finance income relating to post-retirement plans was an income of £10m compared to an income of £4m in the previous year.

Other net finance income relating to foreign exchange and short-term fluctuations in the market value of financial instruments included a net foreign exchange loss of £17m in 2007 compared to a gain of £19m in 2006. In 2007 the loss mainly related to losses on Euro denominated debt used to hedge the receipt of proceeds from the sale of Les Echos. In 2006 the exchange gains mainly relate to the unhedged exposure on Euro borrowings and swaps that could not be designated as a net investment under IAS 39. For a more detailed discussion of our borrowings and interest expenses see "— Liquidity and Capital Resources — Capital Resources" and "— Borrowings" below and "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

Taxation

The total tax charge in 2007 of £131m represents 28% of pre-tax profits compared to a charge of just £4m or less than 1% of pre-tax profits in 2006. The low tax rate in 2006 was mainly accounted for by two factors. First, in anticipation of the disposal of Government Solutions, we recognized a deferred tax asset in relation to capital losses in the US where previously we were not confident that the benefit of the losses would be realized prior to their expiry. Second, in the light of our trading performance in 2006 and our strategic plans, together with the expected utilization of US net operating losses in the Government Solutions sale, we re-evaluated the likely utilization of operating losses both in the US and the UK; this enabled us to increase the amount of the deferred tax asset carried forward in respect of such losses. The combined effect of these two factors was to create a non-recurring credit of £127m in 2006 which was not repeated in 2007.

Minority interests

This comprises mainly the minority share in Interactive Data. Our share of Interactive Data remained at 62% throughout 2007, leaving the minority interest unchanged at 38%.

Discontinued operations

Discontinued operations relate to the disposal of Government Solutions (in February 2007), Les Echos (in December 2007), Datamark (in July 2007) and the Data Management (Scanners) business (in February 2008). The results of Government Solutions and Les Echos have been included in discontinued operations for 2007 and 2006 and have been consolidated up to the date of sale. Operating profit for Government Solutions in 2007 was £2m compared to £22m in 2006 and the loss on disposal after tax recorded in 2007 was £112m after a tax charge of £93m. Les Echos' operating profit in 2007 amounted to £1m compared to £5m in 2006 and the profit on sale recorded in 2007 was £165m. There was no tax payable on the Les Echos sale. Datamark was bought with the eCollege acquisition and immediately sold. The only profit or loss recognized relating to Datamark was a £7m tax benefit arising from the loss on sale. The Data Management business was held throughout 2006 and 2007 and the operating profit before impairment charges in 2007 was £12m compared to £13m in 2006. The Data Management business was formerly part of the Group's Other Assessment and Testing cash-generating unit (CGU) and was carved out of this CGU in preparation for disposal. As a result, the Group has recognized a goodwill impairment charge of £97m in 2007 in anticipation of the loss on disposal.

Profit for the year

The total profit for the financial year in 2007 was £310m compared to a profit in 2006 of £469m. The overall decrease of £159m was mainly due to the absence of the non-recurring tax credit of £127m recorded in 2006, the decrease in contribution from discontinued businesses of £52m and the increase in net finance costs of £32m, largely due to exchange losses. These items more than offset the increase in operating profit in 2007.

Earnings per ordinary share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 35.6p in 2007 compared to 55.9p in 2006 based on a weighted average number of shares in issue of 796.8m in 2007 and 798.4m in 2006. The decrease in earnings per share was due to the decrease in profit for 2007 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 35.6p in 2007 and 55.8p in 2006 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

Exchange rate fluctuations

The weakening of the US dollar against sterling on an average basis had a negative impact on reported sales and profits in 2007 compared to 2006. 2007 sales, translated at 2006 average exchange rates, would have been higher by £223m and operating profit, translated at 2006 average exchange rates, would have been higher by £34m. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk” for a discussion regarding our management of exchange rate risks.

Sales and operating profit by division

The following tables summarize our sales and operating profit for each of Pearson’s divisions. Adjusted operating profit is a non-statutory measure and is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments. See also note 2 of “Item 18. Financial Statements”.

In our adjusted operating profit we have excluded amortization and adjustment of acquired intangibles, other gains and losses and other net finance costs of associates. The amortization and adjustment of acquired intangibles is the amortization or subsequent adjustment of intangible assets acquired through business combinations. The charge is not considered to be fully reflective of the underlying performance of the Group. Other gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations but which distort the performance for the year.

Adjusted operating profit enables management to more easily track the underlying operational performance of the Group. A reconciliation of operating profit to adjusted operating profit for continuing operations is included in the tables below:

	Year Ended December 31, 2007						
£m	School	Higher Education	Professional	FT Publishing	Interactive Data	Penguin	Total
Sales	1,537	793	298	344	344	846	4,162
	37%	*19%*	*7%*	*8%*	*8%*	*21%*	*100%*
Total operating profit	175	159	27	50	90	73	574
	30%	*28%*	*4%*	*9%*	*16%*	*13%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	28	2	1	6	7	1	45
Adjusted operating profit: continuing operations	203	161	28	56	97	74	619
Adjusted operating profit: discontinued operations	—	—	14	1	—	—	15
Total adjusted operating profit	203	161	42	57	97	74	634
	32%	*25%*	*7%*	*9%*	*15%*	*12%*	*100%*

£m	Year Ended December 31, 2006 School	Higher Education	Professional	FT Publishing	Interactive Data	Penguin	Total
Sales	1,455	795	280	280	332	848	3,990
	36%	*20%*	*7%*	*7%*	*8%*	*22%*	*100%*
Total operating profit	167	161	24	30	82	58	522
	32%	*31%*	*4%*	*6%*	*16%*	*11%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	17	—	1	2	7	8	35
Other net gains and losses including associates	—	—	—	(4)	—	—	(4)
Other net finance costs of associates	—	—	—	(1)	—	—	(1)
Adjusted operating profit: continuing operations	184	161	25	27	89	66	552
Adjusted operating profit: discontinued operations	—	—	35	5	—	—	40
Total adjusted operating profit	184	161	60	32	89	66	592
	31%	*27%*	*10%*	*6%*	*15%*	*11%*	*100%*

School

School business sales increased by £82m, or 6%, to £1,537m in 2007, from £1,455m in 2006 and adjusted operating profit increased by £19m, or 10%, to £203m in 2007 from £184m in 2006. In addition to strong underlying growth in sales and profits, the School results in 2006 benefited from a full year contribution from the acquisitions of National Evaluation Systems (NES), Paravia Bruno Mondadori (PBM), Chancery and PowerSchool in 2006 together with a contribution in 2007 from the acquisition of Harcourt International. Offsetting these factors was the effect of the weakening of the US dollar, which we estimate reduced sales by £91m when compared to the equivalent figures at constant 2006 exchange rates.

In the US school market, Pearson's school publishing revenues grew 3.5% against the Association of American Publishers' estimate of an increase for the industry of 2.7%. New adoption market share was 31% in the adoptions where Pearson competed (and 30% of the total new adoption market). The School business now has the number one or number two market share in reading, math, science and social studies. US School testing sales were up in double digits after high single digit growth in 2006 and growth in excess of 20% in 2005. School testing benefited from further contract wins, market share gains and strength in online assessment.

The international School business, outside the US, continued to grow with strong performances from the publishing businesses in South Africa and Australia. In Italy, the integration of PBM was completed and produced integration savings, margin improvement and market share gains in 2007. In School publishing, the acquisition of Harcourt International increased scale in our international education businesses bringing leading content for school and vocational customers in many markets including the UK, South Africa, Australia and New Zealand. The international testing business was again able to benefit from technology leadership. In the UK, we marked 9.6 million GCSE, AS and A-Level scripts, 4.6 million of which were on screen. Successful global English Language Teaching franchises in all major market franchises (primary, secondary, adult, business and exam preparation) drove strong growth. *English Adventure*, developed with Disney, grew successfully and has sold more than six million units in less than three years since launch.

School margins improved again in 2007, increasing from 12.6% to 13.2% due to improved gross margins, savings from integration of acquired businesses and efficiency gains from the use of software platforms.

Higher Education

Sales in Higher Education decreased slightly by £2m to £793m in 2007, from £795m in 2006. Adjusted operating profit remained flat at £161m. Both sales and adjusted operating profit were affected by the weakening of the US dollar which we estimate reduced sales by £57m and profits by £12m when compared to the equivalent figures at constant 2006 exchange rates.

In the US, the Higher Education sales were up by 6% (in US dollars) ahead of the Association of American Publishers' estimate of industry growth for the ninth year in succession with rapid growth in online learning and custom publishing. In the US, investment in established and new author franchises, such as Campbell's *Biology*, Kotler's *Marketing Management*, Hubbard's *Economics* and Cicarrelli's *Psychology*, continued to underpin the strong performance. The 'MyLab' digital homework and assessment programs were launched in 22 new subject disciplines in 2007, increasing the total number of disciplines covered to 38. These programs support over 2,000 textbooks and were used globally by 2.9 million students in 2007 (up more than 30% on 2006). In corporate finance, one of the largest global markets in business education, Pearson published the successful first edition bestseller, Berk/DeMarzo's *Corporate Finance*, together with MyFinanceLab and Pearson's share of this market increases from 4% to 11% in the US and from 39% to 48% in the UK. It is the most successful launch of a first edition in this discipline in more than a decade and one of Pearson's most successful global launches ever, winning university adoptions in 22 countries. In World History, the first edition of Fernandez-Armesto's *The World: A History* with MyHistoryLab increased Pearson's market share from 25% to 35%. In July 2007, we acquired eCollege which builds on Pearson's position as an education services provider. eCollege works with partner educational institutions to design, build and support online degree, certificate, diploma and professional development programs. Student enrollments increased by 44% in 2007 to 1.9 million. There was continued strong double digit growth in our custom solutions business which builds customized textbooks and online services and has become a leader in the creation of courseware and curricula for e-learning institutions.

International Higher Education publishing sales grew by 2%, benefiting from organic and acquisition investment. Particular areas of strength included local language editions of our major authors and custom publishing including the successful launch of "local language" science publishing in Germany. The "MyLab" and "Mastering" technology platforms are being successfully adapted for international markets and the MyLab programs are now being used in almost 50 countries with almost 160,000 student registrations for online courses in Europe, the Middle East and Africa.

Higher Education margins remained constant year on year at 20.3% with a slight reduction in US margins being compensated by improvement in international margins.

Professional

After excluding sales and adjusted operating profit from Government Solutions and the Data Management businesses (reported as discontinued), Professional sales increased by £18m, or 6%, to £298m in 2007 from £280m in 2006. Adjusted operating profit increased by £3m or 12% to £28m in 2007, from £25m in 2006. Sales were affected by the weakening US dollar, which reduced sales by £16m when compared to the equivalent figures at constant 2006 exchange rates.

Professional Testing sales were up by 10% in 2007. Approximately 5.8 million secure online tests were delivered in more than 5,000 test centers across the world in 2007. There was strong margin improvement as test volumes rose, driven by higher demand from existing customers such as GMAC (for business school applicants), NCLEX (for nurses) and the DSA/DVTA driving theory test. Additional contributions from new contracts included the American Board of Internal Medicine and the National Association Boards of Pharmacy. There were also strong renewals, including the Institute of Financial Services and the American Registry of Radiological Technologists.

Technology Publishing achieved good sales growth and significantly improved profitability, benefiting from a focused and refreshed front list, a favorable software release schedule and Safari Books Online, our electronic publishing platform (a joint venture with O'Reilly Media). Scott Kelby, a Peachpit author, is the top-selling US computer book author for the fourth consecutive year with titles including *The iPod Book; The Digital Photography Book;* and *The Adobe Photoshop Lightroom Book for Digital Photographers*. Good growth in Europe was helped by publishing for the new Windows Vista launch, a new partnership with Microsoft Press in the Netherlands and a successful move into digital publishing and training in Germany. Our business imprints Wharton School Publishing and FTPress, aided by Pearson's global distribution and strong retail relationships, had a successful year. Wharton School Publishing was recognized by the Amazon.com Best Business Books of 2007 with *We Are Smarter Than Me: How to Unleash the Power of Crowds in Your Business*, by Barry Libert and Jon Spector, and *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose*, by Rajendra S. Sisodia, David B. Wolfe and Jaqdish N. Sheth.

Overall margins in the Professional business were higher at 9.4% in 2007 compared to 8.9% in 2006 as margins continued to improve in both the testing and professional publishing businesses.

FT Publishing

Sales at FT Publishing increased by £64m or 23%, from £280m in 2006 to £344m in 2007. Adjusted operating profit from continuing operations increased by £29m, from £27m in 2006 to £56m in 2007. The sales and profit increase benefits from a full year contribution from Mergermarket, acquired in the second half of 2006.

After excluding additional sales from a full year of ownership of Mergermarket, FT Publishing sales were up by 12% with advertising revenues up by 10%. FT newspaper circulation was up 2% to almost 440,000 (for the July-December 2007 Audit Bureau of Circulation, or ABC, measuring period), with a 19% increase in subscriptions. Digital subscribers to the FT were up 13% to 101,000 and monthly unique users were up 30% to 5.7 million. Monthly page views were up 33% to 48.2 million. FT.com attracted 150,000 new registered users since the launch of its innovative new access model in October 2007. There was a strong trading performance at FT Business as integration with the FT Newspaper helped to generate additional revenue and reduce costs. Mergermarket experienced rapid revenue growth with 90%+ subscription renewal rates and a series of new product launches around the world including *Pharmawire*, *Debtwire* in Asia Pacific and *dealReporter* in emerging markets in Europe, Middle East and Africa.

The Economist, in which Pearson owns a 50% stake, increased its circulation by 9% to 1.3 million (for the July-December 2007 ABC period). FTSE, in which Pearson also owns a 50% stake, achieved double digit sales growth, benefiting from a strong new business performance, a joint venture with Xinhua Finance in China and strong growth in Exchange Traded Fund (ETF) licenses.

Small acquisitions of complementary subscription-based and digital businesses made their first contribution to FT Publishing's results including: Infinata, a provider of research and business information to life science and financial services companies; and Exec-Appointments, a well-established global job site that focuses on the high-earning executive sector with approximately 200,000 registered executive users.

Overall margins at FT Publishing continued to increase as the newspaper becomes more profitable and in 2007 were 16.3% compared to 9.6% in 2006.

Interactive Data

Interactive Data, grew its sales by 4% from £332m in 2006 to £344m in 2007. Adjusted operating profit grew by 9% from £89m in 2006 to £97m in 2007. Interactive Data margins increased from 26.8% in 2006 to 28.2% in 2007. Both sales and adjusted operating profit were affected by the weakening US dollar, which we estimate reduced sales by £20m and adjusted operating profit by £6m when compared to the equivalent figures at constant 2006 exchange rates.

Sales growth at Interactive Data was driven primarily by strong sales to both existing and new institutional customers and a renewal rate of approximately 95% within the Institutional Services business. The business continued to focus on high value services and the Pricing and Reference Data business continued to generate good growth in North America and Europe. The business continues to broaden its coverage of complex securities by expanding its universe of European asset-backed and mortgage-backed securities. The business also launched a new web-based offering, the Basket Calculation Service, designed to provide clients with the indicative optimized portfolio value for equity and fixed income exchange traded funds. The Real-Time Services business achieved strong growth with new institutional sales in its two core product areas of real-time data feeds and managed solutions. There was growing adoption of the PlusFeed data service for algorithmic trading applications, a successful introduction of DirectPlus, a new ultra low latency direct exchange data service and excellent sales momentum for managed solutions in North America with new customers including media companies, online brokerages, stock exchanges and financial institutions. Fixed Income Analytics completed 30 new BondEdge® installations during the year and made good progress in the development of its next-generation BondEdge® platform. In the Active Trader Services business, eSignal experienced modest expansion of its direct subscriber base, delivered numerous innovations across its suite of Active Trader Services, and added new content and capabilities on its financial websites.

The Penguin Group

Penguin Group sales decreased slightly to £846m in 2007 from £848m in 2006 and adjusted operating profit up 12% to £74m in 2007 from £66m in 2006. Both sales and adjusted operating profit were affected by the weakening US dollar which we estimate reduced sales by £37m and adjusted operating profit by £4m when compared to the equivalent figures at constant 2006 exchange rates.

Penguin maintained its competitive performance in major markets with a successful global publishing performance led by Alan Greenspan's *The Age of Turbulence*, with almost 1 million hard cover copies shipped worldwide, and Kim Edwards' first novel, *The Memory Keeper's Daughter*, a global #1 bestseller for Penguin in the US, UK, Australia and Canada. It was an outstanding year for bestsellers in the US with titles including Elizabeth Gilbert's *Eat, Pray, Love* (4.4 million copies shipped); Khaled Hosseini's *A Thousand Splendid Suns* (2.2 million); and Ken Follett's *World Without End* (almost 1 million). UK bestsellers included Marian Keyes' *Anybody Out There?*, Jamie Oliver's *Jamie at Home*, Jeremy Clarkson's *Don't Stop Me Now* and Charlie Higson's *Double or Die*. Also in the UK, it was a strong year for the Brands & Licensing division driven by *The Dr Who Annual* (the second bestselling children's book of 2007) and bestselling *In the Night Garden* titles. DK delivered a strong global performance in traditional, custom and digital publishing, benefiting from innovative formats including *The Human Body Book*, personalized travel guides via traveldk.com and the first DK textbooks for higher education markets.

In Australia, sales growth was generated from a publishing schedule including Bryce Courtenay with *The Persimmon Tree* and Dr. Manny Noakes with *CSIRO Total Wellbeing Diet Book 2*. In India, Penguin India celebrated its 20th anniversary in 2007 with continued rapid growth. Penguin authors won all the major English language prizes in India's national book awards: Vikram Chandra in fiction for *Sacred Games*, Vikram Seth in non-fiction for *Two Lives* and Kiran Desai in readers' choice for *The Inheritance of Loss*. In China, Jiang Rong and Howard Goldblatt won the inaugural Man Asian Literary prize for *Wolf Totem*, to be published in English around the world by Penguin in 2008, and in South Africa, another strong year was led by John van de Ruit's *Spud*: *The Madness Continues*.

Penguin continued to focus on efficiency and improvement in operating margins continues to benefit from the Pearson-wide renegotiation of major global paper, print and binding contracts and the integration of warehouse and back office operations in Australia and New Zealand. These efficiencies together with improved gross margins principally from innovation in formats such as the US premium paperback have helped to improve margins from 7.8% in 2006 to 8.7% in 2007.

Year ended December 31, 2006 compared to year ended December 31, 2005

Consolidated results of operations

Sales

Our total sales from continuing operations increased by £328m, or 9%, to £3,990m in 2006, from £3,662m in 2005. The increase reflected growth across all the businesses together with additional contributions from acquisitions made in both 2005 and 2006. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2006 sales, translated at 2005 average exchange rates, would have been £4,033m.

Pearson Education had another strong year with an increase in sales of 9%. The School business was the biggest contributor to this growth with an increase of 12%. Some of the School increase was due to the contribution from acquisitions made in 2006 and 2005 but we estimate that after excluding these acquisitions and restating at constant exchange rates that the growth would have been 6%. US School publishing sales were up 3% compared to an industry decline of 6% (source: Association of American Publishers) and the business took a leading share of the new US adoption market. School testing sales continued to improve even after growth in US school testing revenues of more than 20% in 2005. Higher Education growth was more modest at 2% in total but was up 4% in the US. Pearson’s US Higher Education business has grown faster than the industry for eight straight years. In the Professional business, Professional testing sales were up by more than 30% in 2006 following the successful start up of new contracts and a contribution from the newly acquired Promissor business. Professional publishing sales declined again in 2006 due to the continued industry-wide weakness in technology-related publishing.

The FT Group sales were 12% ahead of 2005. FT Publishing sales were up by 12% driven by higher advertising revenues at the *Financial Times* particularly in the online, luxury goods and corporate finance categories. Interactive Data sales were up by 12% with consistent organic growth and aided by contributions from the acquisition of IS.Teledata (re-branded Interactive Data Managed Solutions) and Quote.com.

Penguin’s sales grew by 5% with a record number of best sellers in the US and UK, an increase in market share in the UK and continued success with the premium paperback format in the US.

Pearson Education, our largest business sector, accounted for 63% of our continuing business sales in 2006 and 2005. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 65% in both 2006 and 2005.

Cost of goods sold and operating expenses

The following table summarizes our cost of sales and net operating expenses:

	Year Ended December 31	
	2006 £m	2005 £m
Cost of goods sold	1,841	1,713
Distribution costs	288	281
Administration and other expenses	1,462	1,309
Other operating income	(99)	(84)
Total	1,651	1,506

Cost of goods sold. Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs and royalty charges. Our cost of sales increased by £128m, or 7%, to £1,841m in 2006, from £1,713m in 2005. The increase mainly reflected the increase in sales over the period although the overall gross margin also increased slightly from 53% in 2005 to 54% in 2006.

Distribution costs. Distribution costs consisted primarily of shipping costs, postage and packing and are typically a fairly constant percentage of sales.

Administration and other expenses. Our administration and other expenses increased by £153m, or 12%, to £1,462m in 2006, from £1,309m in 2005. As a percentage of sales they increased to 37% in 2006, from 36% in 2005. The increase in administration and other costs came principally from additional employee benefit expense, additional property costs and increased intangible amortization.

Other operating income. Other operating income mainly consisted of freight recharges, sub-rights and licensing income and distribution commissions. Other operating income increased 18% to £99m in 2006 from £84m in 2005, with the increase mainly due to increased freight recharges.

Other net gains and losses

Profits or losses on the sale of businesses, associates and investments that are included in our continuing operations are reported as “other net gains and losses”. In 2005 the only item in this category was the £40m profit on the sale of our associate interest in MarketWatch. In 2006, there were no similar gains or losses.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased from £14m in 2005 to £24m in 2006. The increase was mainly due to an increase in circulation and revenue at The Economist Group, who also recorded a gain on sale of its investment in Commonwealth Business Media Inc.

Operating profit

The total operating profit increased by £25m, or 5%, to £522m in 2006 from £497m in 2005. This increase was due to increases across all the businesses, after taking account of the one-off gain from the sale of MarketWatch at FT Publishing of £40m in 2005 and a charge of £7m in 2006 at Penguin relating to an adjustment to goodwill following recognition of pre-acquisition tax losses. Operating profit in 2006, translated at 2005 average exchange rates, would have been £7m higher.

Operating profit attributable to Pearson Education increased by £44m, or 14%, to £352m in 2006, from £308m in 2005. The increase was due to continued improvement in School margins, the profit impact of strong sales and cost reductions in technology publishing in Professional testing. Operating profit attributable to the FT Group decreased by £17m, or 13%, to £112m in 2006, from £129m in 2005. This decrease was attributable to the absence in 2006 of the £40m profit from the sale of MarketWatch that was recorded in 2005. After excluding this item profits increased by £23m, £7m at Interactive Data and £16m at FT Publishing. The FT Publishing increase reflected the pick-up in advertising revenues. Operating profit attributable to the Penguin Group decreased by £2m, or 3%, to £58m in 2006, from £60m in 2005. The decrease was attributable to an adjustment to goodwill of £7m caused by the recognition of previously unrecognized tax losses relating to the acquisition of Dorling Kindersley in 2000.

Net finance costs

Net finance costs increased from £70m in 2005 to £74m in 2006. Net interest payable in 2006 was £94m, up from £77m in 2005. Although we were partly protected by our fixed rate policy, the strong rise in average US dollar floating interest rates had an adverse effect. Year on year, average three month LIBOR (weighted for the Group’s borrowings in US dollars, euros and sterling at the year end) rose by 1.5% to 4.9%. Combining the rate rise with an increase in the Group’s average net debt of £40m, the Group’s average net interest rate payable rose by 1.1% to 7.0%. In 2006 the net finance income relating to post-retirement plans was an income of £4m compared to a cost of £7m in the previous year. Other net finance income relating to foreign exchange and short-term fluctuations in the market value of financial instruments remained fairly constant year on year with a £16m gain in 2006 compared to a £14m gain in 2005.

Taxation

The total tax charge in 2006 of £4m represented just under 1% of pre-tax profits compared to a charge of £108m or 25% of pre-tax profits in 2005. The low tax rate in 2006 was mainly accounted for by two factors. First, in the light of the announcement of the disposal of Government Solutions, we were required to recognize a deferred tax asset in relation to capital losses in the US where previously we were not confident that the benefit of the losses would be realized prior to their expiry. Second, in the light of our trading performance in 2006 and our strategic plans, together with the expected utilization of US net operating losses in the Government Solutions sale, we have re-evaluated the likely utilization of operating losses both in the US and the UK; this has enabled us to increase the amount of the deferred tax asset carried forward in respect of such losses. The combined effect of these two factors was to create a non-recurring credit of £127m.

Minority interests

Following the disposal of our 79% holding in Recoletos and the purchase of the remaining 25% minority stake in Edexcel in 2005, our minority interests comprised mainly the minority share in Interactive Data. In January 2006, we increased our stake in Interactive Data reducing the minority interest from 39% to 38%.

Discontinued operations

On 22 February 2008 the Group completed the sale of its Data Management (Scanners) business and this business has been included in discontinued operations for the full year in 2006 and 2005. Operating profit for the Scanners business in 2006 was £13m compared to £15m in 2005.

In December 2007 the Group completed the sale of Groupe Les Echos and the results have been included in discontinued operations for 2006 and 2005. Operating profit for Les Echos in 2006 was £5m compared to £4m in 2005.

In December 2006 the Group announced the sale of its Government contracting business, Pearson Government Solutions. The sale was completed in February 2007 and the results of this business have been shown in discontinued operations in the consolidated income statement in both 2006 and 2005. Operating profit for Government solutions in 2006 was £22m compared to £20m in 2005. Following the disposal of Recoletos in 2005 its results were consolidated for the period up to February 28, 2005 and included in discontinued operations in 2005. The results for 2005 include an operating loss for the two months to February 28, 2005 of £3m. The pre-tax profit on disposal of Recoletos reported in 2005 was £306m.

Profit for the year

The total profit for the financial year in 2006 was £469m compared to a profit in 2005 of £644m. The overall decrease of £175m was to the absence of the profits on disposal of Recoletos and MarketWatch reported in 2005. After taking account of these disposals there was an increase in profit in 2006 due to improvement in operating profits and the sharp reduction in tax due to the recognition of losses in 2006.

Earnings per ordinary share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 55.9p in 2006 compared to 78.2p in 2005 based on a weighted average number of shares in issue of 798.4m in 2006 and 797.9m in 2005. The decrease in earnings per share was due to the additional profit for 2005 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 55.8p in 2006 and 78.1p in 2005 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

Exchange rate fluctuations

The weakening of the US dollar against sterling on an average basis had a negative impact on reported sales and profits in 2006 compared to 2005. Sales in 2006, translated at 2005 average exchange rates, would have been higher by £43m and 2006 operating profit, translated at 2005 average exchange rates, would have been higher by £7m.

Sales and operating profit by division

The following tables summarize our sales and operating profit for each of Pearson's divisions. Adjusted operating profit is a non-statutory measure and is included as it is a key financial measure used by management to evaluate performance and allocate resources to business segments. See also note 2 of "Item 18. Financial Statements".

In our adjusted operating profit we have excluded amortization and adjustment of acquired intangibles, other gains and losses and other net finance costs of associates. The amortization and adjustment of acquired intangibles is the amortization or subsequent adjustment of intangible assets acquired through business combinations. The charge is not considered to be fully reflective of the underlying performance of the Group. Other gains and losses represent profits and losses on the sale of subsidiaries, joint ventures, associates and investments that are included within continuing operations but which distort the performance for the year.

Adjusted operating profit enables management to more easily track the underlying operational performance of the Group. A reconciliation of operating profit to adjusted operating profit for continuing operations is included in the tables below:

£m	Year Ended December 31, 2006						
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Total operating profit	167	161	24	30	82	58	522
	32%	*31%*	*4%*	*6%*	*16%*	*11%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	17	—	1	2	7	8	35
Other net gains and losses including associates	—	—	—	(4)	—	—	(4)
Other net finance costs of associates	—	—	—	(1)	—	—	(1)
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Adjusted operating profit: discontinued operations	—	—	35	5	—	—	40
Total adjusted operating profit	184	161	60	32	89	66	592
	31%	*27%*	*10%*	*6%*	*15%*	*11%*	*100%*

£m	Year Ended December 31, 2005						
	School	Higher Education	Professional	FT Publishing	Interactive Data	Penguin	Total
Sales	1,295	779	238	249	297	804	3,662
	36%	*21%*	*6%*	*7%*	*8%*	*22%*	*100%*
Total operating profit	142	156	10	54	75	60	497
	29%	*31%*	*2%*	*11%*	*15%*	*12%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	5	—	—	1	5	—	11
Other net gains and losses including associates	—	—	—	(40)	—	—	(40)
Other net finance costs of associates	—	—	—	2	—	—	2
Adjusted operating profit: continuing operations	147	156	10	17	80	60	470
Adjusted operating profit: discontinued operations	—	—	35	1	—	—	36
Total adjusted operating profit	147	156	45	18	80	60	506
	29%	*31%*	*9%*	*3%*	*16%*	*12%*	*100%*

School

School business sales increased by £160m, or 12%, to £1,455m in 2006, from £1,295m in 2005 and adjusted operating profit increased by £37m, or 25%, to £184m in 2006 from £147m in 2005. In addition to strong underlying growth in sales and profits, the School results in 2006 benefited from the inclusion of National Evaluation Systems (NES), Paravia Bruno Mondadori (PBM), Chancery and PowerSchool together with a number of smaller acquisitions all made in the first half of 2006 and from a full year contribution from AGS Publishing, acquired in July 2005. Offsetting these factors was the effect of the weakening of the US dollar, which we estimate reduced sales by £17m when compared to the equivalent figures at constant 2005 exchange rates.

In the US school market, Pearson's school publishing revenues grew 3% against the Association of American Publishers' estimate of a decline in the industry of 6%. New adoption market share was 33% in the adoptions where Pearson competed (and 30% of the total new adoption market). The School business now has the number one or number two market share in reading, math, science and social studies. US School testing sales were up in the high single digits even after growth in excess of 20% in 2005. School testing benefited from further contract wins, market share gains and leadership in onscreen marking, online testing and embedded (formative) assessment. The acquisition of NES providing customized assessments for teacher certification in the US has allowed us to expand in an attractive adjacent market. The School technology business grew both through the acquisitions of Chancery and PowerSchool and through organic growth in the digital curriculum business which continued to grow while investing in a new generation of digital products to meet the demands of school districts for personalized classroom learning.

The international School business, outside the US, continued to grow. The international testing business was again able to benefit from technology leadership. In the UK, we have marked over 9 million GCSE, AS and A-Level scripts, 4.6 million of which were marked on screen. In School publishing, the launch in the UK of ActiveTeach technology providing multimedia teaching resources has brought increased market share in math and science. The acquisition of PBM, one of Italy's leading education publishers, has allowed us to expand our existing Italian business and integrate publishing, sales and marketing, distribution and back office operations. Our market leading school companies in Hong Kong and South Africa both outperformed their respective markets in 2006 and our worldwide English Language Training program for elementary schools, *English Adventure* (with Disney), was successfully launched in Asia and Latin America.

School margins improved again in 2006 and were up by 1.2% points to 12.6% with continued efficiency gains in central costs, production, distribution and software development.

Higher Education

Sales in Higher Education increased by £16m, or 2%, to £795m in 2006, from £779m in 2005. Adjusted operating profit increased by £5m, or 3%, to £161m in 2006 from £156m in 2005. Both sales and adjusted operating profit were affected by the weakening of the US dollar which reduced sales by £8m when compared to the equivalent figures at constant 2005 exchange rates.

In the US, the Higher Education sales were up by 4% (in US dollars) ahead of the Association of American Publishers' estimate of industry growth once again. Over the past eight years, Pearson's US Higher Education business has grown at an average annual rate of 7% compared to the industry's average growth rate of 4%. In the US, there was rapid growth in the online learning businesses with approximately 4.5 million US college students using one of our online programs. Of these approximately 2.3 million register for an online course on one of our 'MyLab' online homework and assessment programs, an increase of almost 30% on 2005. In psychology and economics, two of the three largest markets in US higher education, Pearson published successful first edition bestsellers: Cicarrelli's *Psychology* together with MyPsychLab and Hubbard's *Economics* together with MyEconLab. Cicarrelli's *Psychology* increased Pearson's market share in the subject by 3% to 25% and was the bestselling launch of a first edition in the discipline in the past decade. Also in the US, the custom publishing business, which builds customized textbooks and online services around the courses of individual faculties or professors, continued its strong progress with another year of double-digit growth.

International Higher Education publishing sales grew by 3%, benefiting from good growth in local language publishing programs and an increasing focus on custom publishing and technology based assessment services with the MyLab suite of products.

Higher Education margins remained constant year on year with only a small increase of 0.3% points to 20.3% in 2006.

Professional

After excluding sales and adjusted operating profit from Government Solutions and the Data Management businesses which were reported as discontinued, Professional sales increased by £42m, or 18%, to £280m in 2006 from £238m in 2005. Adjusted operating profit from continuing operations increased by £15m to £25m in 2006, from £10m in 2005. Sales were only slightly affected by the weakening US dollar, which we estimate reduced sales by £1m when compared to the equivalent figures at constant 2005 exchange rates.

Professional testing sales were up more than 30% in 2006 benefiting in particular from the acquisition of Promissor and the successful start-up of the Graduate Management Admissions Test with 220,000 examinations delivered in 400 test centers in 96 countries during the first year of the new contract. Professional Testing has moved into profitability in 2006 compared to a break-even position in 2005. Technology publishing profits were up in 2006 as cost actions offset sales weakness in a market that continues to decline. There was a strong performance in other professional publishing with particular successes in the Wharton School Publishing and FTPress imprints.

Overall margins in the Professional business were significantly higher at 8.9% in 2006 compared to 4.2% in 2005 as the testing business moved into profitability and the technology publishing business took specific cost actions.

FT Publishing

After excluding sales and adjusted operating profit from Les Echos which was reported as discontinued, sales at FT Publishing increased by £31m or 12%, from £249m in 2005 to £280m in 2006. Adjusted operating profit from continuing operations increased by £10m, from £17m in 2005 to £27m in 2006. Much of the sales and profit increase was again at the FT newspaper and FT.com where sales were up 8% and profit increased by £9m to £11m.

The FT newspaper advertising revenues were up 9% for the year with rapid growth in online, luxury goods and corporate finance categories, all up more than 30% on 2005. FT worldwide circulation was up 1% to 430,469 copies per day (Source: ABC, average for six months to December 2006). FT.com’s paying subscribers were up 7% to 90,000 while the December audience was up 29% to 4.2 million. The FT continued to benefit from international expansion with approximately three-quarters of the FT’s advertising booked in two or more international editions and almost half booked for all four editions worldwide. The FT’s ‘new newsroom’ has created an integrated multi-media newsroom that improves commissioning, reporting, editing and production efficiency and provided further cost savings in 2006.

In September 2006, the FT Publishing business acquired Mergermarket, an online financial data and intelligence provider that contributed additional sales and profit in the last three months of 2006. FT Business showed good growth and improved margins driven by strong performances in events, UK retail financial titles (*Investment Adviser* and *Financial Adviser*) and internationally with *The Banker. The Economist*, in which Pearson owns a 50% stake, increased its contribution to FT Publishing’s adjusted operating profit with another good year that saw circulation increase by 9% to 1.2 million (for the July-December ABC period).

Overall margins at FT Publishing continued to increase as the newspaper became more profitable and were 9.6% compared to 6.8% in 2005.

Interactive Data

Interactive Data, grew its sales by 12% from £297m in 2005 to £332m in 2006. Adjusted operating profit grew by 11% from £80m in 2005 to £89m in 2006. Both sales and adjusted operating profit were affected by the weakening US dollar, which reduced sales by £4m and adjusted operating profit by £1m when compared to the equivalent figures at constant 2005 exchange rates.

Interactive Data Pricing and Reference Data (formerly FT Interactive Data), Interactive Data’s largest business (approximately two-thirds of Interactive Data revenues) generated strong growth in North America and Europe. Growth was driven by sustained demand for fixed income evaluated pricing services and related reference data. Interactive Data Pricing and Reference Data continued to expand its market coverage, adding independent valuations of credit default swaps and other derivative securities. There was improved momentum at Interactive

Data Real-Time Services (formerly Comstock) with new sales to institutional clients and lower cancellation rates and also at eSignal with continued growth in its base of direct subscription terminals. The acquisition of Quote.com in March 2006 has expanded eSignal's suite of real-time market data platforms and analytics and added two financial websites which enabled eSignal to generate strong growth through online advertising in 2006. IS.Teledata, acquired at the end of 2005 and rebranded Interactive Data Managed Solutions, contributed a full year of sales and profit for the first time in 2006.

Interactive Data margins remained roughly constant year on year at 26.8% in 2006 compared to 26.9% in 2005.

The Penguin Group

Penguin Group sales were up 5% to £848m in 2006 from £804m in 2005 and adjusted operating profit up 10% to £66m in 2006 from £60m in 2005. Both sales and adjusted operating profit were affected by the weakening US dollar which reduced sales by £13m and adjusted operating profit by £7m when compared to the equivalent figures at constant 2005 exchange rates.

2006 was a record year for Penguin in terms of literary success and bestseller performance. In the US, Penguin placed 139 books on the *New York Times* bestseller list, 10 more than in 2005, and kept them there for 809 weeks overall, up 119 weeks from 2005. Penguin UK placed 59 titles in the BookScan Top Ten bestseller list, up by 5 from 2005, and kept them there for 361 weeks, up 42 weeks from 2005.

Penguin authors won a large number of prestigious awards during 2006: a Pulitzer Prize for Fiction (*March* by Geraldine Brooks); a National Book Critics Circle Award (*THEM: A Memoir of Parents* by Francine du Plessix Gray); the Michael L. Printz award (*Looking for Alaska* by John Green); the Orange Prize for Fiction (*On Beauty* by Zadie Smith); and the Man Booker Prize (*The Inheritance of Loss* by Kiran Desai).

Penguin UK's focus on fiction in 2006 was rewarded with a substantial increase in market share, led by Marina Lewycka's *A Short History of Tractors in Ukrainian.* In the US, the premium paperback format accelerated revenue growth and increased profitability in the important mass-market category. In India, Penguin continued its rapid growth and extended its market leadership and there was also strong growth and increased market share for Penguin in South Africa. 2006 also saw strong growth in online revenues and unique visitors to the Penguin and DK websites.

Penguin continued to focus on efficiency and improvement in operating margins and has benefited from the Pearson-wide renegotiation of major global paper, print and binding contracts, the integration of warehouse and back office operations in Australia and New Zealand and is investing in India as a pre-production and design center for reference titles.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations increased by £38m (or 6%), to £659m in 2007 from £621m in 2006, even after a one-off special contribution of £100m to our UK pension fund (over and beyond the normal funding requirement). This increase reflected stronger cash contributions from all businesses, together with further improvements in working capital management. In 2007, the average working capital to sales ratio for our book publishing businesses improved to 25.6% from 26.3% in 2006. Average working capital is the average month end balance in the year of inventory (including pre-publication), receivables and payables. In 2006, the net cash generated from operations decreased by £32m, or 5%, to £621m, from £653m in 2005. This reduction was entirely due to the weakening of the US dollar compared to sterling. The majority of the Group's cash flows arise in US dollars, so any weakening of the US dollar reduces the Group's cash flows in sterling terms. The closing rate for translation of dollar cash flows was $1.99 in 2007, $1.96 in 2006 ($1.72 in 2005). Underlying working capital efficiency continued to improve. On an average basis, the working capital to sales ratio for our book publishing businesses improved from 27.4% in 2005 to 26.3% in 2006.

Net interest paid was £90m in 2007 compared to £82m in 2006 and £72m in 2005. The 10% increase in 2007 over 2006 was primarily due to higher average interest rates in the UK and US. The 14% increase in 2006 over 2005 reflected the higher average debt resulting from the acquisitions made in the year and higher interest rates (particularly in the US).

Capital expenditure on property, plant and equipment was £86m in 2007 compared to £68m in 2006 and £76m in 2005. The increase in 2007 over 2006 reflects investment to update infrastructure, particularly at Penguin and FT Group. The reduction in 2006 compared to 2005 was due to the movement in US dollar exchange rates.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £476m in 2007 against £367m in 2006 and £253m in 2005. The principal acquisitions in 2007 were Harcourt Education International for £155m and eCollege for £266m. In 2006, the principal acquisition was of Mergermarket for £109m. The balance related to various smaller bolt-on acquisitions (primarily in the school segment) including those of National Evaluation Systems and Paravia Bruno Mondadori. The principal acquisitions in 2005 were of AGS for £161m within the School business and IS. Teledata for £29m by Interactive Data.

The sale of subsidiaries and associates produced a cash inflow of £469m in 2007 against £10m in 2006 and £430m in 2005. The principal disposals in 2007 were of Government Solutions for £278m and Les Echos for £156m. The disposal in 2006 relates entirely to the proceeds from the take-up of share options issued to minority shareholders. The principal disposals in 2005 were of Recoletos for net cash proceeds of £371m and MarketWatch for net cash proceeds of £54m.

The cash outflow from financing activities of £444m in 2007 represented the higher Group dividend (as the Group sought to match dividend growth more closely with earnings growth) and the repayment of one €591m bond, offset in part by drawings on the Group’s revolving credit facility. The cash outflow from financing of £348m in 2006 primarily reflects the payment of the Group dividend (at a higher dividend per share than 2005) and the repayment of a $250m bond at its maturity date. The cash outflow from financing of £321m in 2005 reflects the improved Group dividend (compared to 2004) and the repayment of bank borrowings following the sale of Recoletos.

Capital resources

Our borrowings fluctuate by season due to the effect of the school year on the working capital requirements in the educational materials business. Assuming no acquisitions or disposals, our maximum level of net debt normally occurs in July, and our minimum level of net debt normally occurs in December. Based on a review of historical trends in working capital requirements and of forecast monthly balance sheets for the next 12 months, we believe that we have sufficient funds available for the Group’s present requirements, with an appropriate level of headroom given our portfolio of businesses and current plans. Our ability to expand and grow our business in accordance with current plans and to meet long-term capital requirements beyond this 12-month period will depend on many factors, including the rate, if any, at which our cash flow increases and the availability of public and private debt and equity financing, including our ability to secure bank lines of credit. We cannot be certain that additional financing, if required, will be available on terms favorable to us, if at all.

At December 31, 2007, our net debt was £973m compared to net debt of £1,059m at December 31, 2006. Net debt is defined as all short-term, medium-term and long-term borrowing (including finance leases), less all cash, cash equivalents and liquid resources. Cash equivalents comprise short-term deposits with a maturity of up to 90 days, while liquid resources comprise short-term deposits with maturities of more than 90 days and other marketable instruments which are readily realizable and held on a short-term basis. Short-term, medium-term and long-term borrowing amounted to £1,608m at December 31, 2007, compared to £1,743m at December 31, 2006. At December 31, 2007, cash and liquid resources were £560m, compared to £592m at December 31, 2006.

Contractual obligations

The following table summarizes the maturity of our borrowings and our obligations under non-cancelable operating leases.

	At December 31, 2007				
	Total	Less than one year	One to two years	Two to five years	After five years
	£m	£m	£m	£m	£m
Gross borrowings:					
Bank loans, overdrafts and commercial paper	444	444	—	—	—
Variable rate loan notes	—	—	—	—	—
Bonds	1,150	105	176	264	605
Lease obligations	1,353	123	116	280	834
Total	**2,947**	**672**	**292**	**544**	**1,439**

At December 31, 2007 the Group had capital commitments for fixed assets, including finance leases already under contract, of £3m (2006: £nil). There are contingent liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities in respect of legal claims. None of these claims or guarantees is expected to result in a material gain or loss.

The Group is committed to a quarterly fee of 0.125% on the unused amount of the Group's bank facility.

Off-Balance sheet arrangements

The Group does not have any off-balance sheet arrangements, as defined by the SEC Final Rule 67 (FR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations", that have or are reasonably likely to have a material current or future effect on the Group's financial position or results of operations.

Borrowings

The Group finances its operations by a mixture of cash flows from operations, short-term borrowings from banks and commercial paper markets, and longer term loans from banks and capital markets.

We have in place two committed revolving credit facilities. The first is a $1.75bn revolving credit facility, of which $92m matures in May 2011 and the balance of $1.658bn matures in May 2012. The second facility is a $975m revolving credit facility, which has been amended since the balance sheet date and, assuming the company exercises its extension option, matures in December 2008. The company has a further option to extend $300m of the $975m facility to September 2009. At December 31, 2007, approximately $1.31bn and $695m were available under these facilities respectively. This included allocations to refinance short-term borrowings not directly drawn under the facility. Both credit facilities contain the same two key covenants measured for each 12 month period ending June 30 and December 31:

We must maintain the ratio of our profit before interest, tax and amortization to our net interest payable at no less than 3:1; and

We must maintain the ratio of our net debt to our EBITDA, which we explain below, at no more than 4:1.

"EBITDA" refers to earnings before interest, taxes, depreciation and amortization. We are currently in compliance with these covenants.