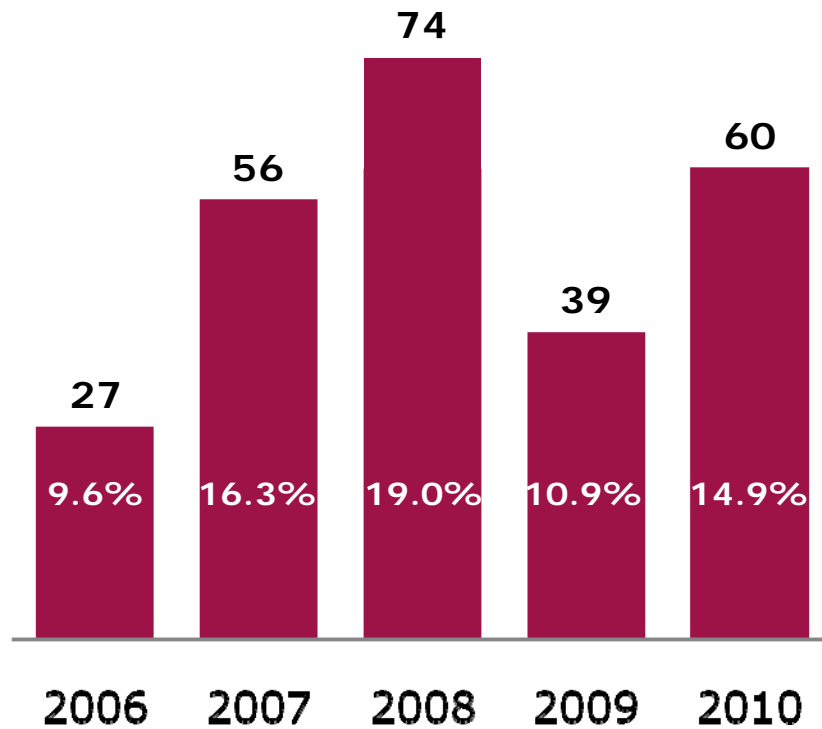


Excludes Interactive Data

Changing the FT Group

Our record

Profits £m / margin %



Excludes Interactive Data

Our priorities

Digital

Data-driven products

New markets

Change in North American Education

Federal & State budgets weak, but signs of recovery

Higher Ed enrolments slower in for-profit colleges

Commitment to education reform – *will* plus *money*

Change in International Education

Participation

Effectiveness

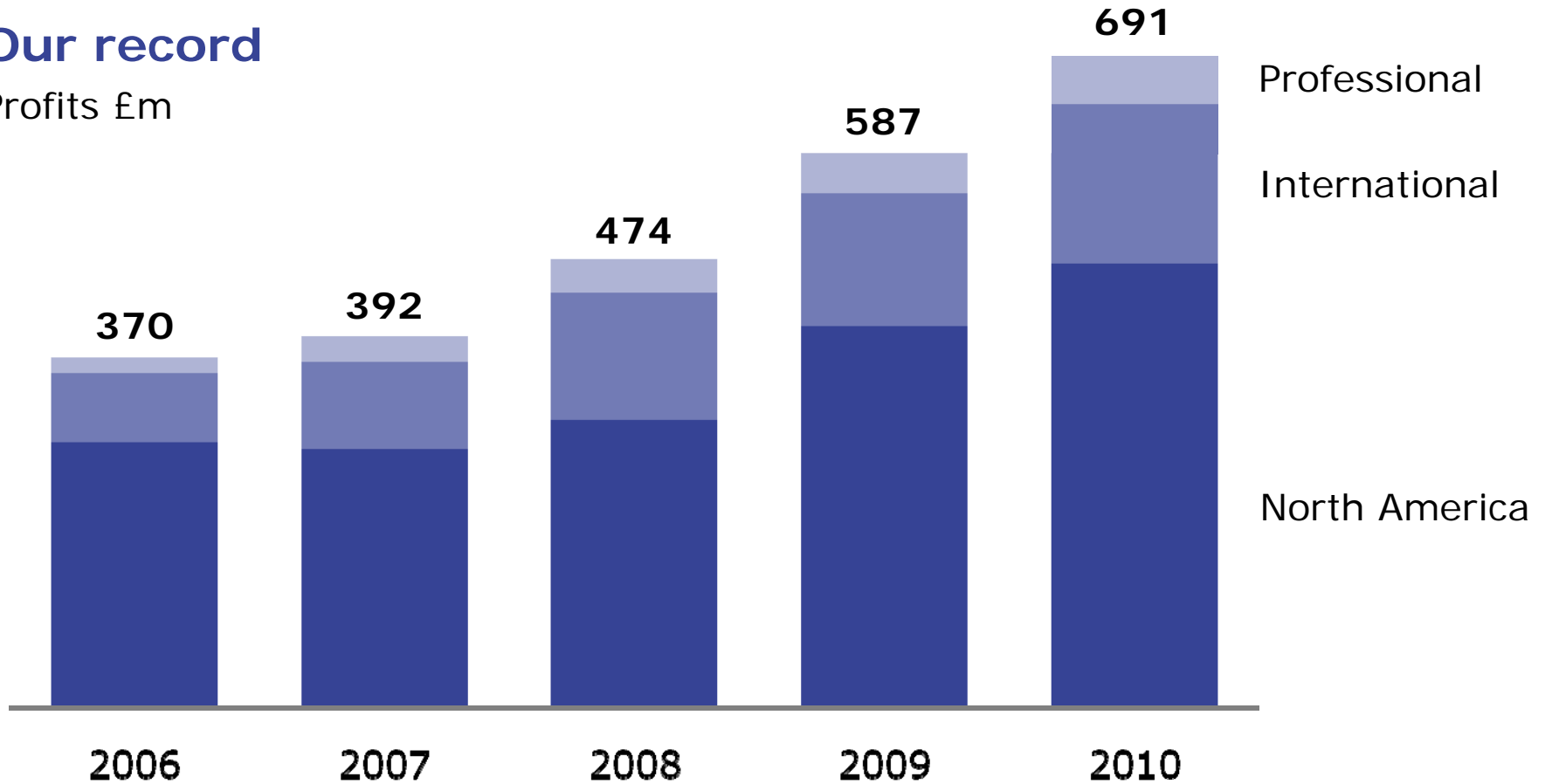
English

Technology

Changing Education

Our record

Profits £m



	2006	2007	2008	2009	2010
Margin %	14.6	14.9	15.2	15.5	16.4

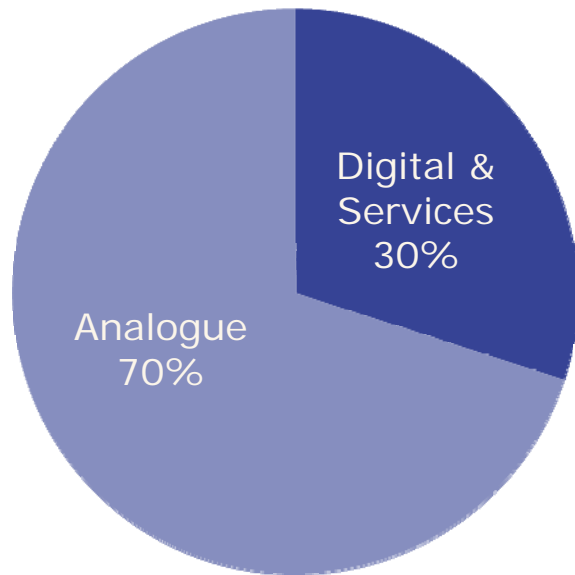
Our digital platforms & services

Students served	2008	2009	2010	CAGR
<i>MyLabs</i>	4.3m	6.0m	8.0m	36%
<i>SuccessNet</i>	5.3m	7.0m	10.1m	38%
<i>PowerSchool</i>	6.1m	8.5m	9.5m	25%
<i>LearningStudio</i>	3.9m	5.4m	8.3m	46%
<i>Online assessment</i>	4.0m	9.4m	13.3m	82%
<i>AIMSWeb</i>	1.6m	3.2m	3.9m	56%
<i>SuccessMaker</i>	2.2m	2.5m	2.8m	13%
Total	27.4m	42.0m	55.9m	43%

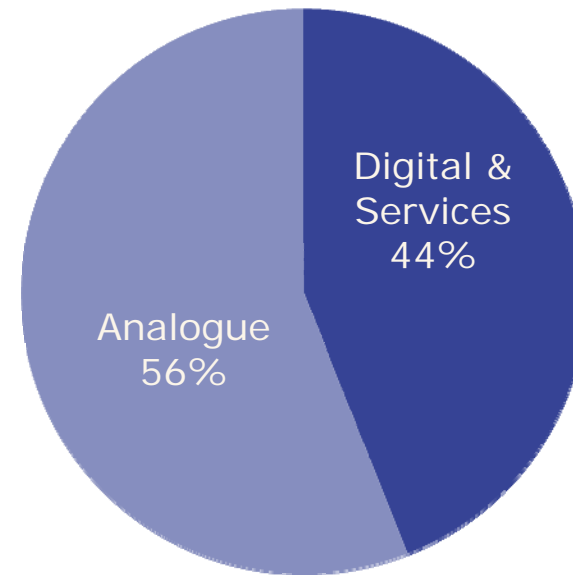
Changing Education

Total Education revenue mix

2005 revenues



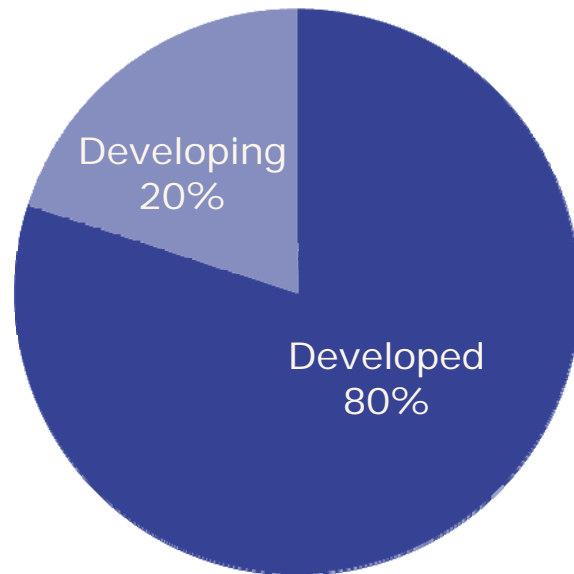
2010 revenues



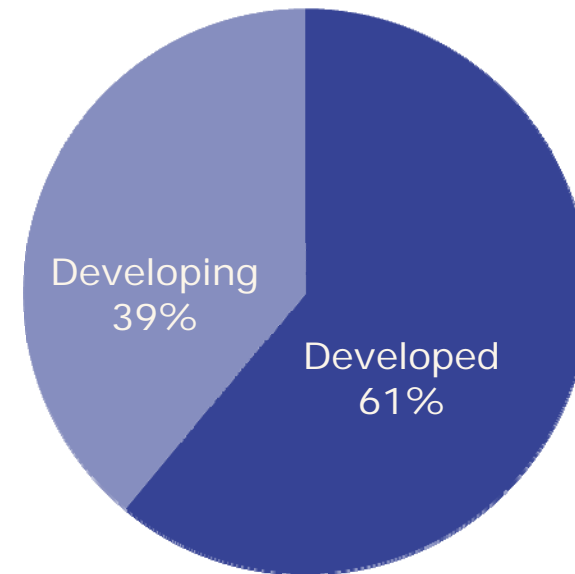
Changing International Education

International Education geographic revenue mix

2005



2010 PF*



*Proforma to include SEB, WSI & TutorVista

Recent acquisitions

			<u>Purchase price</u>
	431 English language schools	60 countries	£65m
	Sistemas in 2,000 schools	Brazil	£326m*
	13 private university campuses	South Africa	£29m
	School improvement	USA	£65m
	K-12 schools; online tutoring	India/ global	£79m
	Vocational training	UK	£99m
	Business intelligence	Global	M/N

*£228m paid for 70% with the balance to be paid in 2011

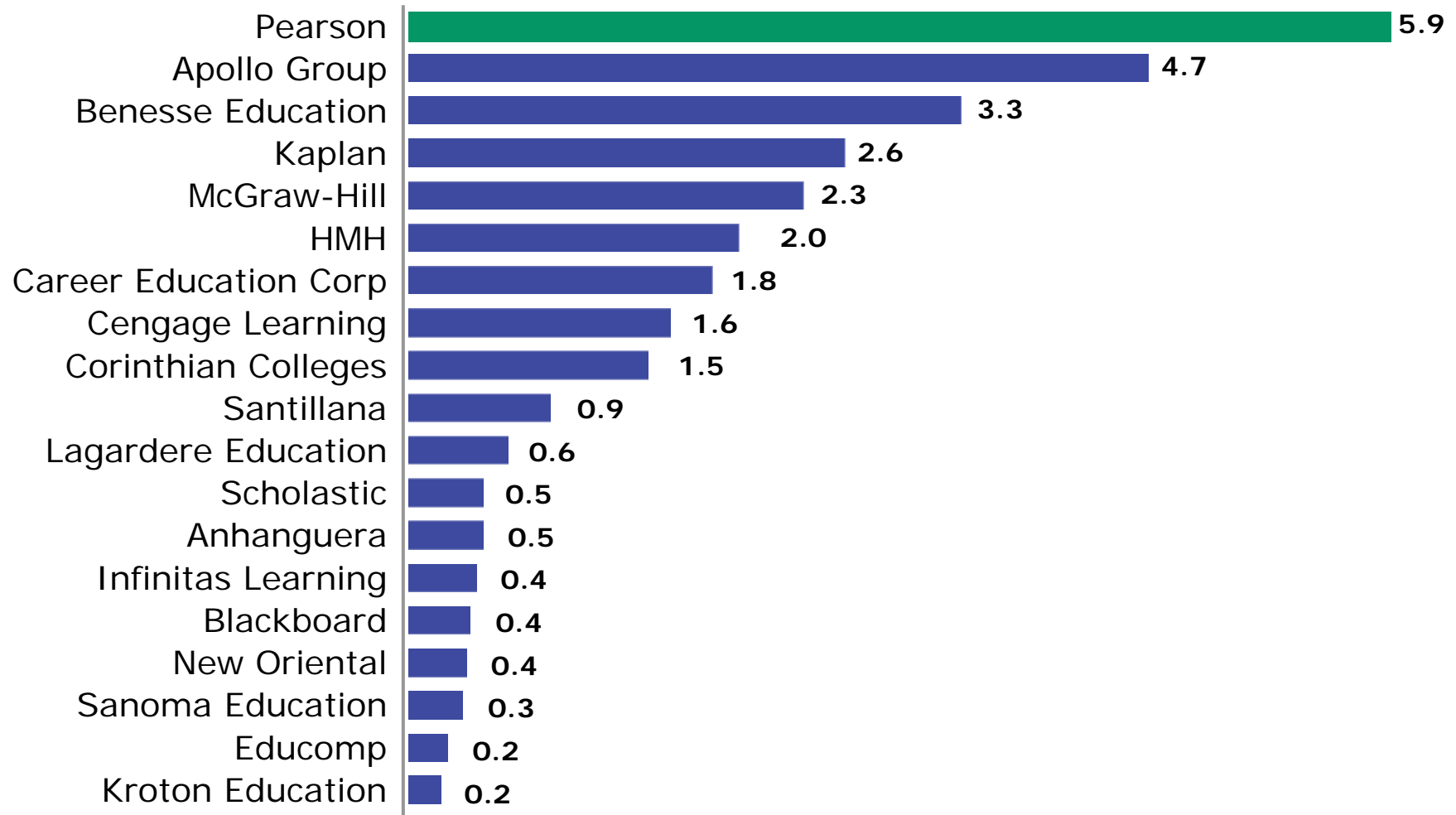
Changing our education business



DIGITAL PLATFORMS

The world's leading education companies

Education revenues, \$bn



2009 data (HMH 2008 data)

ALWAYS
LEARNING

Appendices

Return on invested capital

£m	Gross Invested Capital		Net Invested Capital	
	2010	2009	2010	2009
Operating profit	938	858	938	858
Intangible amortisation	-	-	(113)	(103)
Less actual cash tax	(85)	(103)	(85)	(103)
<i>Cash tax rate</i>	9%	12%	9%	12%
Return	853	755	740	652
Average: goodwill	6,071	6,036	4,594	4,412
other intangibles	1,270	1,158	768	740
Pre-publication investments	665	675	665	675
Tangible fixed and working capital	309	635	309	635
Average total invested capital	8,315	8,504	6,336	6,462
ROIC	10.3%	8.9%	11.7%	10.1%

Reconciliation: statutory to adjusted earnings

2010

£m	Statutory	Discontinued operations	Other net gains and losses	Acquisition costs	Amortisation of acquired intangibles	Other net finance income/costs	Tax amortisation benefit	Adjusted earnings
Operating profit	743	81	(2)	11	105	-	-	938
Net finance costs	(73)	-	-	-	-	(12)	-	(85)
Profit before tax	670	81	(2)	11	105	(12)	-	853
Income tax	(146)	(31)	(38)	(4)	(35)	3	36	(215)
Continuing operations	524	50	(40)	7	70	(9)	36	638
Discontinued operations	776	(50)	(731)	-	5	-	-	-
Profit for the period	1,300	-	(771)	7	75	(9)	36	638
Minority Interest	(3)	-	(12)	-	(2)	-	-	(17)
Earnings	1,297	-	(783)	7	73	(9)	36	621

Reconciliation: statutory to adjusted earnings

2009

£m	Statutory	Discontinued operations	Amortisation of acquired intangibles	Other net finance income / costs	Tax amortisation benefit	Adjusted earnings
Operating profit	619	148	91	-	-	858
Net finance costs	(96)	1	-	(2)	-	(97)
Profit before tax	523	149	91	(2)	-	761
Income tax	(146)	(52)	(33)	1	36	(194)
Profit after tax	377	97	58	(1)	36	567
Discontinued operations	85	(97)	8	-	4	-
Profit for the period	462	-	66	(1)	40	567
Minority Interest	(37)	-	(5)	-	(2)	(44)
Earnings	425	-	61	(1)	38	523

Reconciliation: pre-publication costs

£m	2010	2009
Opening balance	650	695
Exchange	19	(62)
New spend capitalised	319	322
Acquisitions (net)	9	2
Amortisation	(350)	(307)
Closing balance	647	650
Total education sales	4,207	3,780
Amortisation as a % of sales	8.3%	8.1%

Reconciliation: year end net debt

£m	2010	2009
Non current assets		
Derivative financial instruments	134	112
Current assets		
Derivative financial instruments	6	-
Marketable securities	12	63
Cash and cash equivalents	1,736	750
Non current liabilities		
Borrowings	(1,908)	(1,934)
Derivative financial instruments	(6)	(2)
Current liabilities		
Borrowings	(404)	(74)
Derivative financial instruments	-	(7)
Total net debt	(430)	(1,092)

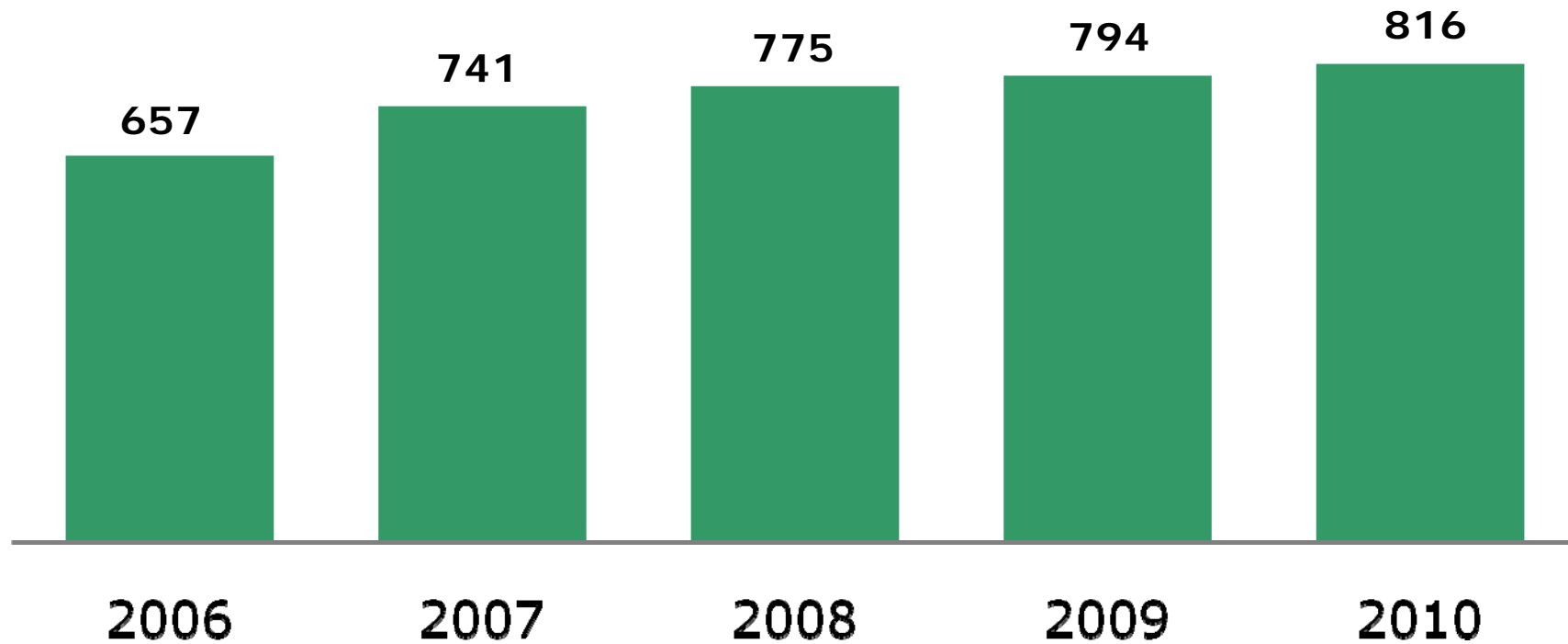
Retirement benefit obligations

£m	2010	2009
Income statement		
Operating charge		
Defined benefit schemes	18	18
Defined contribution schemes	68	62
Post retirement medical benefit schemes	2	2
	88	82
Interest	12	12
Total	100	94
Balance sheet		
UK pension scheme liability	(5)	(189)
Other pension scheme liabilities	(43)	(51)
Post retirement medical benefit liability	(72)	(65)
Other pension accruals	(28)	(34)
Total	(148)	(339)

Total business basis

Sustained organic investment

Pre-publication expenditure & authors' advances \$m



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