

2011 results presentation

Monday 27 February 2012

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.

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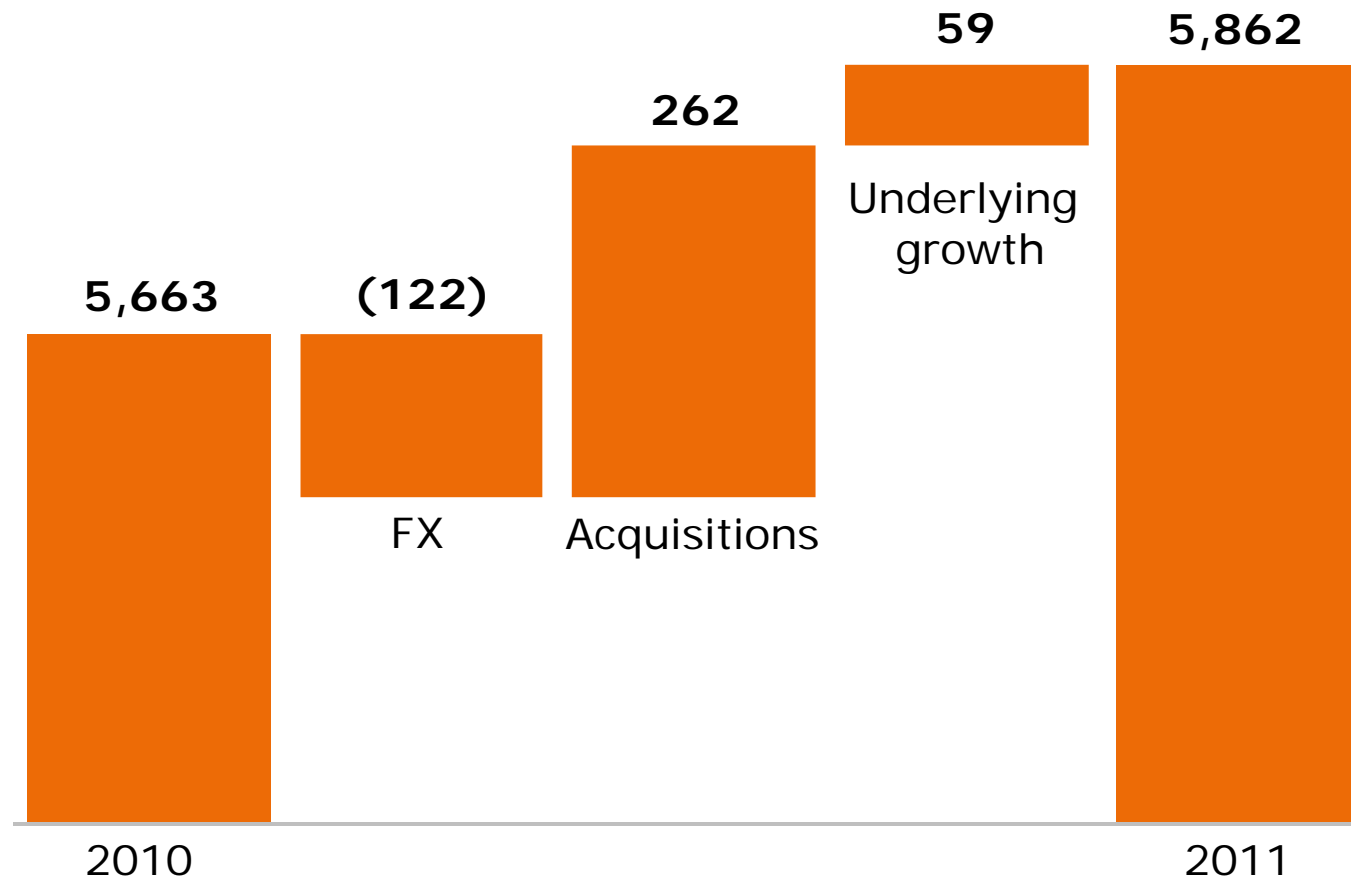
Financial highlights

£m	2011	2010	<i>Headline growth</i>	<i>CER growth</i>
Sales	5,862	5,663	4%	6%
Operating profit	942	857	10%	12%
Adjusted EPS	86.5p	77.5p	12%	
Operating cash flow	983	1,057	(7)%	
Net debt	(499)	(430)	(16)%	
Dividend	42.0p	38.7p	9%	

Financial review

Sales growth

£m

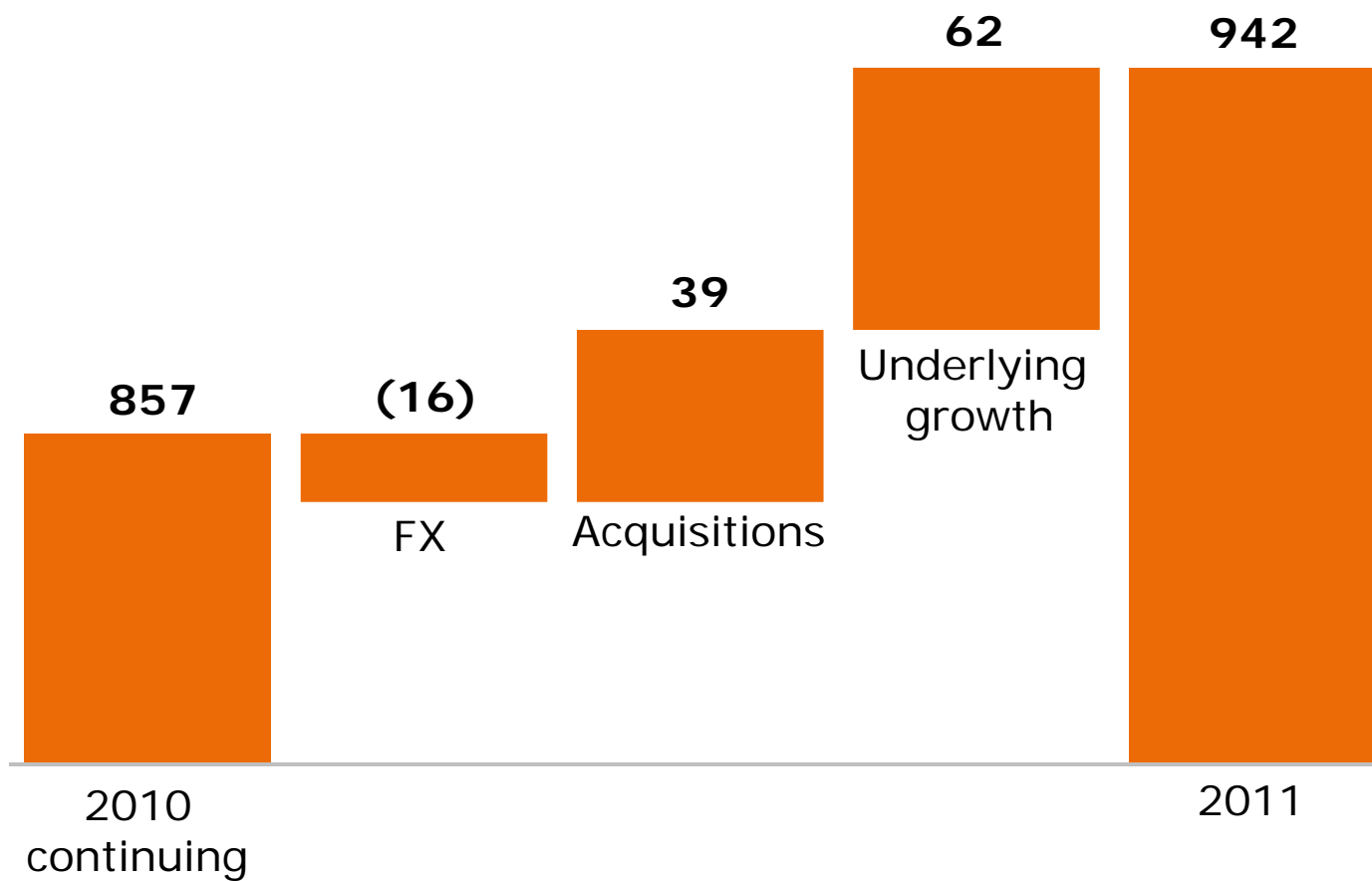


Sales growth

£m	2011	2010	<i>CER growth</i>	<i>Underlying growth</i>
North American Education	2,584	2,640	1%	(1)%
International Education	1,424	1,234	15%	4%
Professional	382	333	17%	2%
Education	4,390	4,207	7%	0%
FT Group	427	403	8%	7%
Penguin	1,045	1,053	1%	1%
Total	5,862	5,663	6%	1%

Operating profit growth

£m



Operating profit growth

£m	2011	2010	<i>CER growth</i>	<i>Underlying growth</i>
North American Education	493	469	9%	8%
International Education	196	171	13%	2%
Professional	66	51	31%	10%
Education	755	691	12%	6%
FT Group	76	60	22%	17%
Penguin	111	106	8%	8%
Total	942	857	12%	7%

Continuing operations (excludes Interactive Data in 2010)

Margins

	2006	2007	2008	2009	2010	2011
NA Education	16.7%	16.4%	15.1%	16.3%	17.8%	19.1%
Int'l Education	11.4%	12.5%	15.6%	13.6%	13.9%	13.8%
Professional	8.1%	11.9%	14.8%	15.6%	15.3%	17.3%
Education	14.6%	14.9%	15.2%	15.5%	16.4%	17.2%
FT Group	9.6%	16.3%	19.0%	10.9%	14.9%	17.8%
Penguin	7.8%	8.7%	10.3%	8.4%	10.1%	10.6%
Pearson	12.7%	13.7%	14.6%	13.8%	15.1%	16.1%

Continuing operations

Adjusted EPS

£m	2011	2010	Headline growth
Operating profit	942	938*	0%
Interest	(52)	(85)	
Taxation	(199)	(215)	
<i>Tax rate</i>	22.4%	25.2%	
Profit after tax	691	638	8%
Minorities	1	(17)	
Adjusted earnings	692	621	11%
<i>Shares in issue</i>	800.2	801.2	
Adjusted EPS	86.5p	77.5p	12%

*Includes £81m part year contribution from Interactive Data Corp.

Recurring EPS progression

	2011	2010	<i>Growth</i>
Adjusted EPS as reported	86.5p	77.5p	12%
Remove Interactive Data	-	(3.9)p	
Remove FTSE	(2.2)p	(1.6)p	
Tax settlements	(3.4)p	-	
Re-base to 2011 FX rates	-	(1.5)p	
Recurring adjusted EPS	80.9p	70.5p	15%

Statutory P&L

£m	2011	2010	<i>Headline growth</i>
Operating profit	1,226	743	65%
Interest	(52)	(85)	39%
Finance costs – IAS39 / IAS21	(19)	12	▼
Profit before tax	1,155	670	72%
Taxation	(199)	(146)	(36)%
Profit after tax	956	524	82%
Discontinued operations	-	776	▼
Profit for the year	956	1,300	(26)%
Basic EPS (total)	119.6p	161.9p	(26)%

Operating cash flow

£m	2011	2010	var
Operating profit	942	938	4
Working capital	39	149	(110)
Net capital expenditure	(140)	(135)	(5)
Depreciation	118	133	(15)
Dividends from associates and JVs	30	23	7
Exchange and other movements	(6)	(51)	45
Operating cash flow	983	1,057	(74)
Cash conversion %	104%	113%	

2010 includes Interactive Data

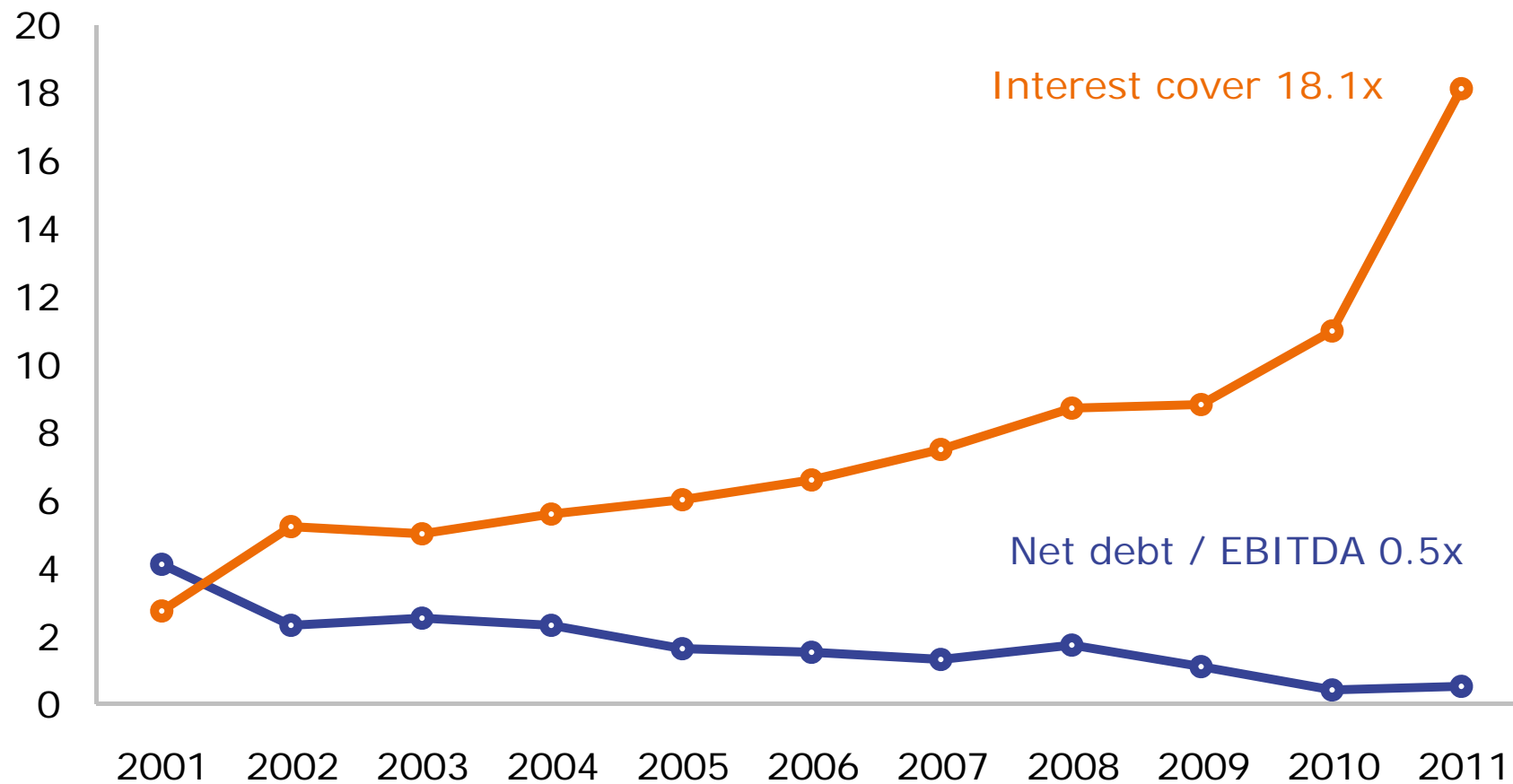
Free cash flow

£m	2011	2010	var
Operating cash flow	983	1,057	(74)
Tax paid	(151)	(85)	(66)
<i>Cash tax %</i>	16%	9%	
Net interest paid	(60)	(68)	8
Free cash flow	772	904	(132)
Free cash flow / share	96.5p	112.8p	

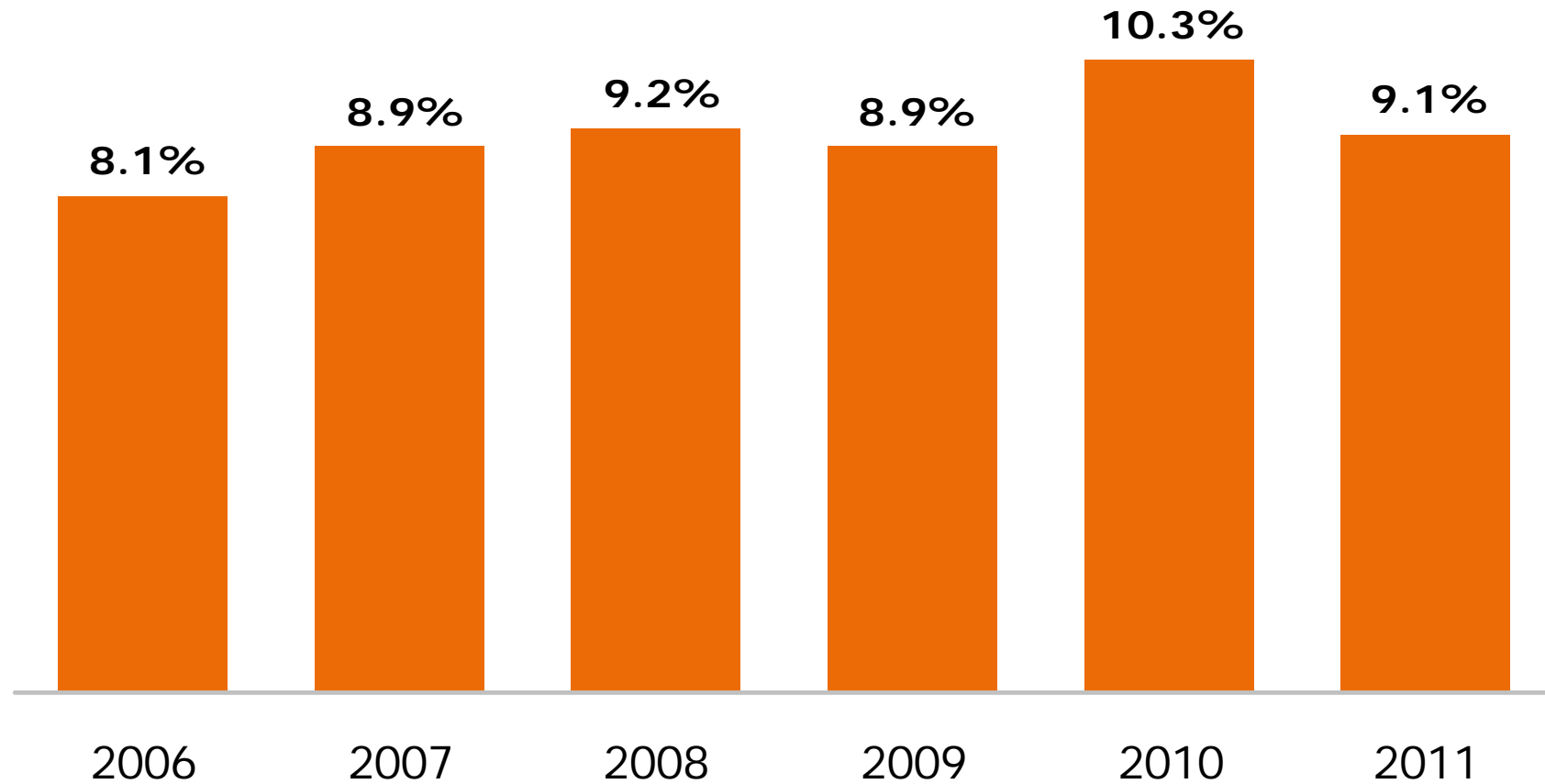
Balance sheet

£m	2011	2010	var
Goodwill / intangible assets	6,342	5,467	875
Tangible fixed assets	383	366	17
Pre-publication	650	647	3
Deferred revenue	(678)	(559)	(119)
Traditional working capital	682	645	37
Other net liabilities	(280)	(128)	(152)
Net trading assets	7,099	6,438	661
Shareholders' funds	5,943	5,538	405
Deferred tax	334	195	139
Pensions	141	148	(7)
Other provisions	163	60	103
Minorities	19	67	(48)
Net debt	499	430	69
Capital employed	7,099	6,438	661
Year end \$/£	1.55	1.57	

Balance sheet strength

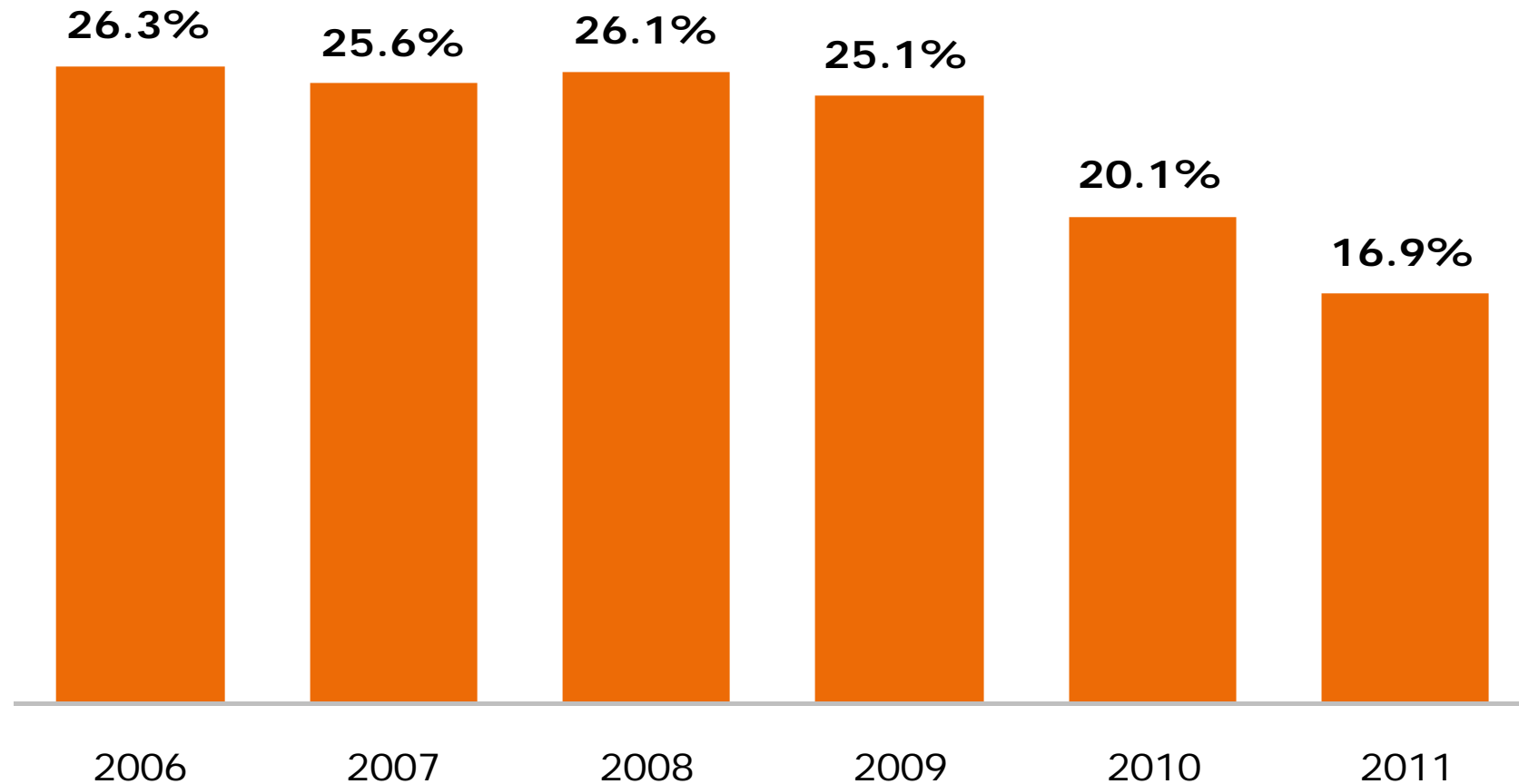


Return on invested capital



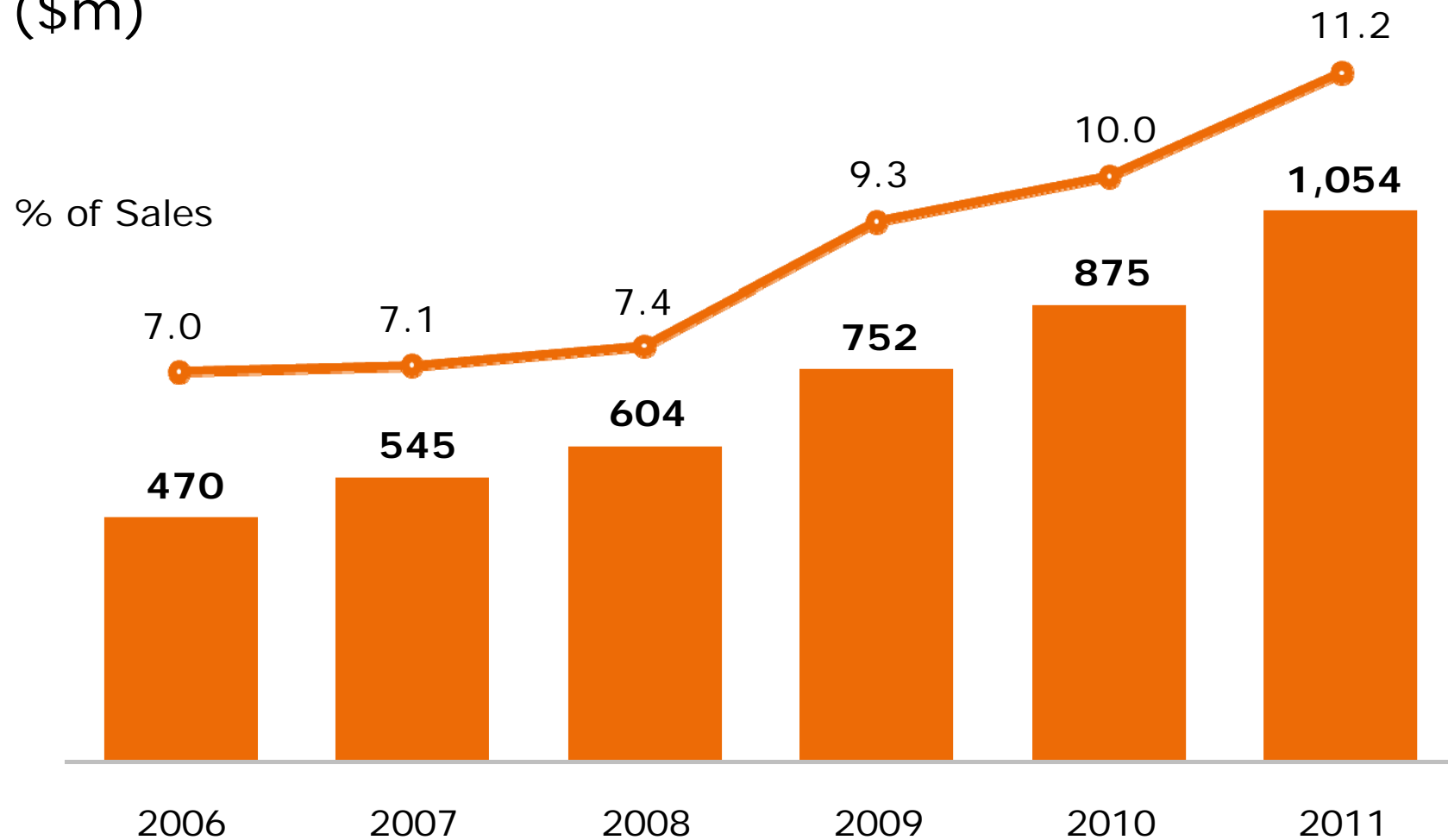
Average capital / actual cash tax

Working capital / sales*



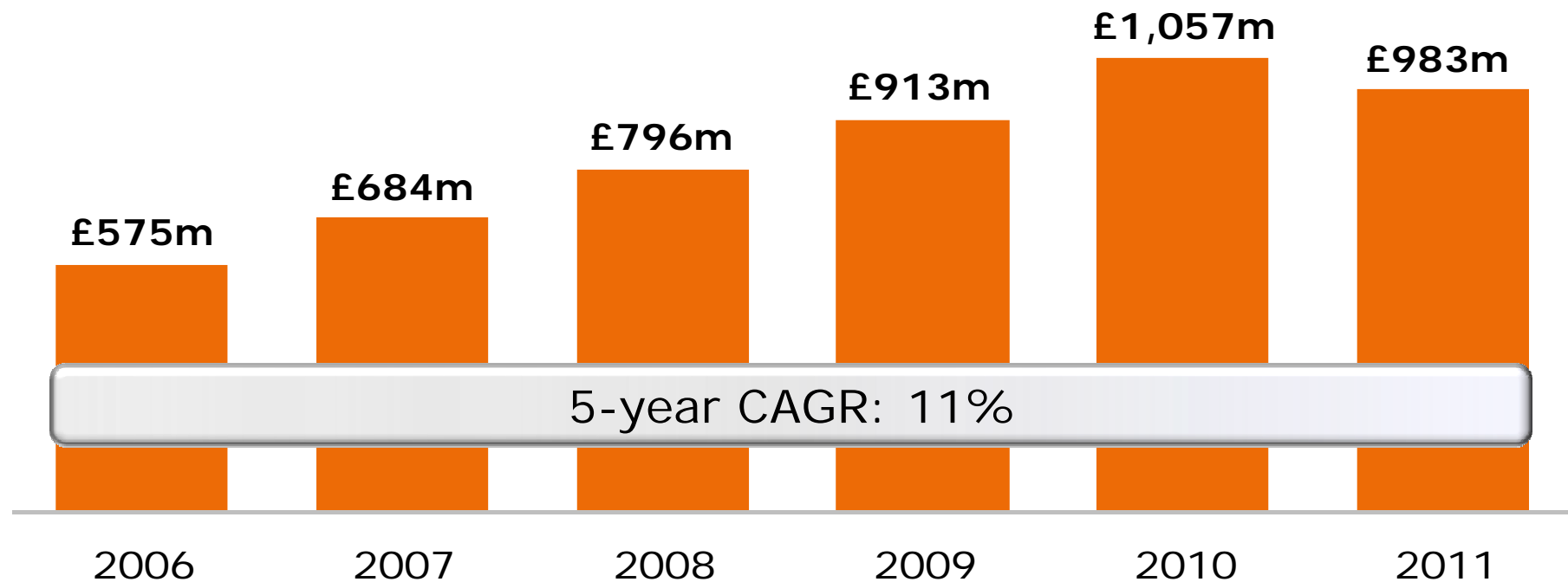
*Education and Penguin only

Deferred revenue (\$m)



Continuing operations

Operating cash flow



Cash conversion %					
97	108	104	106	113	104
FCF per share (p)					
54.2	51.1	79.2	90.5	112.8	96.5

Uses of cash

Organic investment

Bolt-on acquisitions

Dividends

2012 outlook

Continuing tough markets and industry change

Sales and profit growth

Strong cash conversion

Investment in organic growth

Integration and restructuring

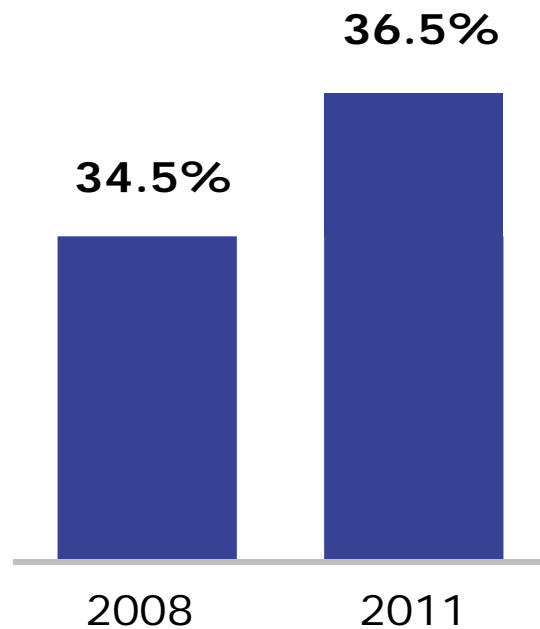
Acquisitions in target areas

Strategy



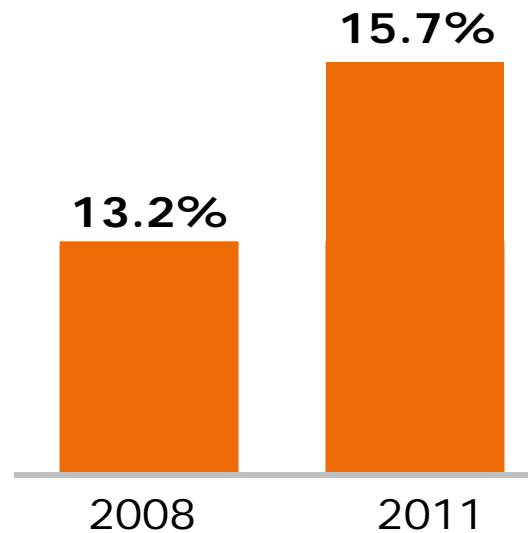
Market share gains

Education US school and college learning materials



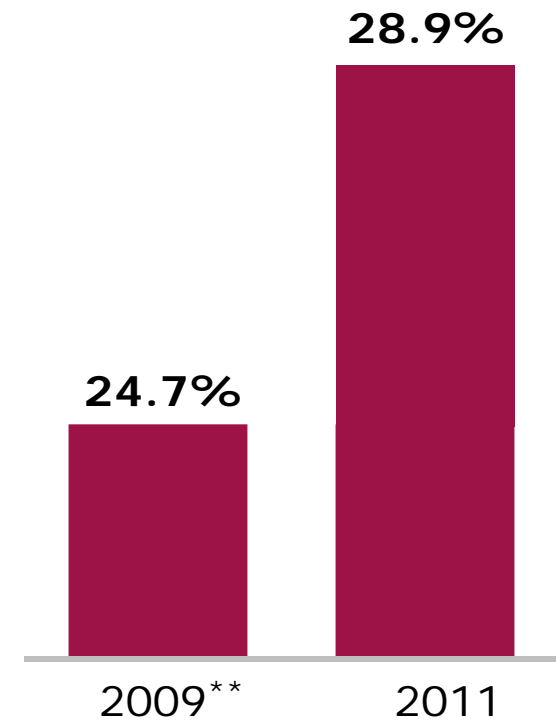
Share of US school and college learning materials market (Sources: Pearson, AAP)

Penguin*



Share of US consumer books market (Source: AAP)

Financial Times global readership



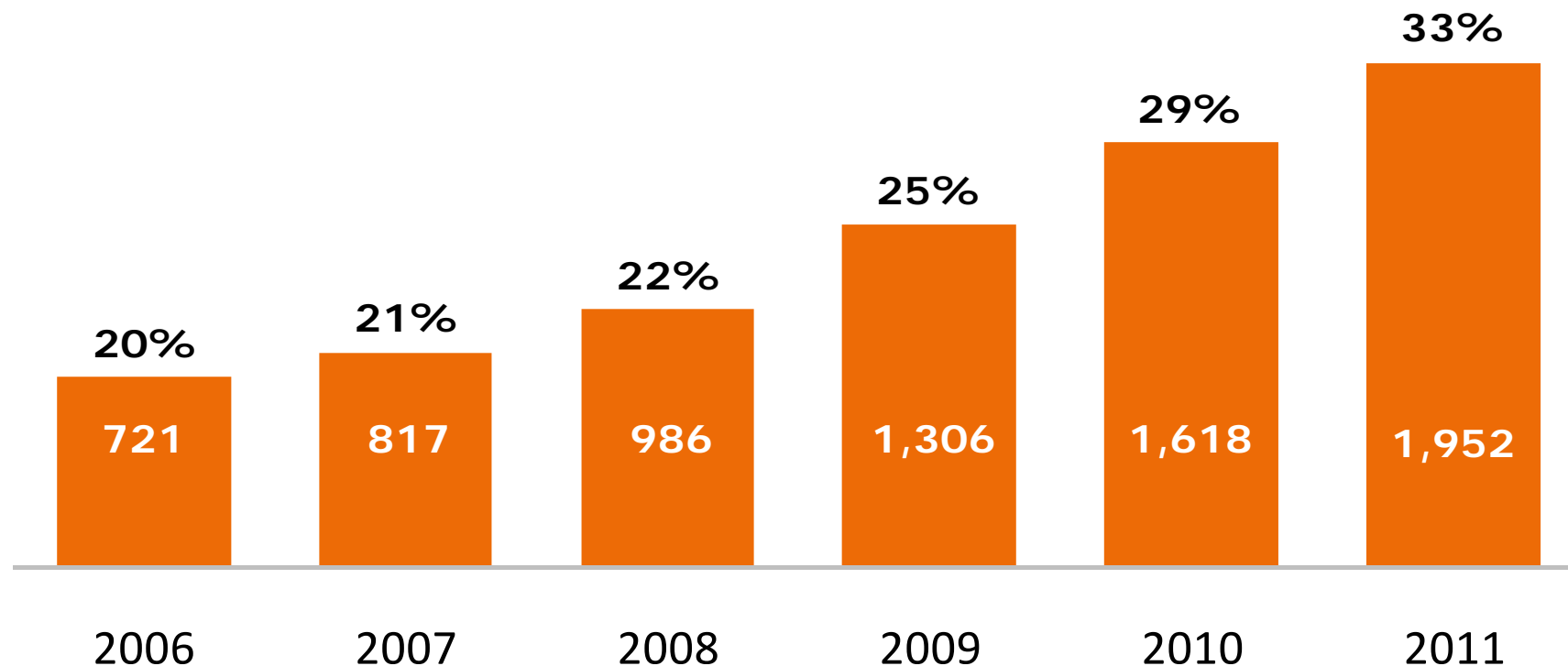
Share of business readers (Source: European, US, Asian Business Readership Surveys)

*Market share in US, UK and Australia (AAP, Bookscan)

**US Business Media Survey not published in 2008

Rapid growth in digital businesses

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

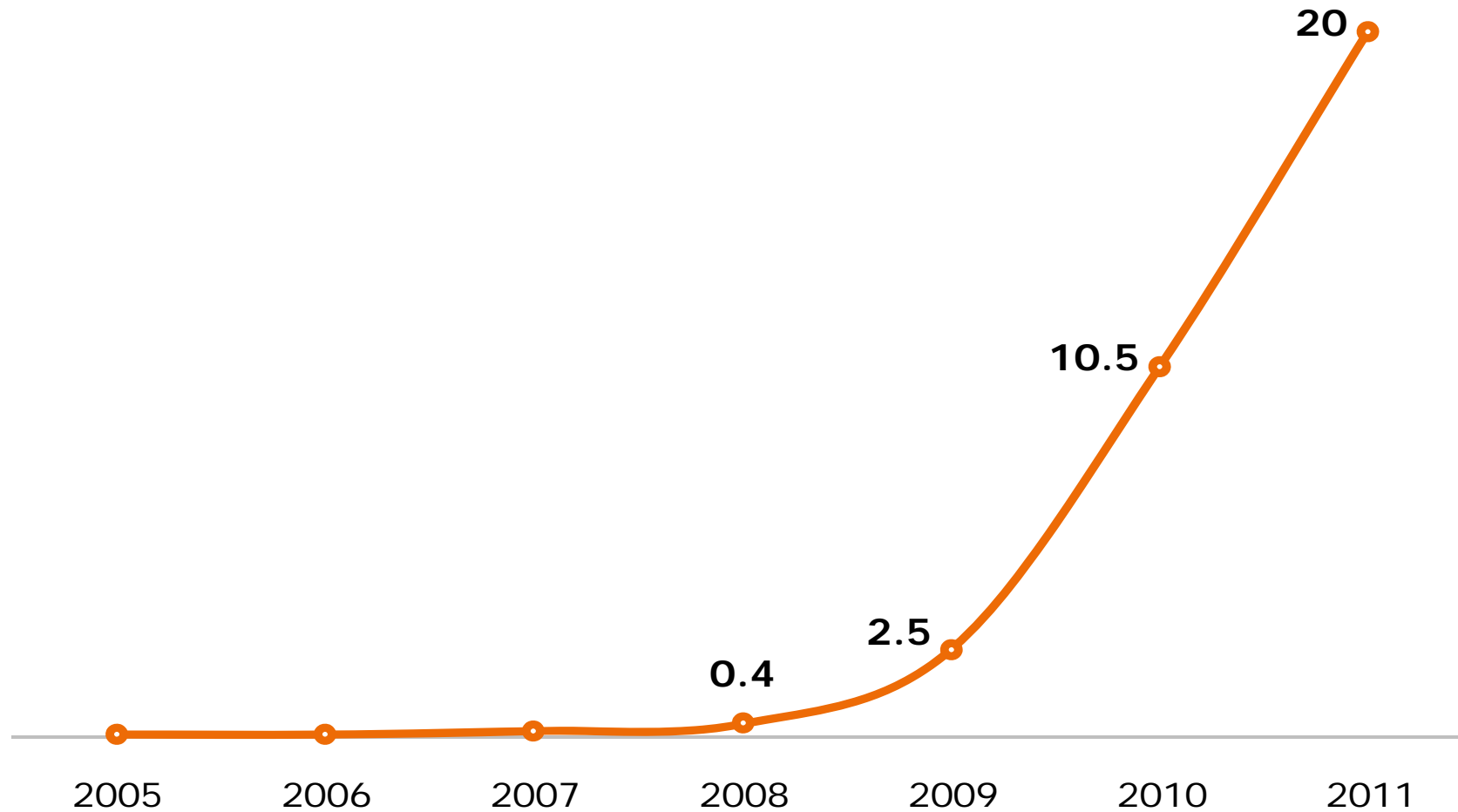


At constant exchange rate (excludes Interactive Data)

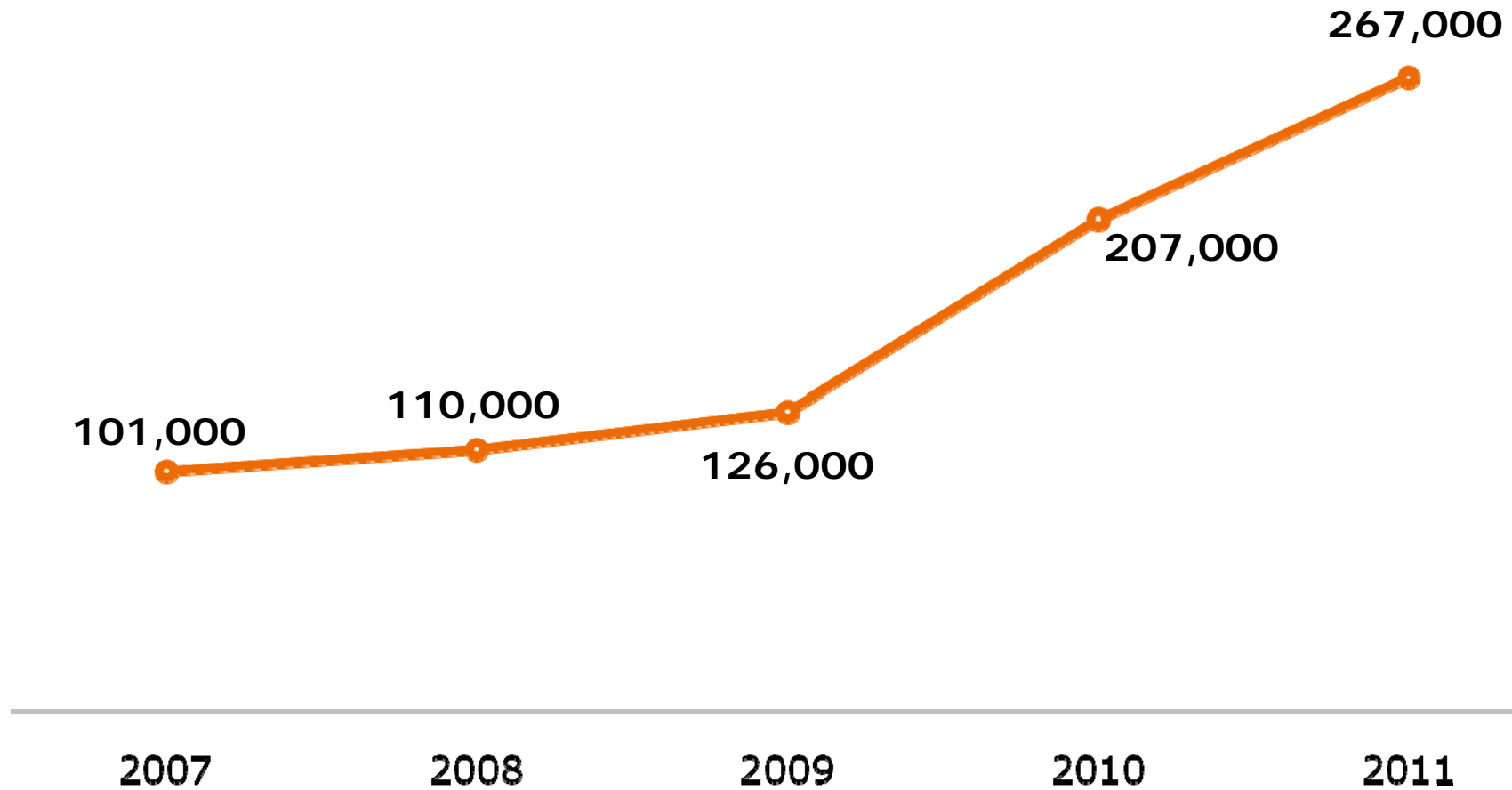
North America: digital learning services

Students served	2008	2009	2010	2011	CAGR
MyLabs	3.6M	4.8M	6.3M	7.8M	29%
SuccessNet	3.7M	4.4M	6.1M	6.2M	19%
PowerSchool	6.1M	8.5M	9.4M	10.0M	18%
LearningStudio	1.1M	1.4M	2.6M	2.8M	37%
PearsonAccess	1.0M	1.7M	3.7M	5.7M	79%
AIMSWeb	2.2M	3.1M	3.9M	4.1M	23%
SuccessMaker	2.2M	2.5M	2.8M	3.1M	12%
Schoolnet	N/A	N/A	N/A	3.2M	-
Connections	N/A	N/A	N/A	33,200	-
Total	19.9M	26.4M	34.9M	42.9M	29%

Penguin: US ebook volumes (m)

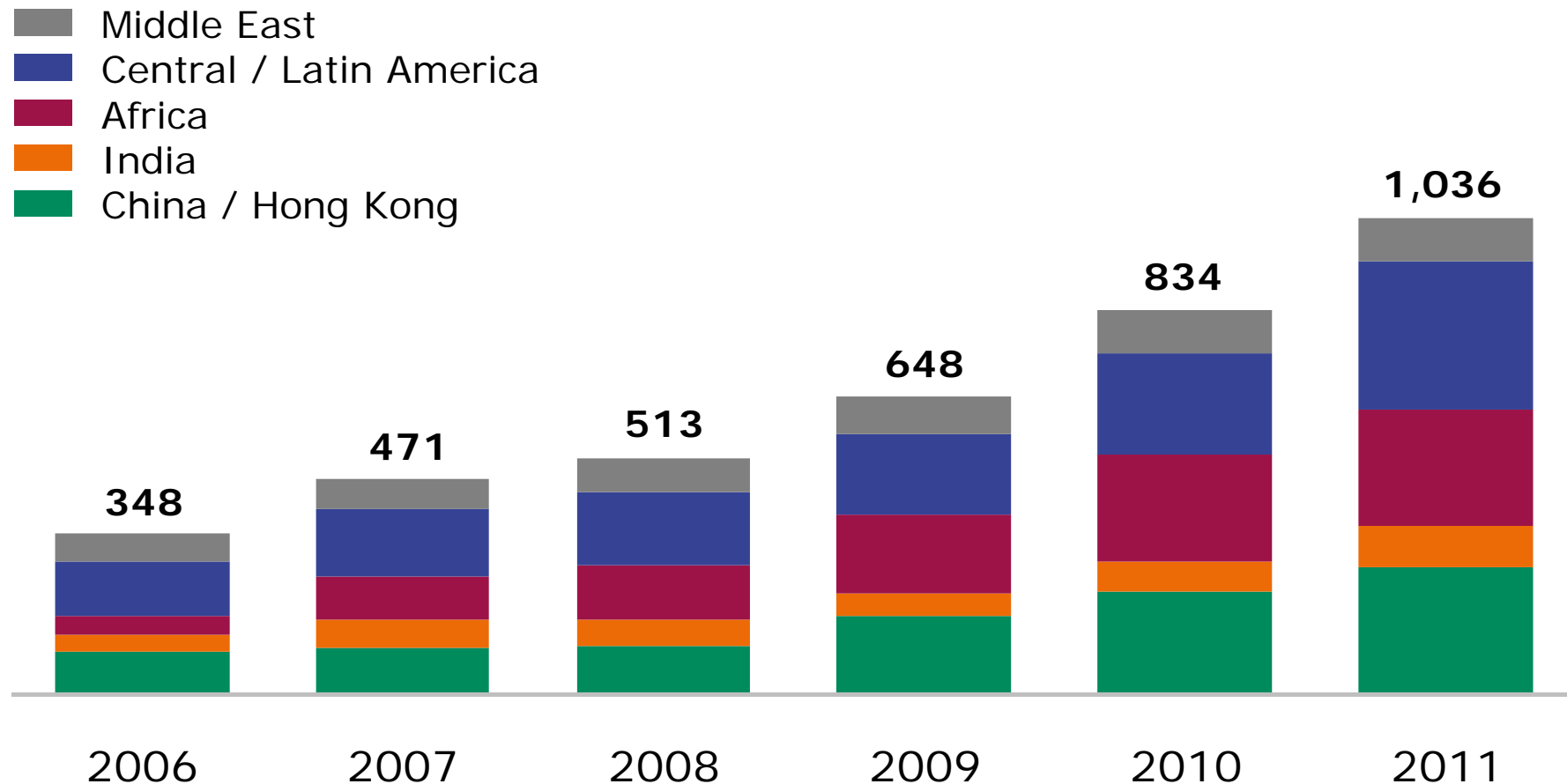


FT.com: digital subscriptions



Rapid growth in developing markets

Pearson revenues, \$m

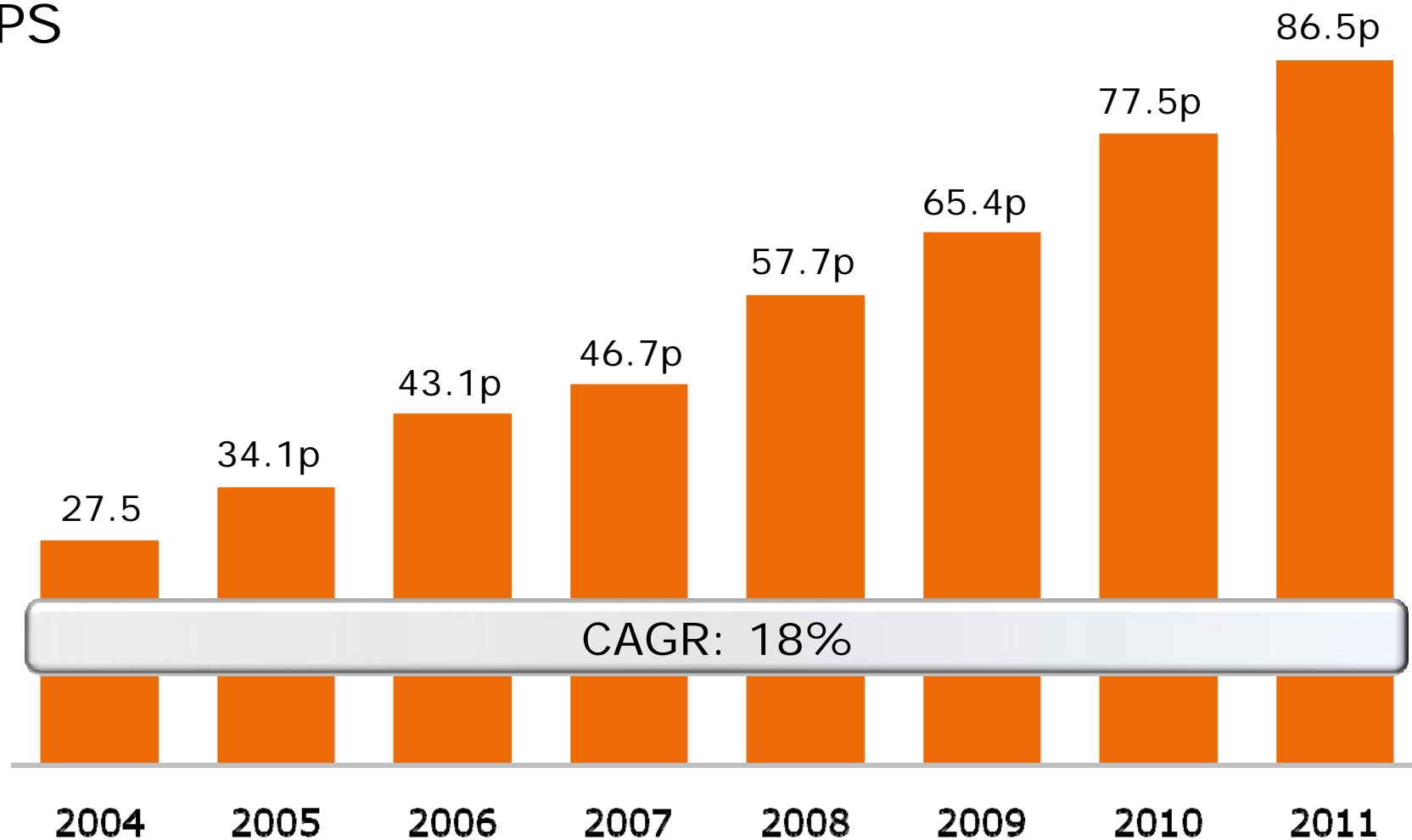


Pearson in developing markets

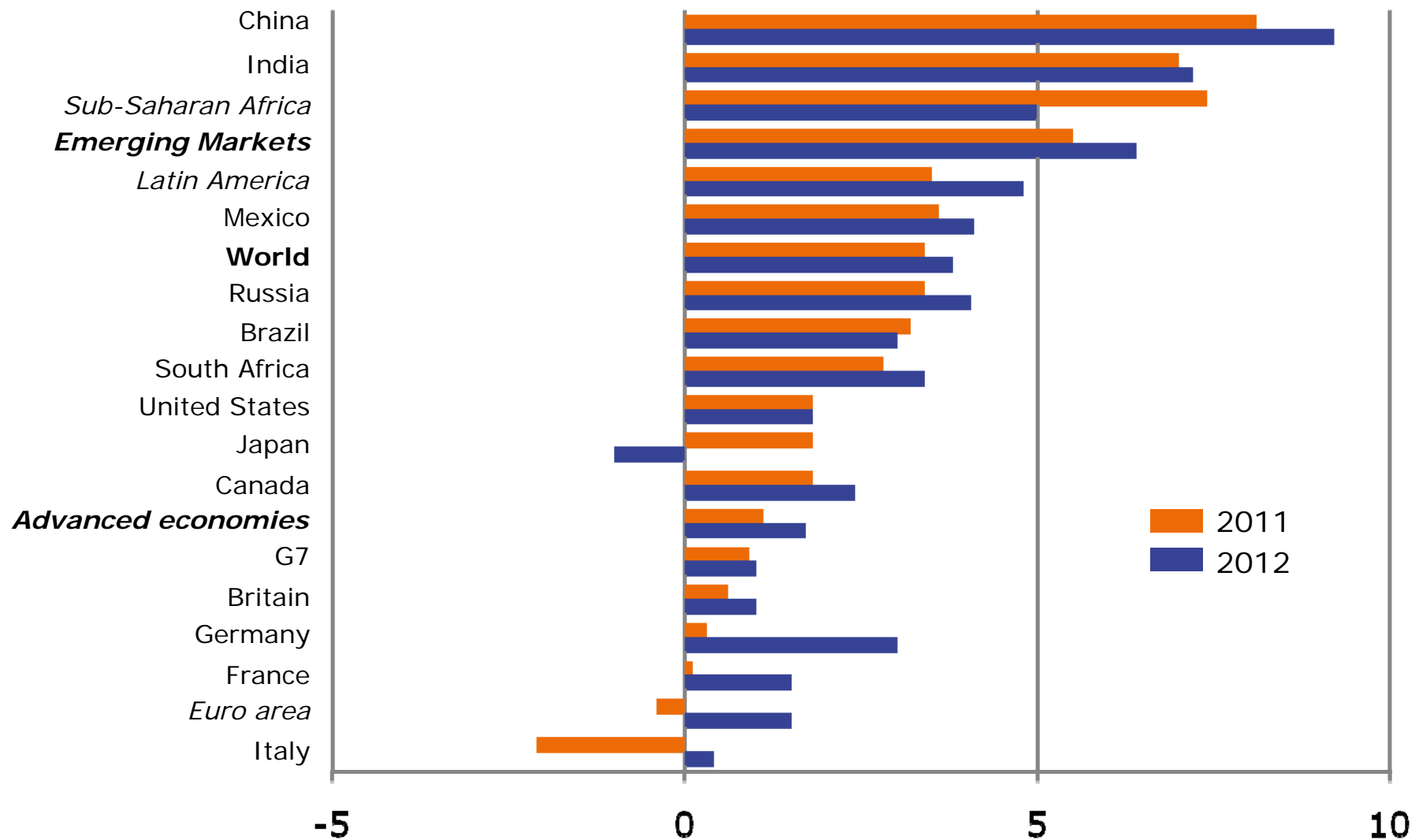


Employee numbers: 2011 average, full-time equivalents

Durability and growth EPS



GDP, % change on previous year



Source: IMF, The Economist





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IMF's influence: ECB's role in financing

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The Economist

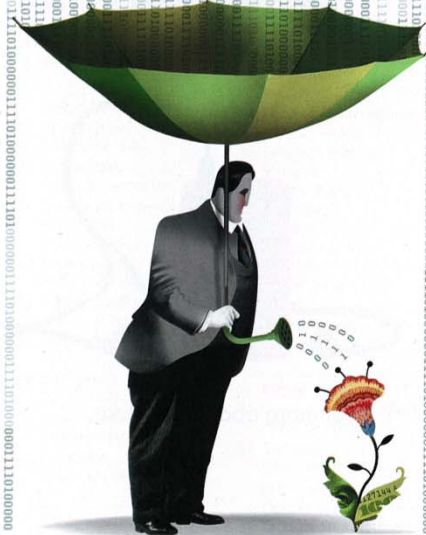
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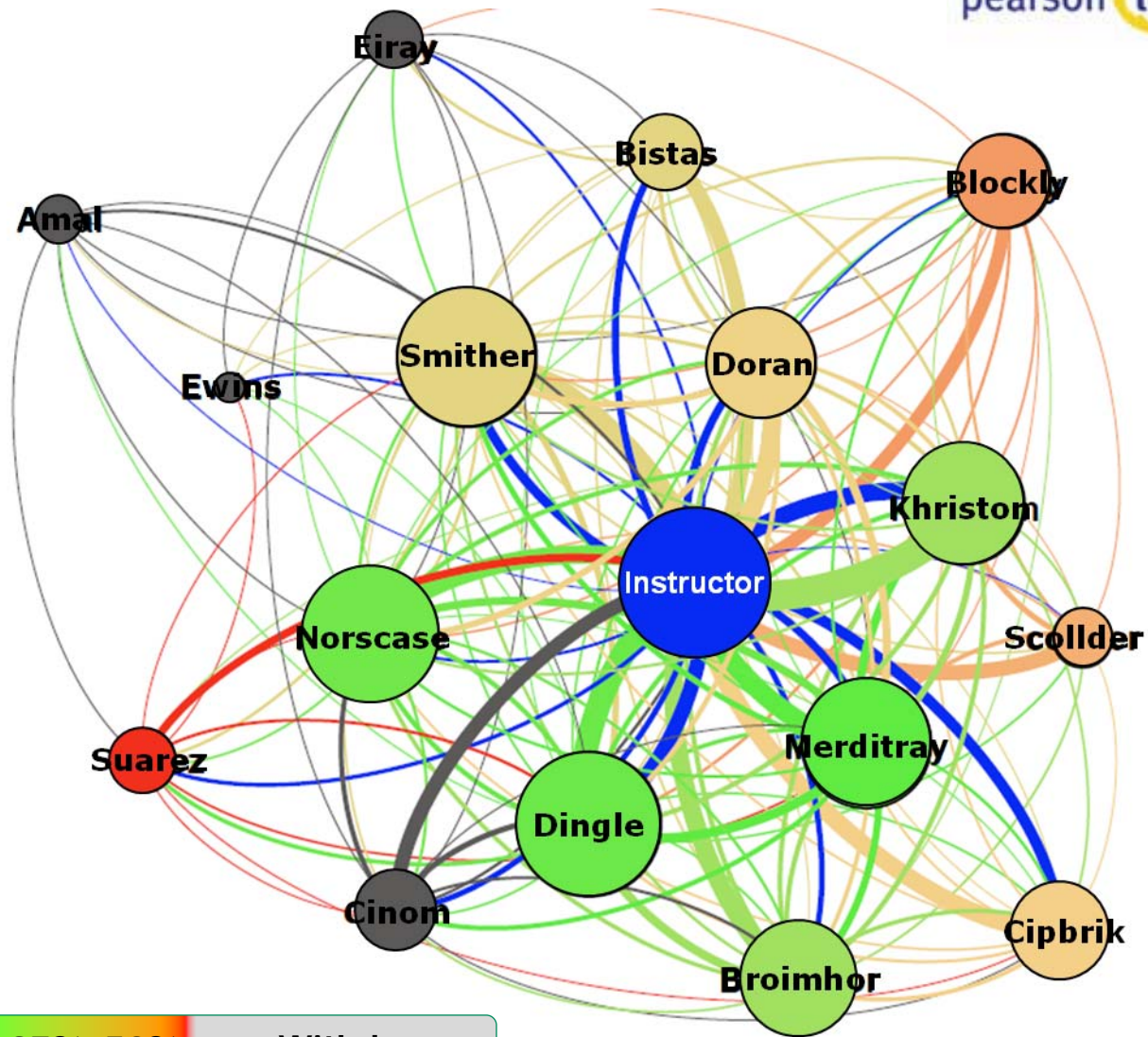
Economist.com

Obama the warrior
Misgoverning Argentina
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The right to eat cats and dogs

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Color key: 97%-52% Withdrawn

(User Suarez @ 13%)

* Numbers displayed represent average percent correct of section in tests

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68.3 %

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Solis, Donte

Score: 92%
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Williams, Tyler

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Flores, Randin

Score: 83%
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Hunter, Jayson

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Bell, Max

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Johnson, Zachary

Score: 79%
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Murphy, Morgan

Score: 79%
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Bennet, Danielle

Score: 75%
18/24

Burkhart, Keith

Score: 75%
18/24

Gleeson, Carol

Score: 75%
18/24

Ross, Jennifer

Score: 75%
18/24

Avalos, Cameron

Score: 71%
17/24

Couzens, Jason

Score: 71%
17/24

Young, Gerald

Score: 71%
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Antone, Johnny

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16/24

Medina, Citlali

Score: 67%
16/24

McBee, Marilyn

Score: 63%
15/24

Rohr, Shawntay

Score: 54%
13/24

Guilen, Kathleen

Score: 50%
12/24

Isaac, Eryn

Score: 50%
12/24

Bryce, Jaylin

Score: 46%
11/24

Rentera, Demetria

Score: 46%
11/24

Soto, Alexandra

Score: 33%
8/24

Lee, Davon

Score: N/A

Malone, Ashton

Score: N/A

Robledo, Treczer

Score: N/A

Viguri, Trent

Score: N/A

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Efficacy

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What next?

Screens, mostly mobile

Results, rather than products

Education for the poorest, as much as richest

Education for work, inside and outside businesses

Formal and informal learning, making education lifelong

Not just a player, but the leader in emerging markets

ALWAYS
LEARNING

Appendices

Return on invested capital

	Gross invested capital		Net invested capital	
£m	2011	2010	2011	2010
Operating profit	942	938	942	938
Intangible amortisation	-	-	(139)	(113)
Less actual cash tax	(151)	(85)	(151)	(85)
<i>Cash tax rate</i>	16%	9%	16%	9%
Return	791	853	652	740
Average: goodwill	6,212	6,071	4,785	4,594
other intangibles	1,472	1,270	894	768
Pre-publication investments	635	665	635	665
Tangible fixed and working capital	412	309	412	309
Average total invested capital	8,731	8,315	6,726	6,336
ROIC	9.1%	10.3%	9.7%	11.7%

Reconciliation: statutory to adjusted earnings

2010

£m	Statutory	Discontinued operations	Other net gains and losses	Acquisition costs	Amortisation of acquired intangibles	Other net finance costs/ income	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

2011

£m	Statutory	Acquisition costs	Other net gains and losses	Amortisation of acquired intangibles	Other net finance income / costs	Tax amortisation benefit	Adjusted earnings
Operating profit	1,226	12	(435)	139	-	-	942
Net finance costs	(71)	-	-	-	19	-	(52)
Profit before tax	1,155	12	(435)	139	19	-	890
Income tax	(199)	(4)	19	(44)	(5)	34	(199)
Profit after tax	956	8	(416)	95	14	34	691
Discontinued operations	-	-	-	-	-	-	-
Profit for the period	956	8	(416)	95	14	34	691
Minority interest	1	-	-	-	-	-	1
Earnings	957	8	(416)	95	14	34	692

Reconciliation: pre-publication costs

£m	2011	2010
Opening balance	647	650
Exchange	(5)	19
New spend capitalised	331	319
Acquisitions (net)	8	9
Amortisation	(331)	(350)
Closing balance	650	647
Total education sales	4,390	4,207
Amortisation as a % of sales	7.5%	8.3%

Reconciliation: year end net debt

£m	2011	2010
Non current assets		
Derivative financial instruments	177	134
Current assets		
Derivative financial instruments	-	6
Marketable securities	9	12
Cash and cash equivalents	1,369	1,736
Non current liabilities		
Borrowings	(1,964)	(1,908)
Derivative financial instruments	(2)	(6)
Current liabilities		
Borrowings	(87)	(404)
Derivative financial instruments	(1)	-
Total net debt	(499)	(430)

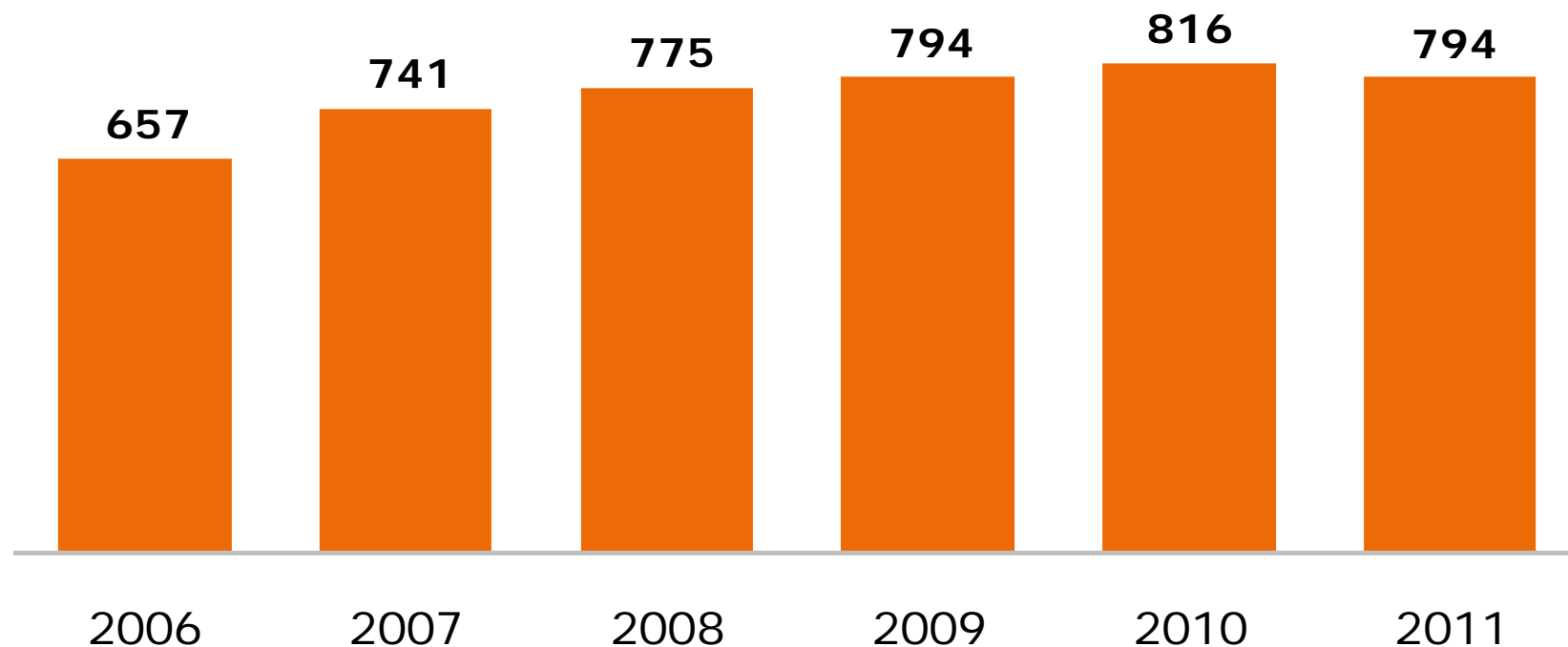
Retirement benefit obligations

£m	2011	2010
Income statement		
Operating charge		
Defined benefit schemes	24	18
Defined contribution schemes	69	68
Post retirement medical benefit schemes	3	2
	96	88
Interest	(3)	12
Total	93	100
Balance sheet		
UK pension scheme liability	25	(5)
Other pension scheme liabilities	(48)	(43)
Post retirement medical benefit liability	(85)	(72)
Other pension accruals	(33)	(28)
Total	(141)	(148)

Total business basis

Sustained organic investment

Pre-publication expenditure & authors' advances \$m



Debt level: credit rating agency view

£m	2011	2010
Net debt	499	430
Lease liabilities (@ 8x)	1,432	1,312
Pension liabilities	141	148
Total	2,072	1,890

Agency calculations of debt vary

Share gains in new school adoptions

2011 estimates

Subject	Total opportunity	Market share (where we compete)	Position
Reading/Lit/Lang arts	\$185m	30%	#1
Maths	\$125m	55%	#1
Science/Health	\$195m	32%	#2
Social Studies	\$25m	35%	#1
Other	\$10m	36%	#2
Total competed for	\$540m	37%	#1
Total – all adoptions	\$650m	29%	#2

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