during an annual period. On December 30, 2005, the noon buying rate for sterling was £1.00 = $1.72. On April 28, 2006 the noon buying rate for sterling was £1.00 = $1.82.

| Month | High | Low |
|---|---|---|
| April 2006 | $ 1.82 | $ 1.74 |
| March 2006 | $ 1.76 | $ 1.73 |
| February 2006 | $ 1.78 | $ 1.73 |
| January 2006 | $ 1.79 | $ 1.74 |
| December 2005 | $ 1.77 | $ 1.72 |
| November 2005 | $ 1.78 | $ 1.71 |

| Year Ended December 31 | Average Rate |
|---|---|
| 2005 | $ 1.81 |
| 2004 | $ 1.84 |
| 2003 | $ 1.63 |
| 2002 | $ 1.51 |
| 2001 | $ 1.45 |

**Risk Factors**

*You should carefully consider the risk factors described below, as well as the other information included in this Annual Report. Our business, financial condition or results from operations could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.*

***Our US educational textbook and testing businesses may be adversely affected by changes in state educational funding resulting from either general economic conditions, changes in government educational funding, programmes and legislation (both at the federal and state level), and/or changes in the state procurement process.***

The results of our US educational textbook and testing business depends on the level of US and state educational funding and this funding is a significant influence on our ability to grow.

With the improvement in the US economy state educational expenditure has increased as state tax receipts have increased, reducing or eliminating state budget deficits, thereby minimizing the risk that state educational expenditure is cut or deferred. Federal legislative changes can also affect the funding available for educational expenditure, e.g. the No Child Left Behind Act. These might also include changes in the procurement process for textbooks, learning material and student tests, particularly in the adoptions market. For example, changes in curricula, delays in the timing of the adoptions and changes in the student testing process can all affect these programs and therefore the size of our market in any given year.

There are multiple competing demands for educational funds and there is no guarantee that states will fund new textbooks or testing programs, or that we will win this business.

***Our newspaper businesses may be adversely affected by reductions in advertising revenues and/or circulation either due to weak general economic conditions or competing news information distribution channels, particularly online and digital formats.***

Our newspaper businesses are highly geared and remain dependent on advertising revenue; relatively small changes in revenue, positive or negative, have a disproportionate affect on profitability. We are beginning to see an increase in advertising revenues compared to prior years, however any downturn in corporate and financial advertising spend would negatively impact our results.

Changes in consumer purchasing habits, as readers look to alternative sources and/or providers of information, such as the internet and other digital formats, may change the way we distribute our content. We might see a decline in print circulation in our more mature markets as readership habits change and readers migrate online, although we see further opportunities for growth in our less mature markets outside Europe. If the migration of readers to new digital formats occurs more quickly than we expect, this is likely to affect print advertising spend by our customers, adversely affecting our profitability.

***Our intellectual property and proprietary rights may not be adequately protected under current laws in some jurisdictions and that may adversely affect our results and our ability to grow.***

Our products largely comprise intellectual property delivered through a variety of media, including newspapers, books and the internet. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products.

We cannot be sure that our proprietary rights will not be challenged, invalidated or circumvented. Our intellectual property rights in countries such as the United States and the United Kingdom, which are the jurisdictions with the largest proportions of our operations, are well established. However, we also conduct business in other countries where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. Moreover, despite trademark and copyright protection, third parties may copy, infringe or otherwise profit from our proprietary rights without our authorization.

These unauthorized activities may be more easily facilitated by the internet. The lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights. The loss or diminution in value of these proprietary rights or our intellectual property could have a material adverse effect on our business and financial performance. In that regard, Penguin Group (USA) Inc. and Pearson Education have joined three other major US publishers in a suit brought under the auspices of the Association of American Publishers to challenge Google’s plans to copy the full text of all books ever published without permission from the publishers or the authors. This lawsuit seeks to demarcate the extent to which search engines and other internet operators may rely on the fair-use doctrine to copy content without authorization from the copyright proprietors, and may give publishers more control over on-line users of their intellectual property. If the lawsuit is unsuccessful, publishers and authors may not be able to control copying of their content for purposes of on-line searching, which could have an adverse impact on our business and financial performance.

***The contracting risks associated with our Professional division within Pearson Education are complex and could adversely affect our financial results and growth prospects.***

Our Professional division provides services ranging from call center operations to complete outsourcing of administrative functions. Customers are government agencies and professional organizations, mainly in the USA and the UK, and commercial businesses. These services are provided under contracts with values that vary significantly, from a few million to several hundred million pounds over the term of the contract, which can run from one to ten years in length. The results of our Professional division can be significantly dependent on a small number of large contracts.

As in any long-term contracting business, there are inherent risks associated with the bidding process, operational performance, contract compliance (including penalty clauses), indemnification (if available) and contract re-bidding, which could adversely affect our financial performance and/or reputation. In addition, US government contracts are subject to audit and investigation by the applicable contracting government entity and may otherwise be investigated by the government, and this can result in payment delays and, in certain circumstances, reductions in the amounts received, penalties or other sanctions.

***A control breakdown in our school testing businesses could result in financial loss and reputational damage.***

There are inherent risks associated with our school testing businesses, both in the USA and the UK. A breakdown in our testing and assessment products and processes could lead to a mis-grading of student tests and/or late delivery of test results to students and their schools. In either event we may be subject to legal claims, penalty charges under our contracts, non-renewal of contracts and in the case of our UK testing business, the suspension or withdrawal of our accreditation. It is also possible that such events would result in adverse publicity, which may affect our ability to retain existing contracts and/or obtain new customers.

We have recently experienced adverse publicity as a result of the rescoring of the October 2005 Scholastic Aptitude Test, or SAT, in the USA. We provide answer sheet scanning services for the College Board, which administers the SAT. We rescanned approximately 1.5 million tests taken in October 2005 through January 2006 and, as a result, the College Board reissued higher scores for about 4,400 out of approximately 495,000 tests taken in October. We have also been named along with the College Board as a defendant in a class action lawsuit filed as a result of the revised scores.

***Changes in the Penguin business may restrict our ability to grow and our profitability.***

New distribution channels, e.g. digital format, the internet, used books, combined with the concentration of retailer power pose multiple threats to our traditional consumer publishing models. Penguin's financial performance can also be negatively affected if book return rates increase.

***We operate in a highly competitive environment that is subject to rapid change and we must continue to invest and adapt to remain competitive.***

Our education, business information and book publishing businesses operate in highly competitive markets. These markets constantly change in response to competition, technological innovations and other factors. To remain competitive we continue to invest in our authors, products and services. There is no guarantee that these investments will generate the anticipated returns or protect us from being placed at a competitive disadvantage with respect to scale, resources and our ability to develop and exploit opportunities. Specific competitive threats we face at present include:

- Students seeking cheaper sources of content, e.g. on-line, used books or imported textbooks. To counter this trend we introduced our own on-line format (called SafariX) and are providing students with a greater choice and customization of our products.
- Competition from major publishers and other educational material and service providers in our US educational textbook and testing businesses.
- Penguin — Authors' advances in consumer publishing. We compete with other publishing businesses for the rights to author manuscripts. In certain instances author advances can be bid up to a level at which we cannot generate a sufficient return on our investment.

***We operate in markets which are dependent on Information Technology systems and technological change.***

All our businesses, to a greater or lesser extent, are dependent on technology. We either provide software and/or internet services or we use complex information technology systems and products to support our business activities, particularly in business information publishing, back-office processing and infrastructure.

We face several technological risks associated with software product development and service delivery in our educational businesses, information technology security (including virus and hacker attacks), e-commerce, enterprise resource planning system implementations and upgrades and business continuity in the event of a disaster at a key data center.

***Our reported earnings may be adversely affected by changes in our pension costs and funding requirements due to poor investment returns and/or changes in pension regulations.***

We operate a number of pension schemes throughout the world, the principal ones being in the UK and US. The major schemes are self-administered with the schemes' assets held independently of the Group. Regular valuations, conducted by independent qualified actuaries, are used to determine pension costs and funding requirements.

It is our policy to ensure that each pension scheme is adequately funded to meet its ongoing and future liabilities. Our earnings may be adversely affected by lower investment returns due to a general deterioration in equity or bond markets, requiring increased company funding of these schemes to eliminate any deficits over time. Similarly, changes in pension regulations, including accounting rules, may affect our pension costs and funding status.

***Sarbanes-Oxley (SOX) 404 Compliance cost***

Beginning with our 2006 fiscal year, we will be required to comply with section 404 of SOX relating to internal control over financial reporting. Our SOX 404 implementation project commenced in 2003 and we believe we are on track to be compliant. However, the cost of complying with SOX 404 may reduce our earnings.