

Operating profit

The total operating profit increased by £483m, or 65%, to £1,226m in 2011 from £743m in 2010. 2011 operating profit, includes the profit on sale of FTSE of £412m and after excluding this item operating profit in 2011 increased by £71m or 10%.

Operating profit attributable to Pearson Education increased by £63m, or 11%, to £639m in 2011, from £576m in 2010. The increase was attributable to a good performance across all the Education businesses and a contribution from acquisitions. Operating profit attributable to the FT Group after taking out the profit on sale of FTSE increased by £5m, or 8%, to £67m in 2011, from £62m in 2010. The increase reflects the improved profitability from digital businesses despite a weak advertising market and the absence of the £12m one off profit recorded by FTSE in 2010. Operating profit attributable to Penguin showed a small increase of £3m, or 3%, to £108m in 2011, from £105m in 2010.

Net finance costs

Net finance costs decreased from £73m in 2010 to £71m in 2011. Net interest payable was £55m, down from £73m in 2010. Although our fixed rate policy reduces the impact of changes in market interest rates, we were still able to benefit from low average US dollar and sterling interest rates during the year. Year-on-year, average three month LIBOR (weighted for the Group's net borrowings in US dollars and sterling at each year end) fell by 0.1% to 0.3%. This reduction in floating market interest rates helped drive the Group's lower interest charge. These low rates, coupled with interest income on deposits in higher yielding currencies created a decrease in the Group's average net interest payable from 7.9% to 6.5%. The Group's average net debt fell by £82m, reflecting the timing of the reinvestment of the Interactive Data proceeds during 2011. Finance income relating to post-retirement plans was £3m in 2011 compared to a charge of £12m in 2010.

Also included in net finance costs are finance costs on put options and deferred consideration associated with acquisitions, foreign exchange and other gains and losses. In 2011, the total of these items was a charge of £19m compared to a profit of £12m in 2010. The majority of the loss in 2011 relates to foreign exchange differences on a proportion of the unhedged US dollar proceeds from the Interactive Data sale. In 2010 the gain arose largely from foreign exchange on US dollar denominated debt. 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 2011 of £199m represents 17% of pre-tax profits compared to a charge of £146m or 22% of pre-tax profits in 2010. Our overseas profits, which arise mainly in the US, are largely subject to tax at higher rates than that in the UK (which had an effective statutory rate of 26.5% in 2011 and 28% in 2010). The reduction in the tax rate in 2011, however, is largely due to the low tax charge on the gain on disposal of FTSE together with the effect of the prior year adjustments arising from settlements with tax authorities. In total these two items outweighed the favourable effect in 2010 from recognition of tax losses and credits utilised in connection with the Interactive Data sale. The tax charge relating to that sale in July 2010 is included in the loss on discontinued businesses.

Non-controlling interest

In 2011 there are non-controlling interests in the Group's businesses in South Africa, China and India although none of these are material to the Group numbers. The non-controlling interest in the Group's Brazilian business, SEB, was bought out in the first half of 2011. The non-controlling interest in 2010 comprises mainly the publicly-held share of Interactive Data for the period to disposal in July 2010.

Discontinued operations

There are no discontinued operations in 2011. Discontinued operations in 2010 relate to Interactive Data Corporation. On July 29, 2010, Interactive Data, in which Pearson held a 61% interest, was sold. (Pearson's share of the sale proceeds was \$2bn).

The results of Interactive Data have been included as discontinued operations up to the date of sale on July 29, 2010. Included in discontinued operations in 2010 is Interactive Data's results for the seven months to the date of sale, the gain on sale of £1,037m and the attributable tax charge of £306m.

Profit for the year

The profit for the financial year in 2011 was £956m compared to a profit in 2010 of £1,300m. The 2010 profit included the contribution from discontinued businesses of £776m (including the gain on sale of Interactive Data) which more than offset the gain on sale of FTSE and improved operating performance from continuing businesses in 2011.

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 119.6p in 2011 compared to 161.9p in 2010 based on a weighted average number of shares in issue of 800.2m in 2011 and 801.2m in 2010. The decrease in earnings per share was due to the decrease in profit for 2011 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 119.3p in 2011 and 161.5p in 2010 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 and other currencies against sterling on an average basis had an adverse impact on reported sales and profits in 2011 compared to 2010. 2011 sales, translated at 2010 average exchange rates, would have been higher by £122m and operating profit, translated at 2010 average exchange rates, would have been higher by £13m. 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 business segments. 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 of acquired intangibles and acquisition costs. The amortization of acquired intangibles is the amortization of intangible assets acquired through business combinations and acquisition costs are the direct costs of acquiring those businesses. Neither of these charges are considered to be fully reflective of the underlying performance of the Group. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are also excluded from adjusted operating profit as they distort the performance of the Group.

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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, 2011						
£m	North American Education	International Education	Professional	FT Group	Penguin	Total
Sales	2,584	1,424	382	427	1,045	5,862
	44%	24%	7%	7%	18%	100%
Total operating profit	463	121	55	479	108	1,226
	38%	10%	4%	39%	9%	100%
Add back:						
Other net gains and losses	(29)	6	—	(412)	—	(435)
Acquisition costs	2	9	—	1	—	12
Amortization of acquired intangibles	57	60	11	8	3	139
Adjusted operating profit: continuing operations	493	196	66	76	111	942
Adjusted operating profit: discontinued operations	—	—	—	—	—	—
Total adjusted operating profit	493	196	66	76	111	942
	52%	21%	7%	8%	12%	100%

Year Ended December 31, 2010						
£m	North American Education	International Education	Professional	FT Group	Interactive Data	Total
Sales	2,640	1,234	333	403	—	5,663
	47%	22%	6%	7%	—	100%
Total operating profit	415	119	42	62	—	743
	56%	16%	6%	8%	—	100%
Add back:						
Other net gains and losses	—	10	—	(12)	—	(2)
Acquisition costs	1	7	2	1	—	11
Amortization of acquired intangibles	53	35	7	9	—	105
Adjusted operating profit: continuing operations	469	171	51	60	—	857
Adjusted operating profit: discontinued operations	—	—	—	—	81	81
Total adjusted operating profit	469	171	51	60	81	938
	50%	18%	5%	6%	9%	100%

North American Education

North American Education sales declined by £56m, or 2%, to £2,584m in 2011, from £2,640m in 2010 and adjusted operating profit increased by £24m, or 5%, to £493m in 2011 from £469m in 2010. The results were affected by the relative weakness of the US dollar, which we estimate decreased sales by £91m and adjusted

operating profit by £18m when compared to the equivalent figures at constant 2010 exchange rates. At constant exchange and after taking account of the contribution from acquisitions there was underlying decline in sales of 1% and increase in profits of 8%. Sales growth in the US higher education and assessment and information businesses was offset by a weakness in US school publishing.

The US school textbook publishing market declined 9% in 2011, according to the Association of American Publishers. There were several pressures on the industry including weakness in state budgets, a lower new adoption opportunity (total opportunity of \$650m in 2011 against \$800m in 2010) and delays in purchasing decisions during the transition to the new Common Core standards. Pearson gained share with a strong adoption performance boosted by our blended print-and-digital programs including Writing Coach, Prentice Hall Math and enVisionMATH. We took an estimated 37% of new adoptions competed for (or 31% of the total new adoption market). During 2011, we acquired Connections Education which operates online K-12 schools in 21 states and a nationwide charter school program. It served 33,200 students in 2011. Connections Academy Schools have consistently high performance ratings, particularly in states focused on measuring growth in student learning. SuccessNet, our online learning platform for school teachers and students, generated more than six million registrations in 2011, up 5% on 2010. The number of assessments taken through SuccessNet increased by 32% to more than 11 million. We continue to develop digital programs, platforms and apps to boost achievement, access and affordability. We launched two major new school programs aimed at meeting rising literacy standards under the Common Core: i-lit and Pearson English Learning System. i-lit is a personalized digital reading program combining our proven literacy model (with many students making two years of literacy growth in a single year), automated assessment capabilities and compelling literature from Penguin and Dorling Kindersley, all delivered through iPads. Pearson English Learning System benchmarks, monitors and tracks both student progress and teacher best practice to boost English language skills. Poptropica is one of the largest virtual worlds for young children in the US and was named by Time as one of 'The 50 Best Websites of 2011'. Poptropica has up to 9.7 million monthly unique visitors from more than 130 countries.

Revenues at our Assessment and Information division grew modestly in 2011. State funding pressures and the transition to Common Core assessments continued to make market conditions tough for our state assessment and teacher testing businesses; these were offset by good growth in diagnostic and clinical assessments. We signed several important contracts including state-wide student assessment contracts in New York, Kentucky and Arizona; Race to the Top Florida formative assessment; Indiana educator licensing and Ohio pre-service teacher assessment. We also renewed three important contracts, extending our relationships with Virginia and Maryland for state-wide student assessments and with ETS to service state-wide assessments for California. We signed an agreement with Stanford University to provide the capability to deliver the Teacher Performance Assessment (TPA) – a nationally available, web-based performance assessment for measuring the effectiveness of teacher candidates nationally. We delivered 13 million secure online tests in 2011 with strong growth in automated written and spoken assessment scoring volumes. We won the Online Assessment Readiness Tool contract from both the PARCC and SBAC Common Core consortia to help the 45 states prepare for the transition to online assessments. PowerSchool supported more than ten million students, up 6% on 2010, and developed its platform to enable 18 additional languages to be used on the PowerSchool parent portal. Our clinical assessment business grew well boosted by strong growth at AIMSweb, our progress monitoring service which enables early intervention and remediation for struggling students. Usage of AIMSweb increased dramatically with 47 million assessments delivered in 2011, up more than 40%. During 2011, we acquired Schoolnet, a fast-growing and innovative education technology company that aligns assessment, curriculum and other services to help individualise instruction and improve teacher effectiveness. Schoolnet serves more than five million US pre K-12 students through partnerships with districts and states, supporting about one-third of America's largest cities.

The US higher education publishing market was broadly level with 2010, according to the Association of American Publishers, with solid revenue growth in public colleges offset by enrolment declines in for-profit colleges following changes in Federal regulations. Pearson gained share, benefiting from its lead in technology and customisation, and has now grown faster than the US higher education industry for 13 consecutive years. The pioneering 'MyLab' digital learning, homework and assessment programmes grew strongly with student

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registrations in North America up 22% to almost nine million. Usage continues to grow strongly with graded submissions up 39% to almost 250 million across the globe. Evaluation studies show that the use of MyLab programmes can significantly improve student test scores and institutional efficiency. We developed a new model of enterprise-wide support for online higher education with Arizona State University Online and Ocean Community College. Through these long-term partnerships, Pearson runs the full online learning programmes for these institutions and earns revenues based on the success of the institution and its students. Pearson LearningStudio increased fully-online student enrolments by 20% to ten million. Renewal rates remain high at more than 80% by value with fewer large accounts up for renewal in the year.

Overall adjusted operating margins in the North American Education business were higher at 19.1% in 2011 compared to 17.8% in 2010 with the majority of the increase attributable to further cost efficiencies and the continued success of higher margin digital products.

International Education

International Education sales increased by £190m, or 15%, to £1,424m in 2011, from £1,234m in 2010 and adjusted operating profit increased by £25m, or 15%, to £196m in 2011 from £171m in 2010. The sales results benefited from acquisitions in 2011 and a full year contribution from acquisitions made in 2010.

Our International Education company is active in more than 70 countries. It is a major focus of our strategy, and sales and profits have broadly doubled since 2007. Our strategy is to combine educational content, assessment, technologies and related services to help educational institutions become more effective and their students more successful. We expect to benefit from a series of powerful long-term global trends: increasing public and private spending on education (despite current pressures on public spending in developed markets); growing participation rates; the demand for assessment to provide measures of achievement; the growing technology infrastructure in educational institutions; and the rise of English as a global language. In 2011, we continued to make significant organic investments in expanding the footprint of Wall Street English in China and the roll-out of our school services business in India as well as incurring significant charges from the integration of acquisitions, most notably the school systems business of SEB in Brazil.

Wall Street English, Pearson's worldwide chain of English language centres for professionals, increased student numbers by 9% to more than 190,000. We opened 19 new centres around the world, bringing the total number close to 450. More than 0.9 million students registered for our MyLab digital learning, homework and assessment programs, an increase of 36%. They included more than 150,000 MyEnglishLab registrations, up 70%, and 28,000 registrations for our high school mathematics program MathXL, a 54% increase. Our Fronter learning management system grew strongly with new contracts won in Malta, Tasmania and Poland. Active users rose by 18% to 1.3 million and their logins by 11% to 154 million. Student test volumes for the Pearson Test of English Academic saw robust growth supported by recognition from almost 1,900 institutions including the Australian Department of Immigration & Citizenship and 95% of UK Universities. The Organisation for Economic Co-operation and Development chose Pearson to develop a competency and assessment framework for the 2015 cycle of The Programme of International Student Assessment (PISA) tests, one of the world's most prestigious programmes of international tests.

In China, student enrolments at our Wall Street English centres increased 25% to 53,000, boosted by strong underlying demand and the launch of 11 new centres. In December 2011, we acquired Global Education and Technology Group, a leading provider of test preparation services for English Language and other professional qualifications. Global Education has approximately 450 (115 owned and 335 franchised) learning centres in 150 cities across China. In South Africa we gained share in school publishing, but market conditions were tougher than expected during a year of major curriculum reform. Student enrolments grew strongly at CTI, up 13% to 8,700, which continues to deliver significantly better completion rates than its peers and strong job placement rates of 70%. We delivered half a million secondary textbooks for Physics, Biology and History to all government secondary schools in Uganda, one million Junior African Writer readers to the Ministry of Education

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in Sierra Leone and almost two million textbooks in five subjects to secondary schools in Zimbabwe. In Brazil, we successfully completed the first stage of the SEB Pearson Sistemas integration with major investments and improvements across the business. Our Virtual Library grew strongly and now reaches two million students across 100 universities, and we entered the K-12 publishing market. In Colombia, we implemented a bilingual teacher training program in several states and in Chile we won a contract to evaluate the national college admissions test. In India, we incurred costs related to the acquisition of TutorVista and invested to grow the business. We have doubled the number of schools managed by TutorVista to 24 and the installations of its multimedia teaching tool Digiclass to approximately 10,000. Vocational and Professional enrolments at our IndiaCan joint venture grew more than 50% to 86,000, with particular strength in spoken English, Chartered Accountancy, Engineering and MBA qualifications. In the Middle East, our performance was boosted by sales of Reading Street and Scott Foresman Math in Saudi Arabian schools; Giancoli Physics and Thomas Calculus along with strong MyLabs uptake in Turkish colleges; and Haeussler Mathematics and Hubert Engineering along with strong MyLab redemptions in Egypt.

Our UK business made solid progress during the year despite significant regulatory and policy changes in its markets, most notably in vocational and general qualifications, apprenticeships and in higher education. We marked more than 5.7 million GCSE, A/AS Level and other examinations with 90% using onscreen technology. We marked more than 3.8 million test scripts for over half a million pupils taking National Curriculum Tests at Key Stage Two in 2011 and have been selected to mark tests in 2012. Our Bug Club digital reading programme for primary schools combines engaging phonics-based books with games, assessments and teacher diagnostic tools to boost reading enjoyment and comprehension. In 2011, more than 145,000 online users in almost 900 schools subscribed to Bug Club online. We acquired EDI plc, a leading provider of education and training qualifications and assessment services, with a strong reputation for the use of information technology to administer learning programmes and deliver on-screen assessments. Registrations for our own BTEC Apprenticeships more than doubled to 80,000 students.

In Australia, we launched our pioneering US digital maths curriculum, enVisionMATH. And we have more local versions in development to bring high quality digital curriculum to new markets across the globe. In Italy, our new digital curriculum helped us gain significant share in lower secondary adoptions and to see good growth overall. In Germany, we acquired Stark Holding, a leading provider of education materials including test preparation resources for pupils and teachers. In Japan, we faced major disruption following the March 2011 tsunami but maintained operations and achieved notable successes, particularly with the Versant Test of Communicative English and the launch of BTEC.

International Education adjusted operating margins declined slightly from 13.9% in 2010 to 13.8% in 2011 as the business incurred additional integration costs from acquisitions.

Professional

Professional sales increased by £49m, or 15%, to £382m in 2011 from £333m in 2010. Adjusted operating profit increased by £15m or 29% to £66m in 2011, from £51m in 2010. Sales growth in the assessment and training businesses was strong and benefited from a full year contribution from the acquisition of Melorio in June 2010.

We continued to see good revenue and profit growth at Pearson VUE, which administered more than seven million tests during the year, benefiting from sales of additional services to customers and contractual fee increases. We won a number of new contracts including the Construction Industry Training Board in the UK, the National Council of Examiners for Engineering and Surveying in the US, and the HP certification examination worldwide. We formed a joint venture with the American Council on Education to develop an online General Educational Development (GED) test aligned with new Common Core standards. The GED test measures an adults' high school level knowledge and skills in math, reading, writing, science and social science. We launched a new touch-screen theory driving test for the Roads and Transport Authority for Dubai. The test is delivered in Arabic, English and Urdu. The new test follows the opening last year of a new Pearson VUE office in Dubai to meet the Middle East's demand for computer-based testing.

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Despite significant regulatory and policy changes in the apprenticeship market, Pearson in Practice successfully graduated its largest IT cohort and launched or enhanced several new apprenticeship programmes in logistics, construction, management and customer service, business and health. We acquired TQ Holdings Ltd which provides technical education and training services to governments, institutions and corporations around the world with particular expertise in skills related to the defence, engineering, oil and gas and construction sectors.

In professional publishing, our resilient performance in the US benefited from the breadth of our publishing and range of revenue streams, from online retail through digital subscriptions. As a result, digital products and services now account for more than 25% of our professional publishing revenues in the US. In some International markets such as Japan, professional publishers continued to face very challenging trading conditions. In the US, we launched MyGraphicsLab which integrates 50 hours of videos, 250 creative projects, 50 presentations and 1,000 quiz questions with real-world assignments to prepare students for the job market.

Overall adjusted operating margins in the Professional business were higher at 17.3% in 2011 compared to 15.3% in 2010 as margins improved following the integration of Melorio in 2010 and continued efficiencies in the Professional publishing business.

FT Group

Sales at FT Group increased by £24m or 6%, from £403m in 2010 to £427m in 2011. Adjusted operating profit increased by £16m, from £60m in 2010 to £76m in 2011. The sales and profit increase is mainly due to increased demand for digital products and was in spite of weakness in the advertising market in the year. The Economist and other joint ventures and associates also contributed to the profit growth.

The FT produced strong and accelerating growth in its digital readership with online subscriptions up 29% to 267,000, 2,000 direct corporate licences and FT.com registered users up 33% to more than four million. Combined paid print and digital circulation reached 600,000 in 2011, the highest circulation in the history of the FT. At the end of 2011, digital subscribers exceeded print circulation in the US for the first time. The Average Daily Global Audience across print and online grew 3% to 2.2 million people worldwide, our largest audience ever. Readership continues to migrate online and to mobile, which now generates 19% of traffic to FT.com. We launched FT web apps optimised for iPad and Android devices including a custom app for India. The web apps provide FT subscribers access to our content online and through mobile devices with a single subscription and data analytics allow us to better serve our customers. Advertising was generally weak and volatile with poor visibility. Growth in online advertising and the luxury category was offset by weakness in corporate advertising. FT Conferences had a very strong year, operating 75 events in 37 cities worldwide. Almost 9,000 senior executives from around the world attended these events. We launched the FT Non-Executive Certificate (in partnership with Pearson LearningStudio and Edexcel) in April 2011, enrolling more than 100 students. The certificate is designed to aid the professionalisation of the sector and increase diversity on UK boards. It is the first fully accredited formal education product for non-executive directors. We extended the breadth and depth of the FT's premium subscription services through the launch of Brazil Confidential, extending our successful China Confidential franchise into another growth market. Medley Global Advisors (MGA) grew modestly despite challenging conditions for its customers due to new contract wins. Money-Media grew strongly fuelled by an increase in subscriptions and advertising.

Mergermarket's strong editorial analysis continued to benefit from its global presence and product breadth. Usage increased, new sales grew and renewal rates were strong. Continued volatility in debt markets helped sustain the strong performance of Debtwire whilst volatile equity markets benefited dealReporter's event-driven strategy. Mergermarket saw strong growth in Asia-Pacific and the Americas while MergerID continued to benefit from a broadening network of users and strong growth in transaction matches. We launched a large number of new products, extending our reach into new geographies (US wealthmonitor, ABS Europe, dealReporter Middle East, dealReporter Russia Desk), new strategies (multi-strategy products), new coverage areas (municipal bonds, dividend arbitrage) and new platforms (mergermarket iPad app).

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The Economist, in which Pearson owns a 50% stake, increased global weekly circulation by 1% to 1.49 million (for the July – December 2011 ABC period) with an additional digital circulation in excess of 100,000. Total annual online visits increased to 165 million, up 39% on 2010. Business Day and Financial Mail (BDFM), our 50% owned joint venture in South Africa with Avusa, improved profitability with revenue increasing by 10%. The business benefited from growth in advertising and circulation revenues. In December 2011, we sold our 50% stake in FTSE International to the London Stock Exchange for net proceeds of £428m in December 2011: it contributed £20m to Pearson's operating profit in 2011.

Overall adjusted operating margins at FT Group increased from 14.9% in 2010 to 17.8% in 2011 as efficiencies and changing product mix helped improvements.

The Penguin Group

Penguin sales declined by £8m or 1%, to £1,045m in 2011 from £1,053m in 2010 as the business faced tough conditions in the physical book market but adjusted operating profit was up 5% to £111m in 2011 from £106m in 2010.

Market conditions in 2011 were tough following the collapse of two major customers: Borders in the US and the REDGroup in Australia and New Zealand. Despite this, Penguin achieved robust sales and profits and gained market share in each of its major markets – the US, the UK and Australia. There was a strong and consistent publishing performance across imprints and territories which produced market share gains in our major markets in a very challenging retail environment with the closure of more than 750 stores. Growth in developing markets was boosted by the strength of the direct marketing channel and strong publishing in India, including its first 100,000 copy bestseller (Ravinder Singh's *Can Love Happen Twice?*). Global publishing properties such as LEGO®, Wimpy Kid, Jamie Oliver and Kathryn Stockett's *The Help* sold in significant numbers in multiple markets.

ebook revenues doubled on the previous year and accounted for 12% of Penguin revenues worldwide, and more than 20% in the US, in 2011. Since the beginning of 2008, digital downloads of apps and ebooks across the Group have totalled approximately 50 million. Penguin continued to invest in digital innovation, launching more than 100 apps and enhanced ebooks, including *Wreck this App*, *On the Road* and *Moshi Monsters*, and a new global digital-only publishing program, *Penguin Shorts*. DK launched its first non-travel apps including the award-winning *DK Human Body*. In January 2012 DK became the first consumer publisher to publish four iBooks2 titles using Apple's new authoring tool. Penguin continued to invest in direct-to-consumer initiatives including new digital platforms for readers, specifically aNobii in the UK and Bookish in the US. In Australia Penguin acquired the REDGroup's online business. Penguin also signed its first author through its new self-publishing platform BookCountry. Its websites and social media channels around the world now have a global following of more than 11 million. Penguin continued to leverage Pearson-wide digital platforms to transform its internal publishing processes, enabling faster product development and greater re-use of content.

In the US Penguin published a record 254 *New York Times* bestsellers including some of its repeat bestselling authors such as Tom Clancy, Patricia Cornwell, Ken Follett, Nora Roberts and Clive Cussler, as well as new talent such as Deborah Harkness, Amor Towles and Eleanor Brown. Kathryn Stockett's *The Help* was the bestselling title across the US industry selling five million copies in print and digital in its third year since publication. The Young Readers' division had another strong year achieving a high of 41 *New York Times* bestsellers. Penguin UK published 78 top ten bestsellers, an increase of 15 on 2010, including two of the top five industry titles with Jamie Oliver's *30-Minute Meals* and Dawn French's *A Tiny Bit Marvellous*, and a robust performance by Penguin Children's who were named Children's Publisher of the Year in 2011. For a second consecutive year, Jamie Oliver secured the coveted Christmas number one slot with *Jamie's Great Britain*. Jeff Kinney's new *Wimpy Kid* title *Cabin Fever* sold 300,000 copies and was the fastest selling book of 2011. DK's bestseller success continued in 2011 with its LEGO® titles dominating the bestseller charts including *The LEGO® Ideas Book*, *LEGO® Star Wars Character Encyclopaedia* and *LEGO® Star Wars Visual Dictionary*.

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Titles from authors such as Annabel Karmel, Karl Pilkington and Mary Berry and the *MasterChef* titles also performed strongly. In Australia, Penguin had the two top-selling titles across the industry with Jamie's *30-Minute Meals* and Jeff Kinney's *Cabin Fever* and hit number one 24 times through the course of the year.

Penguin adjusted operating margins improved again in 2011 to 10.6% from 10.1% in 2010.

Year ended December 31, 2010 compared to year ended December 31, 2009

Consolidated results of operations

Sales

Our total sales from continuing operations increased by £523m, or 10%, to £5,663m in 2010, from £5,140m in 2009. The increase reflected growth, on a constant exchange rate basis, at all of our businesses together with additional contributions from acquisitions made in both 2009 and 2010. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2010 sales, translated at 2009 average exchange rates, would have been £5,535m.

Pearson Education increased sales by £427m or 11% from £3,780m to £4,207m. The North American, International and Professional businesses all contributed to the increase although the International Education business was helped by acquisitions made in 2009 and 2010 and the Professional business benefited from the acquisition of Melorio in 2010. A high proportion of the increase was also due to exchange. We estimate that after excluding acquisitions, Pearson Education saw sales growth of 5% at constant last year exchange rates. The North American business saw strong growth in Higher Education which again out-performed the market which grew at 7.3% in 2010, according to the Association of American Publishers after benefiting from healthy enrolment growth and good demand for instructional materials. The North American publishing business also gained share in the US school curriculum market as this market returned to growth, benefiting from the stronger new adoption opportunity and in spite of the fact that state budgets remained under pressure. The US school publishing market grew 3.2% according to the Association of American Publishers. Revenues at the US Assessment and Information division were broadly level against 2009. State funding issues produced tough market conditions for our state assessment and teacher licensure testing businesses. This was offset by good growth in clinical and diagnostic assessments. International Education sales also benefited from exchange and a contribution from the acquisitions of Sistema Educacional Brasileiro and Wall Street Institute in 2010 and a full year contribution from the 2009 acquisitions of Wall Street English and Fronter and the increased shareholdings in Longman Nigeria and Maskew Miller Longman. After excluding the effect of acquisitions we estimate that there was growth of 6% at constant last year exchange rates in the International Education business. Professional sales increased in 2010 by 21% although much of this increase was due to the contribution from Melorio, the UK vocational training business acquired in June 2010. In terms of constant last year exchange rates and after taking out the acquisition of Melorio there was still good growth in professional testing and modest growth in the professional publishing business.

FT Group sales were 13% ahead of last year driven by strong growth at the *Financial Times* with growth in digital readership and subscriptions, helped by good advertising growth in 2010. Mergermarket continued to benefit from an improvement in market conditions and its flexibility in adapting to new client investment strategies which supported a recovery in renewal rates and growth in new business revenues. An increase in global merger and acquisition activity benefited Mergermarket and dealReporter and continued volatility in debt markets helped sustain the strong performance of DebtWire.

Penguin's sales were up 5% in 2010 and it gained share in its three largest markets, the US, UK and Australia. Growth was also due to the very strong growth in ebooks which accounted for 6% of Penguin revenues worldwide in 2010.

Pearson Education, our largest business sector, accounted for 74% of our continuing business sales in 2010 and 2009. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 63% in 2010 and 65% in 2009.

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Cost of goods sold and operating expenses

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

	Year Ended December 31	
	2010	2009
	£m	£m
Cost of goods sold	2,588	2,382
Distribution costs	298	275
Administration and other expenses	2,190	2,014
Other operating income	(115)	(120)
Total	2,373	2,169

Cost of goods sold. Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs, royalty charges and the cost of service provision in the assessment and testing business. Our cost of sales increased by £206m, or 9%, to £2,588m in 2010, from £2,382m in 2009. The increase corresponds to the increase in sales with cost of sales at 45.7% of sales in 2010 compared to 46.3% in 2009.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing and remain a fairly constant percentage of sales.

Administration and other expenses. Our administration and other expenses increased by £176m, or 9%, to £2,190m in 2010, from £2,014m in 2009. As a percentage of sales they remained consistent at 39% in 2010 and 2009.

Other operating income. Other operating income mainly consists of freight recharges, sub-rights and licensing income and distribution commissions together with income from the sale of assets. Other operating income decreased slightly to £115m in 2010 compared to £120m in 2009.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased from £30m in 2009 to £41m in 2010. The 2010 result included a one off profit relating to a stepped acquisition at FTSE of £12m. The majority of the remainder of the profit comes from our 50% interest in the Economist.

Operating profit

The total operating profit increased by £124m, or 20%, to £743m in 2010 from £619m in 2009. 2010 operating profit, translated at 2009 average exchange rates, would have been £37m lower.

Operating profit attributable to Pearson Education increased by £71m, or 14%, to £576m in 2010, from £505m in 2009. The increase was attributable to a strong performance in the US Higher Education business and in the International businesses and due to the positive impact of exchange and a contribution from acquisitions. Operating profit attributable to the FT Group increased by £31m, or 100%, to £62m in 2010, from £31m in 2009. The increase reflects the improved profitability from digital businesses and the pick up in advertising together with the one off profit recorded by FTSE referred to above. Operating profit attributable to Penguin increased by £22m, or 27%, to £105m in 2010, from £83m in 2009. This increase was due to the improved sales performance and improved margins partly due to charges relating to the reorganisation of the business in the UK in 2009.

Net finance costs

Net finance costs decreased from £96m in 2009 to £73m in 2010. Net interest payable in 2010 was £73m, down from £86m in 2009. The Group's net interest payable decreased by £13m in 2010, mainly due to a reduction in average interest rates on our floating US dollar debt and the effect of lower average levels of net debt following the receipt of proceeds from the sale of Interactive Data. Year on year, average three month LIBOR (weighted for the Group's net borrowings in US dollars and sterling at each year end) fell by 0.3% to 0.4%. This reduction in floating market interest rates drove the Group's lower interest charge. However the low rates on deposited funds coupled with the impact on the calculation of significantly lower net debt, created an increase in the Group's average net interest payable of 5.3% to 7.9%. The Group's average net debt fell by £681m, reflecting the impact of the Interactive Data disposal. Finance charges relating to post-retirement plans were £12m in both 2010 and 2009.

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 £7m in 2009 compared to a gain of £9m in 2010. In 2009 the loss mainly related to losses on cross currency swaps and in 2010 the gain related to exchange on new US dollar borrowing raised in the year. 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 2010 of £146m represents 22% of pre-tax profits compared to a charge of £146m or 28% of pre-tax profits in 2009. Our overseas profits, which arise mainly in the US, are largely subject to tax at higher rates than the UK corporation tax rate (which had an effective statutory rate of 28% in 2010 and in 2009). Higher tax rates were partly offset by the recognition of tax losses and credits in the year including pre-acquisition and capital losses that were utilised in connection with the Interactive Data sale. The tax charge relating to that sale in July 2010 is included in the profit on discontinued businesses.

Non-controlling interest

The non-controlling interest in the income statement comprises mainly the publicly-held share of Interactive Data for the period to disposal in July 2010. There are also non-controlling interests in the Group's businesses in South Africa, Nigeria, China and India although none of these are material to the Group numbers. The non-controlling interest in the Group's Brazilian business, SEB was bought out in the first half of 2011.

Discontinued operations

On July 29, 2010, Interactive Data, in which Pearson held a 61% interest was sold. (Pearson's share of the sale proceeds was \$2bn.) The results of Interactive Data have been included as discontinued operations up to the date of sale on July 29, 2010. Included in discontinued operations in 2010 is Interactive Data's results for the seven months to the date of sale, the gain on sale of £1,037m and the attributable tax charge of £306m. The total profit from discontinued operations, after taking account of the above items, was £776m in 2010 compared to £85m in 2009.

Profit for the year

The profit for the financial year in 2010 was £1,300m compared to a profit in 2009 of £462m. The overall increase of £838m was mainly due to the gain on sale of Interactive Data but also due to the improved operating performance and decrease in net finance costs.

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 161.9p in 2010 compared to 53.2p in 2009 based on a weighted

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average number of shares in issue of 801.2m in 2010 and 799.3m in 2009. The increase in earnings per share was due to the increase in profit for 2010 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 161.5p in 2010 and 53.1p in 2009 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 2010 compared to 2009. 2010 sales, translated at 2009 average exchange rates, would have been lower by £128m and operating profit, translated at 2009 average exchange rates, would have been lower by £37m. 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 business segments. 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 of acquired intangibles and acquisition costs. The amortization of acquired intangibles is the amortization of intangible assets acquired through business combinations and acquisition costs are the direct costs of acquiring those businesses. Neither of these charges are considered to be fully reflective of the underlying performance of the Group. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are excluded from adjusted operating profit as they distort the 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, 2010							
£m	North American Education	International Education	Professional	FT Group	Interactive Data	Penguin	Total
Sales	2,640	1,234	333	403	—	1,053	5,663
	47%	22%	6%	7%	—	18%	100%
Total operating profit	415	119	42	62	—	105	743
	56%	16%	6%	8%	—	14%	100%
Add back:							
Other net gains and losses	—	10	—	(12)	—	—	(2)
Acquisition costs	1	7	2	1	—	—	11
Amortization of acquired intangibles	53	35	7	9	—	1	105
Adjusted operating profit: continuing operations	469	171	51	60	—	106	857
Adjusted operating profit: discontinued operations	—	—	—	—	81	—	81
Total adjusted operating profit	469	171	51	60	81	106	938
	50%	18%	5%	6%	9%	12%	100%

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	Year Ended December 31, 2009						
£m	North American Education	International Education	Professional	FT Group	Interactive Data	Penguin	Total
Sales	2,470	1,035	275	358	—	1,002	5,140
	48%	20%	6%	7%	—	19%	100%
Total operating profit	354	109	42	31	—	83	619
	57%	18%	7%	5%	—	13%	100%
Add back:							
Amortization of acquired intangibles	49	32	1	8	—	1	91
Adjusted operating profit: continuing operations	403	141	43	39	—	84	710
Adjusted operating profit: discontinued operations	—	—	—	—	148	—	148
Total adjusted operating profit	403	141	43	39	148	84	858
	47%	16%	5%	5%	17%	10%	100%

North American Education

North American Education sales increased by £170m, or 7%, to £2,640m in 2010, from £2,470m in 2009 and adjusted operating profit increased by £66m, or 16%, to £469m in 2010 from £403m in 2009. The results were affected by the relative strength of the US dollar, which we estimate increased sales by £53m and adjusted operating profit by £10m when compared to the equivalent figures at constant 2009 exchange rates. At constant exchange and after taking account of the contribution from acquisitions there was underlying growth in sales of 4% and profits of 12%. Growth was driven by the US Higher Education business.

The US School publishing market grew 3.2% in 2010, according to the Association of American Publishers. State budgets continue to be under pressure but the industry returned to growth, benefiting from the stronger new adoption opportunity this year (total opportunity of \$800m in 2010 against \$500m in 2009). The US School curriculum business gained share with a strong performance from enVisionMATH, our digital math curriculum. Successnet, our online learning platform for teachers and students which supports Pearson's digital instruction, assessment and remediation programs, grew strongly, achieving almost 6 million registrations in 2010, up 33% on 2009, with the number of assessments taken through the system rising 53% to more than 8m. We continued to develop digital programs, platforms and mobile apps to boost achievement and to increase access and affordability. We successfully launched three major new school programs: digits, our digital middle school math program, which provides services for teachers including embedded assessment, differentiation of students and automation of administrative tasks; Writing Coach which is a blended print and online program that helps middle and high school students in writing and grammar with personalized assignments and grading; and Online Learning Exchange which is an open education resource that allows teachers to create personalized digital learning programs using standards-based Pearson content as well as teacher-generated material. Poptropica is the largest virtual world for young children in the US with average monthly unique visitors growing by 40% to 8.1m from more than 100 countries and speaking more than 70 languages. Poptropica launched seven new islands and was the fifth most searched-for video game on Google.com in 2010. In September 2010 we acquired America's Choice to boost Pearson's services in school reform, a major focus of the US education department. America's Choice brings together instruction, assessment, leadership development, professional development, coaching and ongoing consulting services.

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Revenues at our US Assessment & Information division were broadly level against 2009. State funding pressures produced tough market conditions for our state assessment and teacher licensure testing businesses. This was offset by good growth in clinical and diagnostic assessments. We saw good profit growth at Assessment and Information as we benefited from a shift to premium products and further efficiencies generated from the integration of the Harcourt Assessment business. We renewed two important contracts, extending our long-standing relationships with the College Board to administer the SATs and with the Texas Education Agency to administer state-wide student assessments. We continued to achieve strong growth in secure online testing, delivering 13.3 million secure online tests in 2010, up 41% over 2009. Our market leading student information systems business in the US continued to achieve rapid organic growth further boosted by the acquisition of Administrative Assistants Limited in 2010. We now support almost 16 million US students, an increase of 49% over 2009. We achieved strong growth with AIMSWEB, our progress monitoring service which enables early intervention and remediation for struggling students. AIMSWEB supported almost four million students, an increase of more than 20% in 2010.

The US Higher Education publishing market grew 7.3% in 2010, according to the Association of American Publishers with the industry benefiting from healthy enrolment growth and good demand for instructional materials. Pearson gained share from its lead in technology and customisation. Our US Higher Education business has now grown faster than its industry for 12 consecutive years. The pioneering 'MyLab' digital learning, homework and assessment programs again grew strongly with student registrations up 32% to more than 7.3m in North America. We launched LearningStudio which provides a broad suite of learning management technologies including eCollege and Fronter. LearningStudio increased fully online enrolments by 54% to 8.3m in North America. Renewal rates remained high at approximately 90% by value.

Overall adjusted operating margins in the North American Education business were higher at 17.8% in 2010 compared to 16.3% in 2009 with the majority of the increase attributable to cost efficiencies and the relative success of higher margin digital products.

International Education

International Education sales increased by £199m, or 19%, to £1,234m in 2010, from £1,035m in 2009 and adjusted operating profit increased by £30m, or 21%, to £171m in 2010 from £141m in 2009. The sales results benefit from exchange gains and a full year contribution from acquisitions made in 2009.

The International Education business was active in more than 70 countries in 2010. More than 670,000 students outside America used our MyLab digital learning, homework and assessment programs, an increase of more than 40%. They included 150,000 users of our online English-language products MyEnglishLabs and MyNorthStarLab, a 170% increase. Our eCollege learning management system won new contracts in Malaysia and Colombia. Our Fronter learning management system continued to grow strongly with unique registration rising more than 20% to 1.1 million students in more than 8,700 schools, colleges and universities around the world. Pearson Learning Solutions, which combines products and services from across Pearson to deliver a systematic approach to improving student performance, won new contracts in South Africa, Malta, Vietnam and the UK. During the year, the International Education business acquired Wall Street Institute (WSI), which provides premium spoken English training for adults, for \$101m in cash. In 2010 WSI had about 340 franchised learning centers in 25 territories in Asia, Europe, the Middle East and Africa. The acquisition reunites Wall Street Institute with Wall Street English, the Chinese arm of the company acquired by Pearson in 2009.

In the UK, BTEC, our flagship vocational qualification, attracted more than 1.4 million student registrations, up 28% on 2009. Registrations for our NVQ work-based learning qualification grew 45% to more than 165,000, and we introduced the BTEC Apprenticeship to serve the work-based learning market. We marked more than 5.4 million A/AS Level and GCSE and Diploma scripts in the 2009-2010 academic year, with 90% now marked onscreen. Pearson marked and delivered 3.4 million tests in six weeks for the National Curriculum Tests at Key Stage 2. We established a new school improvement business in the UK, which will work with schools to help them train teachers, improve strategic planning and structure teaching methods.

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In Italy, adoption of our Linx digital secondary science program increased three-fold, helping Pearson to grow strongly and become joint market leader for combined lower and upper secondary education. Linx is built around content from our North American science programs customized for the Italian market. We began to develop a broader range and depth of digital products and services, including teacher training, to personalize learning and increase educational effectiveness. In the Netherlands, we launched iPockets, the first fully digital Early English course for 4-8 year-olds in Primary Education. The course is 100% digital and subscription based and customized for the Dutch market.

In South Africa's Western Cape province, we won a three-year contract to prepare, administer and report all Grade 9 student assessments. The tests focus on both individual student results and the systemic performance of schools and districts. Pearson won new national contracts in Ethiopia, to supply 2.9 million Biology, Physics and English learning materials for Senior Secondary Grades 9 to 12. In Zimbabwe, we were awarded a contract by UNICEF to deliver 13.5 million textbooks to children in Grades 1 to 7 in Mathematics, Environmental Science, English, Shona and Ndebele.

We generated strong growth in the Gulf region in higher education with integrated technology products in Business & Economics and Science. Student enrolments at our Wall Street English schools in China increased by 27% and we announced plans to open 50 new English language centers in China over the next three to five years, adding to the 66 centers and schools already operating under the Wall Street English and Longman English brands

Pearson announced its strategic partnership with SEB in Brazil to provide services to its educational institutions and to acquire its school learning systems ("sistema") business for \$517m. A sistema is an integrated learning system incorporating curriculum design, teacher support and training, print and digital content, technology platforms, assessment and other services. In 2010 SEB's sistemas served more than 450,000 students across both private and public schools. Our School Curriculum business grew strongly, particularly in Mexico, Colombia, Chile and Peru, as we continued to build our locally developed materials as well as Spanish language adaptations of US school programmes. There was strong growth of English Language Teaching materials across Latin America underpinned by performance in Brazil, Colombia, Argentina, Chile, Dominican Republic and Peru.

International Education adjusted operating margins improved slightly from 13.6% in 2009 to 13.9% in 2010.

Professional

Professional sales increased by £58m, or 21%, to £333m in 2010 from £275m in 2009. Adjusted operating profit increased by £8m or 19% to £51m in 2010, from £43m in 2009. Sales growth in the assessment and training businesses was strong and benefited from the acquisition of Melorio in June 2010.

In professional testing we continued to see good growth at Pearson VUE which administered more than 8 million tests in 2010, up 3% on 2009. Average revenues per test increased in 2010 as we develop a broader range of services and enhance our systems and assessments to meet our customer's needs. Pearson VUE renewed a number of major contracts including the Driving Standards Agency (DSA) of Great Britain and the Driver & Vehicle Agency (DVA) of Northern Ireland; Cisco; and Colorado Department of Regulatory Agencies. We also won a number of new contracts to deliver computer-based tests in the US, UK, UAE, Saudi Arabia, Egypt and Bahrain, covering the real estate, accountancy, legal, healthcare, skills and finance sectors.

In professional training, we acquired Melorio plc, one of the UK's leading vocational training groups, for £98m, supporting our vocational education strategy by combining Melorio's training delivery skills with our existing complementary strengths in educational publishing, technology and assessments. Melorio traded well in the second half of the year securing a number of large key contracts for training delivery, and successfully graduating and placing the largest IT graduate cohort in the history of the business. Our investment in systems, streamlining the course offering and training centres and back office integration are all on track.

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Our Professional publishing business was level in 2010 with steady margins as strong growth in digital products and services offset continued challenging trading conditions in the retail market and a planned reduction in the number of print titles published. We launched online learning products with customisable content, assessment and personalised study paths and also delivered 450 hours of technical training through online subscriptions for the IT certification market. We developed applications for social networks and mobile devices to extend the reach and accessibility of our content and videos available within our Safari Books Online platform.

Overall adjusted operating margins in the Professional business were slightly lower at 15.3% in 2010 compared to 15.6% in 2009 as margins were impacted by the acquisition of Melorio.

FT Group

Sales at FT Group increased by £45m or 13%, from £358m in 2009 to £403m in 2010. Adjusted operating profit increased by £21m, from £39m in 2009 to £60m in 2010. The sales and profit increase is mainly from the *Financial Times* which saw increased demand for digital products and a pick up in advertising in the year. The Economist and other joint ventures and associates also contributed to the profit growth.

The *Financial Times* saw strong and accelerating growth in digital readership with digital subscriptions up over 50% to 207,000, more than 1,000 direct corporate customers and registered users up 79% to more than 3 million. It generated over 900,000 downloads of FT apps on mobile phones and tablet devices and won a prestigious Apple Design Award for its iPad app. The FT's combined paid print and digital circulation reached 597,000 in the fourth quarter of 2010. After weak advertising markets in 2009, we saw good advertising growth in 2010 although the visibility for advertising revenues is poor. We extended the breadth and depth of FT's premium subscription services through the launch of FT Tilt, focused on emerging markets; the launch of MandateWire US, extending the reach of this successful European brand into new markets; and the acquisition of Medley Global Advisors, a premier provider of macro policy intelligence.

Mergermarket benefited from improving market conditions and its flexibility in adapting to new client investment strategies, which supported stronger renewal rates and new business revenues. An increase in global merger and acquisition activity benefited Mergermarket and dealReporter; while continued volatility in debt markets helped sustain the strong performance of DebtWire. We saw strong growth in developing markets supported by new product launches including our first local language version of Mergermarket in China. In March 2010 we acquired Xtract research, which provides bond covenant data to allow investors to understand how covenants might impact on valuation.

The *Economist*, in which Pearson owns a 50% stake, increased global weekly circulation by 3.7% to 1.47 million (for the July-December 2010 ABC period) and total annual online visits increased to 118 million, up 21% on 2009. FTSE, our 50% owned joint venture with the London Stock Exchange, increased revenues by 20% and acquired the remaining 50% of FXI, FTSE's joint venture with Xinhua Finance in China. Business Day and Financial Mail (BDFM), our 50% owned joint-venture in South Africa with Avusa, returned to profitability with revenue increasing by 5%. The business benefited from a recovery in advertising and the closure of non-profitable operations.

Overall adjusted operating margins at FT Group increased from 10.9% in 2009 to 14.9% in 2010 as advertising revenue fell through to the bottom line.

The Penguin Group

Penguin sales increased by £51m or 5%, to £1,053m in 2010 from £1,002m in 2009 and adjusted operating profit was up 26% to £106m in 2010 from £84m in 2009. Both sales and adjusted operating profit were affected by the stronger US dollar which we estimate increased sales by £32m and adjusted operating profit by £13m when compared to the equivalent figures at constant 2009 exchange rates. In 2010, Penguin benefited from a

series of organisational changes in the UK made in 2009. These were designed to strengthen its publishing, reduce costs and accelerate the transition to digital production, sales channels and formats and to lower cost markets for design and production. Penguin's 2009 results include approximately £9m of charges relating to these organisational changes.

Penguin saw a strong and consistent publishing performance across imprints and territories producing market share gains in the US, UK and Australia, our three largest markets. Strong growth in developing markets was boosted by the launch of new imprints and the increasing breadth and depth of our local publishing programs in India, China and South Africa. There was continued investment in global publishing with the launch of Penguin's Classics in Portuguese and Arabic, joining existing Mandarin and Korean editions, the launch in India of a new imprint in partnership with bestselling author Shobhaa De, and the continued international roll-out of our non-fiction imprint Allen Lane in Canada.

ebook sales were up 182% on the previous year and in 2010 accounted for 6% of Penguin revenues worldwide. We accelerated our investment in digital products and innovation with new app releases in the children's market including Spot, Peppa Pig, The Little Engine That Could, Ladybird's Babytouch and the Mad Libs app, which was named one of the best apps at the 2010 E-Book Summit. For adults, we launched the groundbreaking myFry app; published the amplified ebook of Ken Follett's international bestselling novel *The Pillars of the Earth*, featuring video, art and music from the original TV series; and we introduced ten DK Eyewitness Top Ten Travel Guides apps. Penguin continued to invest to transform its internal publishing processes onto Pearson-wide digital platforms enabling faster product development and more efficient creation and re-use of content.

Penguin performed strongly in the US with a broad range of number one bestsellers from repeat authors such as Charlaine Harris, Nora Roberts, Tom Clancy, Ken Follett and Patricia Cornwell. Kathryn Stockett's *The Help* stayed on the *New York Times* bestseller list for the whole of 2010 and has sold more than three million copies to date. Our outstanding performance in the UK, resulting in our market share in 2010 rising two percentage points to 10%, was led by Jamie Oliver's *30 Minute Meals*. It sold 1.2 million copies to become the UK's biggest selling non-fiction title of the last decade. Major bestsellers included Stephen Fry's *The Fry Chronicles*, Kathryn Stockett's *The Help*, and *The History of the World in 100 Objects* (published in partnership with the BBC and the British Museum), as well as the *Percy Jackson* and *Diary of a Wimpy Kid* series. DK produced a very good year thanks in part to its top-performing franchise LEGO (*Lego Star Wars Visual Dictionary* was on the *New York Times* bestseller list for the whole of 2010 with 18 weeks at number one). Other bestselling titles included *The Masterchef Cookbook*, *Complete Human Body* and *Natural History*. DK continued to benefit from the organisation changes made in 2009 as well as the ongoing development of its publishing centre in India. Penguin Children's had an excellent year in both the US, with Penguin Young Readers Group achieving a record 39 *New York Times* bestsellers, and in the UK, where we reclaimed our position as the number one children's publisher with significant market share gains.

Penguin adjusted operating margins improved in 2010 to 10.1% from 8.4% in 2009.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations decreased by £76m (or 7%), to £1,093m in 2011 from £1,169m in 2010. Cash flows are translated at an exchange rate approximating to the rate at the date of cash flow. The decrease in net cash generated from operations in 2011 compared to 2010 reflected a lower year end contribution from working capital movements as pre-publication expenditure matched pre-publication amortization in 2011. In 2010, a strong school adoption year, pre-publication amortization exceeded expenditure. In 2011, the average working capital to sales ratio for our book publishing businesses over the whole year improved to 16.9% from 20.1% in 2010, reflecting the financial characteristics of the ongoing portfolio shift to more digital and service-

orientated businesses. 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 £157m (or 16%), to £1,169m in 2010 from £1,012m in 2009. This increase reflected strong cash contributions, particularly from our education businesses and higher pre-publication amortization relative to expenditure in a strong school adoption year. In 2010, the average working capital to sales ratio for our book publishing businesses improved to 20.1% from 25.1% in 2009, reflecting tight working capital management and the financial impact of the shift to more digital and service-orientated products and businesses.

Net interest paid decreased to £60m in 2011 from £68m in 2010 in line with lower average net debt following receipt of the proceeds from the sale of Interactive Data. Net interest paid decreased to £68m in 2010 from £87m in 2009. The decrease reflects the repayment of a US Dollar bond in 2009 and lower variable interest rates.

Capital expenditure on property, plant and equipment and software intangibles was £144m in 2011, £132m in 2010 and £120m in 2009. Expenditure has been prioritized towards information technology and software to further enhance the digital capability of the Group.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £788m in 2011 against £557m in 2010 and £222m in 2009. The increase reflects the re-shaping of the portfolio following the sale of Interactive Data. The principal acquisitions in 2011 were of Schoolnet for £141m, Education Development International for £108m, Connections Education for £244m, Global Education for £97m and TutorVista for £75m. The principal acquisitions in 2010 were of Sistema Educacional Brasileiro for £228m, Melorio for £97m, Wall Street Institute for £64m and America's Choice for £53m.

The sale of subsidiaries and associates produced a net cash inflow of £422m in 2011 against £734m in 2010 and £nil in 2009. The proceeds in 2011 relate to the sale of the Group's 50% holding in FTSE International. The proceeds in 2010 relate to the sale of Interactive Data, with proceeds received being £984m and tax paid relating to this disposal of £250m.

The cash outflow from financing of £790m reflects the repayment of a \$500m bond, a further 9% increase in the dividend and the final payment of £108m in the stepped acquisition of Sistema Educacional Brasileiro. The cash outflow from financing of £92m in 2010 reflects a further increase in the group dividend and the purchase of treasury shares, with some offset from a \$350m US Dollar Note issued in the year. The cash outflow from financing of £366m in 2009 reflects the repayment of one \$350m bond, the repayment of borrowings under the Group's committed borrowing facility and an increase of the dividend in line with earnings. Offsetting this, the Group issued £300m of sterling bonds in the year.

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 changes 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, 2011, our net debt was £499m compared to net debt of £430m at December 31, 2010. Net debt is defined as all short-term, medium-term and long-term borrowing (including finance leases), less all cash,

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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 £2,051m at December 31, 2011, compared to £2,312m at December 31, 2010 reflecting the repayment of the \$500m bond in the year and a slight weakening of sterling against the US dollar. At December 31, 2011, cash and liquid resources were £1,369m, compared to £1,736m at December 31, 2010. This decrease is due to the re-investment of the proceeds from the sale of Interactive Data via the various acquisitions above, with some offset from receipt of the proceeds from the sale of FTSE International.

Contractual obligations

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

	At December 31, 2011				
	Total £m	Less than one year £m	One to two years £m	Two to five years £m	After five years £m
Gross borrowings:					
Bank loans, overdrafts and commercial paper	78	78	—	—	—
Bonds	1,955	—	233	1,079	643
Finance lease obligations	18	9	8	1	—
Operating lease obligations	1,725	179	164	402	980
UK Pension funding obligations	369	41	41	123	164
Total	4,145	307	446	1,605	1,787

At December 31, 2011 the Group had capital commitments for fixed assets, including finance leases already under contract, of £18m (2010: £13m). 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 and royalty claims. None of these claims or guarantees is expected to result in a material gain or loss.

In 2010, the Group negotiated a new \$1,750m committed revolving credit facility which matures in November 2015. The Group is committed to an annual fee of 0.2625% payable quarterly, on the unused amount of this 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.