interest rate payable by 1.4% to 5.9%. In 2008 the net finance income relating to post-retirement plans was an income of £8m compared to an income of £10m in the previous year.

Other net finance costs relating to foreign exchange and short-term fluctuations in the market value of financial instruments included a net foreign exchange loss of £11m in 2008 compared to a loss of £17m in 2007. In 2008 the loss related to the retranslation of foreign currency bank overdrafts and a variety of inter-company items. 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. 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 2008 of £172m represents 29% of pre-tax profits compared to a charge of £131m or 28% of pre-tax profits in 2007. Our overseas profits, which arise mainly in the US are largely subject to tax at higher rates than the UK corporation tax rate (28.5% in 2008 compared to 30% in 2007). Higher tax rates were offset by releases from provisions reflecting continuing progress in agreeing our tax affairs with the authorities.

Minority interests

This comprises mainly the minority share in Interactive Data. Our share of Interactive Data remained at 62% throughout 2008, 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 business (in February 2008). The results of Government Solutions and Les Echos have been included in discontinued operations for 2007 and have been consolidated up to the date of sale. Operating profit for Government Solutions in 2007 was £2m 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 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 in 2007 and immediately sold. The only profit or loss recognized relating to Datamark was a £7m tax benefit arising from the taxable loss on sale. The Data Management business was included in discontinued operations in 2007 and 2008. In 2007 the operating profit before impairment charges was £12m compared to £nil in 2008. 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 recognized a goodwill impairment charge of £97m in 2007 in anticipation of the loss on disposal. The loss before tax on disposal in 2008 was £53m, mainly relating to the cumulative translation adjustment. There was a tax charge of £37m on the sale.

Profit for the year

The profit for the financial year in 2008 was £323m compared to a profit in 2007 of £310m. The overall increase of £13m was mainly due to the improved operating performance with a contribution from reduced net finance costs. Offsetting this was the increased tax charge and increased loss from the disposal of discontinued businesses.

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 36.6p in 2008 compared to 35.6p in 2007 based on a weighted average number of shares in issue of 797.0m in 2008 and 796.8m in 2007. The increase in earnings per share was due to the increase in profit for 2008 described above and was not significantly affected by the movement in the weighted average number of shares.

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The diluted earnings per ordinary share of 36.6p in 2008 and 35.6p in 2007 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 strengthening of the US dollar and other currencies against sterling on an average basis had a positive impact on reported sales and profits in 2008 compared to 2007. 2008 sales, translated at 2007 average exchange rates, would have been lower by £320m and operating profit, translated at 2007 average exchange rates, would have been lower by £71m. 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-GAAP financial 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. 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.

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, 2008						
£m	North American Education	International Education	Professional	FT Publishing	Interactive Data	Penguin	Total
Sales	2,002	866	244	390	406	903	4,811
	42%	*18%*	*5%*	*8%*	*8%*	*19%*	*100%*
Total operating profit	258	113	35	67	112	91	676
	38%	*17%*	*5%*	*10%*	*17%*	*13%*	*100%*
Add back:							
Amortization and adjustment of acquired Intangibles	45	22	1	7	9	2	86
Adjusted operating profit: continuing Operations	303	135	36	74	121	93	762
Adjusted operating profit: discontinued Operations	—	—	—	—	—	—	—
Total adjusted operating profit	303	135	36	74	121	93	762
	40%	*17%*	*5%*	*10%*	*16%*	*12%*	*100%*

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£m	North American Education	International Education	Professional	FT Publishing	Interactive Data	Penguin	Total
	Year Ended December 31, 2007						
Sales	1,667	735	226	344	344	846	4,162
	40%	*18%*	*5%*	*8%*	*8%*	*21%*	*100%*
Total operating profit	253	82	26	50	90	73	574
	44%	*14%*	*4%*	*9%*	*16%*	*13%*	*100%*
Add back:							
Amortization and adjustment of acquired Intangibles	20	10	1	6	7	1	45
Adjusted operating profit: continuing Operations	273	92	27	56	97	74	619
Adjusted operating profit: discontinued Operations	—	—	14	1	—	—	15
Total adjusted operating profit	273	92	41	57	97	74	634
	43%	*15%*	*6%*	*9%*	*15%*	*12%*	*100%*

North American Education

North American Education sales increased by £335m, or 20%, to £2,002m in 2008, from £1,667m in 2007 and adjusted operating profit increased by £30m, or 11%, to £303m in 2008 from £273m in 2007. The results were significantly affected by the weakening of sterling, which we estimate increased sales by £156m and adjusted operating profit by £17m when compared to the equivalent figures at constant 2007 exchange rates. At constant exchange and after taking account of the contribution from acquisitions there was underlying growth in sales but some decline in profits as the contribution from the US school curriculum business declined in a falling market and we expensed costs on the integration of Harcourt Assessment.

In the US school market, the Association of American Publishers' estimate that there was an overall decrease for the industry of 4.4% as state budget issues caused particular industry-wide weakness in the supplementary publishing segment and the open territories (those territories that do not have a state-wide adoption process). New adoption market share was 31% in the adoptions where Pearson competed (and 28% of the total new adoption market). The US School business launched enVisionMATH, an integrated print-and-digital elementary mathematics program (and the next generation of the innovative and highly successful California social studies program). enVisionMATH helped to gain a market-leading 38% share of all math adoptions, including 50% in Texas. The program also sold strongly across the Open Territories. During the year the U.S. Department of Defense awarded the US school business a five-year contract to provide elementary-school reading programs, including Pearson's Reading Street, for its schools around the world.

In the US Assessment and Information business, the integration of Harcourt Assessment progressed well with strong performances in state testing, catalogue tests and clinical assessments. The market-leading state assessments division continued to gain share, winning almost half of the contracts competed for by value and the business now provides major state-wide testing services to 30 states. The business took the lead in online testing with over 3.8 million secure tests delivered across 13 states during the year, up from 2.5 million in 2007. The National Assessments division benefited from new long-term contracts including the American Diploma Project (a three-year contract to deliver Algebra II exams to a consortium of fifteen states); the College Board's Accuplacer program (a seven-year contract to deliver computer-adaptive reading, writing and maths test to assess college readiness); and the National Board for Professional Teaching Standards (a five-year contract to develop, administer and score its National Board Certification program for accomplished teachers, covering 25 certificate areas). The leading position in teacher certification was boosted by a three-year renewal in California, a six-year renewal in Oklahoma, a four-year renewal in New Mexico and a two-year contract to manage California's certification testing for teachers of English as a foreign language. The Clinical Assessments division benefited from the strong growth of our AimsWeb data management and progress monitoring service for the Response to Intervention (RTI) market (which monitors children who are having learning difficulty) and the publication of WAIS-IV and MMPI-RF, new editions of the leading products for assessing intelligence and personality. There were major contract wins in Student Information Systems including South Carolina (709,000 students), Dallas (165,000 students) and Baltimore (83,000 students). There were also continued gains by our new Edustructures business with State Education Agencies, and it successfully implemented proof-of-concept projects in Kansas and Alaska, and expanded projects in Virginia, South Carolina and Wyoming.

The US Higher Education publishing market was up 3.6% in 2008, according to the Association of American Publishers, benefiting from healthy enrolments, even in tougher economic conditions, and federal government action to support student funding. The industry continues to see strong demand for instructional materials that are enhanced by technology and customization. Our US Higher Education business grew significantly faster than the industry and outperformed the market for the tenth straight year. There was continued investment in established and new author franchises, such as Campbell and Reece's *Biology*, Tro's *Chemistry,* Lilienfeld, Lynn, Namy and Woolf's *Psychology* and Wysocki and Lynch's *DK Handbook*. There was also rapid growth in 'MyLab' digital learning, homework and assessment programs, which now span the curriculum. MyLab products are now used by more than 4.3m students globally, with student registrations 48% higher than in 2007. Evaluation studies show that the use of the MyLab programs can significantly improve student test scores and institutional productivity. We saw strong growth in Custom Solutions with our expansion beyond custom textbooks to educational solutions including on-demand authoring of original content, customized technology, and on-demand curriculum, assessments and courseware. The Higher Education business formed new strategic partnerships to provide materials and online learning services to educational institutions. These included Rio Salado College in Arizona, which has 450 online classes and 48,000 students; the Colorado Community College system, providing digital textbooks for 17 courses; and the Louisiana Community & Technical College System, providing students with a customised online learning program across 47 campuses through the combination of custom textbooks, eCollege and MyLabs. eCollege, the platform for fully-online distance learning in higher education, increased enrolments by 34% to 2.5m and benefited from continued strong renewal rates. It achieved good new business performance in both the US and internationally, most notably in Brazil.

Overall margins in the North American Education business were lower at 15.1% in 2008 compared to 16.4% in 2007 with the majority of the decline attributable to the Harcourt Assessment integration costs.

International Education

International Education sales increased by £131m, or 18%, to £866m in 2008, from £735m in 2007 and adjusted operating profit increased by £43m, or 47%, to £135m in 2008 from £92m in 2007. The results benefit from exchange gains and a full year contribution in 2008 from the acquisition of Harcourt International.

In the UK, Edexcel received over 1.3 million registrations for vocational assessment which, when combined with more than 2.1 million registrations for general qualifications, made it one of the UK's largest assessment organisations. Edexcel marked 4.3m 'A'-level and GCSE (national secondary school examinations) scripts onscreen, representing 88% of all student work marked by their examiners. Edexcel also made a significant investment in supporting the growth of academic and vocational qualifications both in the UK and internationally including the UK's new Diploma qualification for 14-19 year-olds, the IGCSE qualifications to meet the needs of International schools and colleges and BTEC, Edexcel's flagship vocational qualification where registrations have grown from about 70,000 to 250,000 in the last two years.

The UK school publishing business grew ahead of the market, with Harcourt International making a significant contribution. This was driven by curriculum reform and market share gains in the secondary market, helped by strong publishing, innovative technology and integrated assessment for learning. The combination of Pearson content, customisation capabilities and technology supported strong performances in Higher Education and ELT across the European markets including France, Benelux and Central and Eastern Europe.

The 'MyLab' digital learning, homework and assessment programmes were used internationally by more than 237,000 students, up 82% on 2007, and are now sold in more than 65 countries worldwide. MyLabs and Mastering Physics, two of Pearson's online education programmes, continue to win international adoptions, increasingly with localised versions for individual markets.

In the Middle East, the business won a contract to deliver the Abu Dhabi Education Council's external assessment program over three years starting in 2009. The tests cover English, Arabic, mathematics and science for students in grades 3 to 11. Pearson worked with Jordan's Ministry of Education to build a test development system which has been enhanced to support the creation of test items and tests in Arabic, replacing a paper-based system.

In India, International Education saw rapid sales growth underpinned by strong local publishing of titles including *Macroeconomics* by Errol D'Sousa of IIM Ahmedabad and Upinder Singh's book on Ancient and Medieval Indian History. Two books published by Pearson Education won the First and Third Prize in the Delhi Management Association's DMA-NTPC Awards. In Thailand, Pearson secured its largest adoption of MyITLab outside North America at Sripatum University accompanied by the Go! Office 2007 series of textbooks.

International Education saw rapid growth in Mexico, the business' largest market in the Latin America region, with particularly strong growth in custom publishing. In English Language Teaching, we won an integrated custom publishing, academic support and services solutions contract with CONALEP, the national vocational/technical secondary program. We developed a custom publishing program for a leading test prep academy, CONAMAT, which included *Simplified Mathematics*, the best selling title of the program, selling over 20,000 units. In Panama, the Ministry of Education adopted Prentice Hall's Virtual Labs and Lab Manuals for Chemistry and Biology for 75,000 high school students. In Brazil, which has Latin America's largest and fastest-growing university population, Pearson provided custom publishing services to five leading universities in business, math, science, engineering and several other fields. There was growing success in Government tenders including a new local math series for middle schools in Mexico and the adoption of two levels of our primary Science program in Chile, adapted from our US Scott Foresman 5th/6th Grade program, to support local curriculum standards in Spanish. Strong growth of English Language Teaching materials across Latin America was underpinned by the performance in Mexico, Argentina, Colombia, Peru and Central America.

International Education margins continued to improve and the increase in the overall margin from 12.5% in 2007 to 15.6% in 2008 continued to reflect increases in both publishing and testing margins.

Professional

Professional sales increased by £18m, or 8%, to £244m in 2008 from £226m in 2007. Adjusted operating profit from continuing operations increased by £9m or 33% to £36m in 2008, from £27m in 2007. Sales were affected by the weakness of sterling, which increased sales by £15m when compared to the equivalent figures at constant 2007 exchange rates.

In professional testing (Pearson VUE), approximately 6m secure online tests were delivered in more than 4,000 test centers worldwide in 2008, an increase of 2% over 2007. Registration volumes for the Graduate Management Admissions Council test rose 12% worldwide in 2008, including a 22% increase outside the US. New business included contracts to provide certification exams for the Health Authority of Abu Dhabi, end of course exams for Maryland University College, certification exams for the Institute of Supply Management, the development and administration of tests for the Colorado Office of Barber and Cosmetology Licensure and an exclusive contract with Adobe. Renewals included contracts with the Georgia Insurance Licensing Board, the Virginia Board of Nursing, the Law National Admissions Consortium, Measurement Research Associates Inc., and the Kentucky Real Estate Commission. Pearson VUE also announced the transition of The Institute of Internal Auditors certification exam, the Certified Internal Auditor, from paper-and-pencil to computer-based test delivery. The Certified Internal Auditor designation is the only globally accepted certification for internal auditors and will be delivered in English, Japanese, French, Spanish and Italian. The business also agreed a partnership with NIIT Ltd. of India to expand Pearson VUE's certification network in India, extending a range of tests for students throughout the country. In a first phase, Pearson VUE and NIIT will set up testing facilities in Bangalore, Chennai, New Delhi, Hyderabad and Pune.

In Professional publishing, The *iPhone Developer's Cookbook* by Erica Sadun initially published online as a DRM-free ebook, became the number one computer book for Amazon Kindle and the number one book on Safari. And, when published in print form, became the number one Computers & Internet Book on Amazon. Scott Kelby, an author at our technology imprint Peachpit, was the top-selling author of computer books in the United States for the fifth consecutive year with titles such as *The iPhone Book*, *Mac OS X Leopard Book* and *The Adobe CS4 Book* *for Digital Photographers*. The Professional publishing business created nearly 200 video based educational lessons (230 hours of video) including Aarron Walter's *SEO And Beyond*, and Deitel & Associates' *C# 2008 Fundamentals I and II* and built new distribution channels for video via our web sites, and via Safari Books Online. The business developed a new iterative publishing programme called Rough Cuts which allows authors and customers to interact ahead of publication, building awareness and capturing customer contributions. Almost 25% of the print books published in 2008 entered the Rough Cuts program, benefiting from comments prior to print publication. There was also strong growth in eBooks, videos and other digital assets sold directly (via our websites and our joint venture, Safari Books Online) and through other digital retail outlets (such as the Amazon Kindle and Sony eReader). Sales of English and local language technology books saw good growth in international markets including the Middle East, South Africa, India and South America with best-sellers including *CCNA Exam Certification Library* by Wendell Odom, *Presentation Zen* by Garr Reynolds and *Effective Java 2E* by Josh Bloch. Titles by Pearson's business imprints, including FTPress and Wharton School Publishing, included *Financial Shock* by Mark Zandi, Chief Economist at Moody's and an advisor to the White House, on the causes of the credit crunch with particular emphasis on the sub-prime mortgage market.

Overall margins in the Professional business continued their rapid improvement and were higher at 14.8% in 2008 compared to 11.9% in 2006 as margins improved again in both the testing and professional publishing businesses.

FT Publishing

Sales at FT Publishing increased by £46m or 13%, from £344m in 2007 to £390m in 2008. Adjusted operating profit from continuing operations increased by £18m, from £56m in 2007 to £74m in 2008. The sales and profit increase is mainly generated by Mergermarket, which continued to perform strongly.

FT Publishing benefited from the shift towards subscription and service-based revenues despite a tough advertising market, particularly in the fourth quarter. *Financial Times* maintained worldwide newspaper circulation at approximately 435,000 (434,196 average for the June-December ABC period) and won both major UK press awards: Newspaper of the Year at the 2008 British Press Awards and Newspaper Awards. In the UK National Readership Survey, readership rose more than 16% to 418,000. *Financial Times* circulation revenues were up 16% as investment in content and demand for high-quality analysis of the global financial crisis supported increases in pricing and quality of circulation. FT Publishing advertising revenues were 3% lower for the full year, with a significantly weaker advertising market in the fourth quarter as financial institutions, technology companies and recruiters reduced their marketing investment. During 2008 we took a series of actions to reduce cost and prepare for more difficult trading conditions in 2009. The Financial Times continued to invest in international expansion and fast-growing markets. It successfully launched a new edition for the Middle East, and *Rui*, a lifestyle and wealth-management magazine for China's fast-growing business elite.

FT.com benefited from the launch of an innovative new access model involving registration for access to more than three articles per month. Subscribers grew 9% to 109,609, while registered users increased more than five-fold from about 150,000 at the end of 2007 to 966,000 at the end of 2008.

There was a strong performance from Mergermarket, benefiting from its digital subscription model, with contract renewal rates of almost 85%. The Mergermarket and Debtwire products performed particularly well, emphasising that the services remain valuable to customers throughout the cycle. Mergermarket launched two new products, Debtwire ABS and Debtwire Restructuring Database, in response to growing levels of distressed asset sales and restructuring funds. It continued to expand and acquire new customers geographically in the US, Europe and Asia, launching its M&A event-driven product, dealReporter, in Russia, Poland, Turkey, the UAE and South Africa. Mergermarket also continued to build its Pharmawire product for financial institutions that support the pharmaceutical industry. Mergermarket's conference business, Remark, had a strong year, with significant growth in the number of events, attendees and newsletter publications. It also increased its digital offering in this business through video, podcasts and live webcasts. In January 2008, FT acquired Money-Media, which provides online news and commentary for the fund-management industry. During the year, Money-Media rolled out Ignites Europe, an online news service for people working with the European cross-border fund industry.

At The Economist, in which Pearson owns a 50% stake, global weekly circulation increased by 6.4% to 1.39 m (for the July-December 2008 ABC period). FTSE, in which Pearson also owns a 50% stake, announced several new indices including expansion of the FTSE Environmental Opportunities Index and introduction, in partnership with the Athens Exchange, of the FTSE/ATHEX Liquid Mid Index. Our share of the profits of the Economist and FTSE totaled £18m in 2008 compared to £17m in 2007.

Overall margins at FT Publishing continued to increase driven by the online businesses and in 2008 were 19.0% compared to 16.3% in 2007.

Interactive Data

Interactive Data, grew its sales by 18% from £344m in 2007 to £406m in 2008. Adjusted operating profit grew by 25% from £97m in 2007 to £121m in 2008. Interactive Data margins increased from 28.2% in 2007 to 29.8% in 2008. Both sales and adjusted operating profit were affected by the relative strength of the US dollar, which we estimate increased sales by £28m and adjusted operating profit by £9m when compared to the equivalent figures at constant 2007 exchange rates.

Interactive Data revenue growth was driven by strong new sales and approximately 95% renewal rates within its Institutional Services segment. Pricing and Reference Data continued to generate good growth in North America and Europe. Growth was primarily organic, providing additional services to customers; but it also benefited from bolt-on acquisitions, most recently the purchase of NDF, a leading provider of securities pricing, reference data and related services to most of the major financial institutions in Japan. Real-Time Services saw strong growth in its real-time data feeds business and continued expansion of its Managed Solutions business in the United States. Real-Time Services added a number of new market sources in North America and the Middle East. The Managed Solutions business announced that it had doubled the number of clients in the United States during the past year to 80. There was continued investment in expanding the breadth and depth of the data covered and products offered, including a new alliance to provide complex derivatives and structured product valuation services; and in the capacity of its real-time infrastructure to allow for the anticipated growth in real-time market data volumes.

Interactive Data continued to benefit from growth trends, including heightened scrutiny around the valuation of securities, increasing regulation, increasing adoption of low latency data for algorithmic trading and continuing need to differentiate wealth management offerings with bespoke client interface solutions.

The Penguin Group

Penguin Group sales increased to £903m in 2008 from £846m in 2007 and adjusted operating profit was up 26% to £93m in 2008 from £74m in 2007. Both sales and adjusted operating profit were affected by the stronger US dollar which we estimate increased sales by £54m and adjusted operating profit by £16m when compared to the equivalent figures at constant 2007 exchange rates.

In the US, Penguin had a number one *New York Times* bestseller for 49 weeks of the year, including Patricia Cornwell’s *Scarpetta*, Eckhart Tolle’s *A New Earth* and Greg Mortenson’s *Three Cups of Tea.* Penguin authors won the major industry awards. Junot Díaz won The Pulitzer Prize for Fiction and the National Book Critics Circle Award for Fiction for *The Brief Wondrous Life of Oscar Wao*, and Barton Gellman won the Pulitzer Prize for National Reporting.

In the UK, Penguin had 67 top ten bestsellers versus 52 in 2007, according to BookScan. The number one bestseller *Devil May Care*, the new James Bond novel by Sebastian Faulks, was the fastest-selling hardback fiction title in Penguin UK’s history and third-bestselling in the UK in 2008. Other bestsellers included *This Charming Man* by Marian Keyes, *The Beach House* by Jane Green and *Jamie’s Ministry of Food* by Jamie Oliver. Penguin UK also published many more paperback originals, including Judith O’Reilly’s *A Wife in the North.*

In Australia, Penguin was named Publisher of the Year at the Australian Book Industry Awards (and won four of the seven awards for individual books) and grew sales ahead of its markets with bestsellers including titles from Australian authors Bryce Courtenay and Tim Winton alongside international authors Marian Keyes and Eckhart Tolle. In India, Penguin is the largest trade publisher and continued to grow rapidly with authors such as Shobhaa

De, Amitav Ghosh and Nandan Nilekani. It also won the major English language prizes in India's national book awards.

Penguin's eBook publishing and sales expanded significantly in 2008, with nearly five-fold growth in eBook sales in the US. Penguin worldwide now has 8,500 eBook titles available, more than double the number available in 2007 and during the year Penguin US launched an Enriched eBook Classics series with Jane Austen's *Pride and Prejudice*, which debuted in the top 10 on the Amazon Kindle bestseller list. The series is now sold via online stores on both Amazon.com and Penguin.com. Traffic for all Penguin's web sites increased 37% to 17 million unique users.

Year ended December 31, 2007 compared to year ended December 31, 2006

Consolidated results of operations

Sales

Our total sales from continuing operations increased by £172m, or 4%, to £4,162m in 2007, from £3,990m in 2006. The increase reflected growth, on a constant exchange rate basis, across all the businesses together with additional contributions from acquisitions made in both 2006 and 2007. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2007 sales, translated at 2006 average exchange rates, would have been £4,385m.

Pearson Education had another year of growth with an increase in sales of 4%. The International Education business was the biggest contributor to this growth with an increase of 15%. Some of the Pearson Education increase was due to a full year contribution from acquisitions made in 2006 and to additional contribution from the Harcourt acquisition in 2007. We estimate that after excluding these acquisitions the growth would have been 6% at constant last year exchange rates.

In North America, US School publishing sales were up 3.5% compared to an industry increase of 2.7% (source: Association of American Publishers) as the business benefited from sustained investment in new basal programs and innovative digital services. US School testing grew in double digits and although US Higher Education sales were 1% behind the previous year on a headline basis, they would have been 6% ahead of the previous year at constant 2006 exchange rates and after taking account of portfolio changes. This increase meant that the US Higher Education business grew faster than the industry for the ninth successive year.

There was also faster growth in international school publishing and international testing sales, principally in the UK, where sales were up in double digits after benefiting from further contract wins, market share gains and strength in on-line assessment.

In the Professional business, Professional testing sales were up by 10% in 2007 as approximately 5.8m secure online tests were delivered in more than 5,000 testing centers worldwide. Professional publishing sales increased in 2007 by 7%, after a number of years of decline in the professional publishing markets, as it benefited from a focused and refreshed front list, a favorable software release schedule and sales from Safari Books Online, our electronic publishing platform (a joint venture with O'Reilly Media).

The FT Group sales were 12% ahead of 2006 with a full year contribution from Mergermarket acquired in the second half of 2006. FT Publishing sales were up by 23% or 12% after excluding the contribution from acquisitions made in 2006 and 2007. FT Publishing growth was driven by a 10% increase in advertising revenues, circulation up 2% and a strong contribution from FT.com. Interactive Data sales were up by 4% (8% at constant 2006 exchange rates and before the contribution from acquisitions) driven by strong sales to both existing and new institutional customers and a renewal rate of approximately 95% within the institutional services sector.

Penguin's sales were flat year on year but would have increased by 3% translated at 2006 average exchange rates as a result of its successful global publishing performance and another outstanding year for bestsellers in the US and UK.

Pearson Education, our largest business sector, accounted for 63% of our continuing business sales in both 2007 and 2006. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 62% in 2007 and 65% in 2006.

Cost of goods sold and operating expenses

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

	Year Ended December 31	
	2007 £m	2006 £m
Cost of goods sold	1,910	1,841
Distribution costs	202	232
Administration and other expenses	1,600	1,518
Other operating income	(101)	(99)
Total	1,701	1,651

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 £69m, or 4%, to £1,910m in 2007, from £1,841m in 2006. The increase corresponds to the increase in sales with cost of sales at 45.9% of sales in 2007 compared to 46.1% in 2006.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing and have typically declined as the business moves more to online delivery of products.

Administration and other expenses. Our administration and other expenses increased by £82m, or 5%, to £1,600m in 2007, from £1,518m in 2006. As a percentage of sales they remained at 38% in both 2007 and 2006.

Other operating income. Other operating income mainly consists of freight recharges, sub-rights and licensing income and distribution commissions together with income from sale of assets. Other operating income increased marginally by 2% to £101m in 2007 from £99m in 2006.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates decreased slightly from £24m in 2006 to £23m in 2007. Our share of profit from the Economist in 2006 included a one-off gain of £4m from the sale of its interest in Commonwealth Business Media Inc which was not repeated in 2007.

Operating profit

The total operating profit increased by £52m, or 10%, to £574m in 2007 from £522m in 2006. 2007 operating profit, translated at 2006 average exchange rates, would have been £34m higher.

Operating profit attributable to Pearson Education increased by £9m, or 3%, to £361m in 2007, from £352m in 2006. The increase was due to continued improvement in School and Professional margins, but was offset by an increase in intangible amortization from £18m in 2006 to £31m in 2007. Operating profit attributable to the FT Group increased by £28m, or 25%, to £140m in 2007, from £112m in 2006. The increase reflects the increase in revenues from both established businesses and an increased contribution from new acquisitions but also reflects improvements in margins particularly at FT Publishing. Operating profit attributable to the Penguin Group increased by £15m, or 26%, to £73m in 2007, from £58m in 2006 although the 2006 result included a one off goodwill charge of £7m relating to the recognition of pre-acquisition tax losses at Dorling Kindersley.

Net finance costs

Net finance costs increased from £74m in 2006 to £106m in 2007. Net interest payable in 2007 was £95m, up from £94m in 2006. 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 0.5% to 5.4%, reflecting a rise in interest rates and a change in the currency mix of year end debt. These two factors, partly offset by a decrease in the Group's average net debt of £90m, increased the Group's average net interest rate payable by 0.3% to 7.3%. In 2007 the net 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 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-GAAP financial 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	North American Education	International Education	Professional	FT Publishing	Interactive Data	Penguin	Total
Sales	1,667	735	226	344	344	846	4,162
	40%	*18%*	*5%*	*8%*	*8%*	*21%*	*100%*
Total operating profit	253	82	26	50	90	73	574
	44%	*14%*	*4%*	*9%*	*16%*	*13%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	20	10	1	6	7	1	45
Adjusted operating profit: continuing operations	273	92	27	56	97	74	619
Adjusted operating profit: discontinued operations	—	—	14	1	—	—	15
Total adjusted operating profit	273	92	41	57	97	74	634
	43%	15%	*6%*	*9%*	*15%*	*12%*	*100%*

£m	North American Education	International Education	Professional	FT Publishing	Interactive Data	Penguin	Total
	Year Ended December 31, 2006						
Sales	1,679	640	211	280	332	848	3,990
	42%	*16%*	*5%*	*7%*	*8%*	*22%*	*100%*
Total operating profit	266	70	16	30	82	58	522
	51%	*13%*	*3%*	*6%*	*16%*	*11%*	*100%*
Add back:							
Amortization and adjustment of acquired intangibles	14	3	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	280	73	17	27	89	66	552
Adjusted operating profit: discontinued Operations	—	—	35	5	—	—	40
Total adjusted operating profit	280	73	52	32	89	66	592
	47%	*12%*	*9%*	*6%*	*15%*	*11%*	*100%*

North American Education

North American Education sales decreased by £12m, or 1%, to £1,667m in 2007, from £1,679m in 2006 and adjusted operating profit decreased by £7m, or 2%, to £273m in 2007 from £280m in 2006. The results were significantly affected by the weakening of the US dollar, which we estimate reduced sales by £135m and adjusted operating profit by £22m when compared to the equivalent figures at constant 2006 exchange rates. At constant exchange there was strong underlying growth in sales and profits, the School results in 2007 benefited from a full year contribution from the acquisitions of National Evaluation Systems (NES), Chancery and PowerSchool made in 2006.

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. US School margins improved again in 2007 with savings from the integration of acquired businesses and efficiency gains from the use of software platforms.

In US 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 increased from 4% to 11% in the US. 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.

Overall margins in the North American Education business were slightly lower at 16.4% in 2007 compared to 16.7% in 2006 as small declines in US publishing margins offset the improvement in US assessment and testing and Canadian margins.

International Education

International Education sales increased by £95m, or 15%, to £735m in 2007, from £640m in 2006 and adjusted operating profit increased by £19m, or 26%, to £92m in 2007 from £73m in 2006. The results benefit from the first contribution in 2007 from the acquisition of Harcourt International.

The International School business 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.

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.

International Education margins continued to improve and the increase in the overall margin from 11.4% in 2006 to 12.5% in 2007 reflected increases in both publishing and testing margins.

Professional

After excluding sales and adjusted operating profit from Government Solutions and the Data Management businesses (reported as discontinued), Professional sales increased by £15m, or 7%, to £226m in 2007 from £211m in 2006. Adjusted operating profit increased by £10m or 59% to £27m in 2007, from £17m in 2006. Sales were affected by the weakening US dollar, which reduced sales by £14m 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 11.9% in 2007 compared to 8.1% 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 number one 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*, Khaled Hosseini's *A Thousand Splendid Suns* and Ken Follett's *World Without End*. 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.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations increased by £235m (or 36%), to £894m in 2008 from £659m in 2007. This increase reflected strong cash contributions from all businesses, together with the significant strengthening of the US dollar against sterling. The exchange rate for translation of dollar cash flows was $1.56 in 2008 and $1.99 in 2007. In 2008, the headline average working capital to sales ratio for our book publishing businesses deteriorated to 26.1% from 25.6% in 2007, reflecting the higher levels of working capital in Harcourt Assessments (purchased at the end of January 2008). The underlying working capital to sales ratio (excluding the effect of year on year portfolio changes) improved to 25.8% in 2008 from 25.9% in 2007. Average working capital is the average month end balance in the year of inventory (including pre-publication), receivables and payables. 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.

Net interest paid decreased to £76m in 2008 from £90m in 2007. The decrease was due to the reduction in US and UK interest rates, with some offset from the higher level of debt following the acquisition of Harcourt Assessments and the strength of the US dollar relative to sterling. Net interest paid was £90m in 2007 compared to £82m in 2006. The 10% increase in 2007 over 2006 was primarily due to higher average interest rates in the UK and US.

Capital expenditure on property, plant and equipment was £75m in 2008, £86m in 2007 and £68m in 2006. The reduction in spend in 2008 reflects reduced infrastructure spend compared to 2007, although the Group continued to invest in digital technology. The increase in 2007 over 2006 reflects investment to update infrastructure, particularly at Penguin and FT Group.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £400m in 2008 against £476m in 2007 and £367m in 2006. The principal acquisitions in 2008 were of Harcourt Assessments for £321m and Money Media for £33m. 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 sale of subsidiaries and associates produced a cash inflow of £111m in 2008 against £469m in 2007 and £10m in 2006. All the proceeds in 2008 relate to the sale of the Data Management business. 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 cash outflow from financing of £149m in 2008 reflects the repayment of one £100m bond, the repayment of borrowings against a short-term bridge financing facility and a further increase in the group dividend. Offsetting this, the Group successfully issued $900m of US Dollar bonds in the year in spite of the challenging credit markets. 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.

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, 2008, our net debt was £1,460m compared to net debt of £973m at December 31, 2007. 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 £2,363m at December 31, 2008, compared to £1,608m at December 31, 2007 reflecting the impact of the strengthening of the US dollar relative to sterling and the additional US dollar bonds issued in the year. At December 31, 2008, cash and liquid resources were £685m, compared to £560m at December 31, 2007.

Contractual obligations

The following table summarizes the maturity of our borrowings and our obligations under non-cancelable operating leases, exclusive of anticipated interest payments.

	At December 31, 2008				
	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	228	—	—	228	—
Variable rate loan notes	—	—	—	—	—
Bonds	2,128	244	—	626	1,258
Finance lease obligations	7	4	2	1	—
Operating lease obligations	1,612	149	138	355	970
Total	**3,975**	**397**	**140**	**1,210**	**2,228**

At December 31, 2008 the Group had capital commitments for fixed assets, including finance leases already under contract, of £7m (2007: £9m). 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 a committed revolving credit facility of $1.75bn, of which $92m matures in May 2011 and the balance of $1.658bn matures in May 2012. At December 31, 2008, approximately $1.56bn was available under