Operating profit attributable to Pearson Education decreased by £165m, or 26%, to £474m in 2012, from £639m in 2011. The decrease was largely attributable to the £113m closure charge, together with intangible impairments and the weakness in trading of Pearson in Practice over the year. Operating profit attributable to the FT Group after taking out the profit on sale of FTSE decreased by £26m, or 39%, to £41m in 2012, from £67m in 2011. In 2011 the share of profit from the FTSE investment together with royalties received from FTSE was included within FT Group’s operating profits, and this totaled £20m.

Net finance costs

Net finance costs increased from £71m in 2011 to £81m in 2012. Net interest payable increased from £55m in 2011 to £65m in 2012, reflecting an increase in floating market interest rates on US dollar borrowings combined with the effect of higher average levels of net debt resulting from the Group’s acquisition activity during 2012. 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) rose by 0.2% to 0.5%. This increase in floating market interest rates combined with an increase in the Group’s average net debt helped drive the Group’s higher interest charge. These factors combined with a decrease in interest income on deposits created an increase in the Group’s average net interest payable from 6.5% to 7.0%. Overall net borrowings increased by £419m from £499m at the end of 2011 to £918m at the end of 2012. In 2012 we invested £759m in new acquisitions and that together with tax and dividend payments was enough to offset cash generated from operating activities.

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 2012 the total of these items was a loss of £29m compared to a loss of £19m in 2011. The majority of the loss in 2012 relates to movements in the valuation of put options associated with acquisitions. In 2011 the loss relates mainly to foreign exchange differences on a proportion of the unhedged US dollar proceeds from the Interactive Data sale in 2010. 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 2012 of £148m represents 34% of pre-tax profits compared to a charge of £162m or 16% of pre-tax profits in 2011. 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 24.5% in 2012 and 26.5% in 2011). The increase in the tax rate in 2012 is largely due to the lack of tax relief on the loss on closure of Pearson in Practice together with the effect of a low tax charge in 2011 on the gain on disposal of FTSE.

Non-controlling interest

In 2012 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.

Discontinued operations

In October 2012, Pearson and Bertelsmann entered into an agreement to create a new consumer publishing business by combining Penguin and Random House. The transaction is expected to complete in 2013 and, at that point, Pearson will no longer control the Penguin Group of companies but will hold a 47% equity interest in the combined Penguin Random House, which will be accounted for under the equity method. The impending loss of control results in the Penguin business being classified as held for sale on the Pearson balance sheet at December 31, 2012 and the results for all years through 2012 have been included in discontinued operations.

Profit for the year

The profit for the financial year in 2012 was £329m compared to a profit in 2011 of £956m. The 2011 profit included the contribution from the FTSE disposal of £412m, and 2012 included costs relating to business closures of £113m.

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 40.5p in 2012 compared to 119.6p in 2011 based on a weighted average number of shares in issue of 804.3m in 2012 and 800.2m in 2011. The decrease in earnings per share was due to the decrease in profit for 2012 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 40.5p in 2012 and 119.3p in 2011 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 non- US dollar currency against sterling on an average basis had an adverse impact on reported sales and profits in 2012 compared to 2011. 2012 sales, translated at 2011 average exchange rates, would have been higher by £29m and operating profit, translated at 2011 average exchange rates, would have been higher by £7m. 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 other net gains and losses, acquisition costs and amortization and impairment of acquired intangibles. The intangible charges relate to 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:

£m	North American Education	International Education	Professional	FT Group	Continuing	Discontinued	Total
	Year Ended December 31, 2012						
Sales	2,658	1,568	390	443	5,059	1,053	6,112
	53%	*31%*	*7%*	*9%*	100%		
Total operating profit	463	135	(124)	41	515	62	577
	90%	*26%*	*(24)%*	*8%*	100%		
Add back:							
Other net gains and losses	—	—	123	—	123	32	155
Acquisition costs	7	8	1	4	20	1	21
Intangible charges	66	73	37	4	180	3	183
Adjusted operating profit: continuing operations	536	216	37	49	838	—	838
Adjusted operating profit: discontinued operations	—	—	—	—	—	98	98
Total adjusted operating profit	536	216	37	49	838	98	936
	57%	*23%*	*4%*	*5%*	*89%*	*11%*	*100%*

£m	North American Education	International Education	Professional	FT Group	Continuing	Discontinued	Total
	Year Ended December 31, 2011						
Sales	2,584	1,424	382	427	4,817	1,045	5,862
	53%	*30%*	*8%*	*9%*	100%		
Total operating profit	463	121	55	479	1,118	108	1,226
	41%	*11%*	*5%*	*43%*	100%		
Add back:							
Other net gains and losses	(29)	6	—	(412)	(435)	—	(435)
Acquisition costs	2	9	—	1	12	—	12
Intangible charges	57	60	11	8	136	3	139
Adjusted operating profit: continuing operations	493	196	66	76	831	—	831
Adjusted operating profit: discontinued operations	—	—	—	—	—	111	111
Total adjusted operating profit	493	196	66	76	831	111	942
	52%	*21%*	*7%*	*8%*	*88%*	*12%*	*100%*

North American Education

North American Education sales grew by £74m, or 3%, to £2,658m in 2012, from £2,584m in 2011 and adjusted operating profit increased by £43m, or 9%, to £536m in 2012 from £493m in 2011. The average dollar rate strengthened slightly from 2011 to 2012 which we estimate increased sales by £19m and adjusted operating profit by £5m when compared to the equivalent figures at constant 2011 exchange rates. At constant exchange and after taking account of the contribution from acquisitions there was underlying decline in sales of 4% and increase in profits of 3%.

In 2012, our strength in digital and services businesses and tight cost control enabled us to perform ahead of our more traditional print publishing markets, which declined by 10% for the industry as a whole and were adversely affected by state budget pressures and declines in college enrolments.

In US School, the textbook publishing market declined by 15% in 2012, 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 $380m in 2012 against $650m in 2011) and delays in purchasing decisions during the transition to the new Common Core standards. Pearson gained share in very tough market conditions, taking an estimated 31% of new adoptions where we competed. enVision Math continued to perform strongly, with a recent *What Works Clearing House* study showing that students using the programme out-performed peers by between six and eight percentiles in math across a broad range of student populations. iLit, our new digital reading intervention programme, was successfully implemented in 20 districts with early results showing strong reading gains. Connections Education, which operates online K-12 schools in 22 states and a nationwide charter programme, served more than 43,000 students in 2012, up 31% from 2011 and broadened its product offering to include virtual classrooms for public school campuses. Connections Academy Schools have consistently high performance ratings, particularly in states focused on measuring growth in student learning.

At our Assessment and Information business, revenues were flat in 2012. State funding pressures and the transition to Common Core assessments continued to make market conditions tough for our state assessment and teacher testing businesses. We continued to produce strong growth in secure online testing and we increased online testing volumes by more than 10m, delivering 6.5 million state accountability tests, 4.5 million constructed response items and 2 1million spoken tests. We now assess oral proficiency in English, Spanish, French, Dutch, Arabic and Chinese. We also launched the Online Assessment Readiness Tool for the PARCC and the Smarter Balance Assessment Consortium (SBAC) Common Core consortia to help 45 states prepare for the transition to online assessments. We won new state contracts in Colorado and Misouri and a new contract with the College Board to deliver ReadiStep, a middle school assessment that measures and tracks college readiness skills. We extended our contract with the College Board to deliver the ACCUPLACER assessment, a computer-adaptive diagnostic, placement and online intervention system that supports 1,300 institutions and 7 million students annually. We won five Race To The Top state deals (Kentucky, Florida, Colorado, North Carolina and New York) led by Schoolnet. PowerSchool won three state/province-level contracts (North Carolina, New Brunswick and Northwest Territories). We launched our mobile PowerSchool applications and grew our third party partner ecosystems to over 50 partners. PowerSchool supports more than 12 million students up more than 20% on 2011 while Schoolnet supports 8.3 million students, up almost 160% on 2011. Our clinical assessment business was boosted by strong growth at AIMSweb, our progress monitoring service which enables early intervention and remediation for struggling students. AIMSweb delivered 58 million assessments in 2012, up 12%.

In Higher Education, the publishing market declined 6% net in 2012, according to the Association of American Publishers. Total US College enrolments were 2% lower in 2012 than in 2011, affected by rising employment rates, state budget pressures and regulatory change affecting the for-profit sector. In a difficult trading environment Pearson gained share for the 14th consecutive year, again benefitting from our lead in technology and customization. Student registrations at e-College grew 3% to 8.7 million, despite pressure in the for-profit college market. We won new online enterprise learning contracts with California Sate University and Rutgers University. Our strong managed enrolment services and student marketing product offering, coupled with continued strong growth at Arizona State University, helped our online enterprise learning business to grow 150% to almost 44,000 enrolments. During the year we acquired EmbanetCompass which provides a full range or services targeted towards online graduate programmes. Pearson's pioneering 'My Lab' digital learning, homework and assessment programmes grew well with student registrations in North America up 11% to almost 10 million with strong usage growth with graded submissions up 12% to almost 320 million across the globe. OpenClass, Pearson's free learning management system, has been installed by almost 1,300 K-12 and College institutions in the US and now serves approximately 100,000 users. During 2012 we launched Project Blue Sky, a cloud-based content service that allows college instructors to combine Open Educational Resources with instructor-created and Pearson content. We also launched Pearson Workforce Education which delivers more than 60 online courses in high demand occupational training areas from IT and Healthcare to management and soft skills courses; and Propero, which combines on-demand tutoring, student support and online courses to expand access to higher education and support degree completion.

Overall adjusted operating margins in the North American Education business were higher at 20.2% in 2012 compared to 19.1% in 2011 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 £144m, or 10%, to £1,568m in 2012, from £1,424m in 2011 and adjusted operating profit increased by £20m, or 10%, to £216m in 2012 from £196m in 2011. At constant exchange and after taking account of the contribution from acquisitions there was underlying growth in sales of 7% and an increase in profits of 11%.

Our businesses in emerging markets continued to perform strongly, supported by good enrolment trends and sustained investment. Our UK business was resilient during the year despite significant regulatory and policy changes across vocational and general qualifications, apprenticeships and higher education. In the rest of the world, a recovery in Japan following the 2011 tsunami and a strong competitive performance in Italy more than offset weak market conditions in Spain.

In English Language Learning, Wall Street English, Pearson’s worldwide chain of English language centres for professionals, opened a net of 11 new centres around the world, bringing the total number to 460. Student numbers fell by 2% to more than 191,000, primarily due to the closure of a large franchise centre in Chile with approximately 7,000 students. MyEnglishLabs enrolments grew 60% to 263,000 supported by the launch of our next generation platform which supports 12 languages and 43 new courses. We acquired Global English during the year which is a leading provider of cloud-based, on-demand Business English learning, assessment and performance support software. More than 1.1 million students registered for our MyLab digital learning, homework and assessment programmes, an increase of 18%, with good growth in school, ELT and institutional selling in higher education.

In the UK, we market more than 6.3 million GCSE, A/AS level and other examinations with 90% using onscreen technology and more than 3.8 million test scripts for over half a million pupils taking National Curriculum Tests at Key Stage Two in 2012. We launched our Next Generation BTECs which are now the leading vocational qualification on the new funding and accountability frameworks in schools. Our Vocational qualifications business grew well with the continued popularity of BTEC amongst employers and universities and a strong performance in work-based learning (with registrations now up to 170,000) further boosted by a good performance from EDI, our provider of education and training qualifications and assessment services.

In China, student enrolments at Wall Street English increased 15% to almost 61,000, boosted by good underlying demand and the launch of ten new centres taking the total to 66. Our students rapidly acquire high-level English skills with average grade levels achieved rising 8% during 2012. Enrolments at Global Education, our test preparation services for English language qualifications, increased 16% to more than 1 million, through 73 owned and 372 franchised learning centres.

In South Africa we held share in school publishing in market conditions which were tougher than expected despite a year of major curriculum reform. Student enrolments grew strongly at CTI, our South African University, up 19% to more than 10,000. We partnered with UNISA, South Africa’s largest university and the largest distance learning provider in Africa, to provide 30,000 students with access to our MyLabs software, digital resources and customized eBooks.

In Brazil we ended 2012 with 533,000 students in our public and private sistemas (or learning systems) and added 24,000 students in our two largest private sistemas, COC and Dom Bosco, up 8% on 2011. Our public sistema, NAME, includes the top performing lower secondary school in Brazil and test scores for our public school students are, on average, 20% above the 2011 national IDEB standard for 4th and 8th grade students. In Mexico, we partnered with local curriculum and technology experts INITE to launch UTEL, a new university enabling Mexicans to enroll in online degree courses in management, IT, marketing, engineering and computer science. UTEL enrolled 2,500 undergraduate students and 4,000 learners in shorter corporate training or continuing professional education courses. UTEL’s services arm, Scala, signed its first contract to provide online learning services to an existing higher education institution.

In India, TutorVista is now managing 35 schools and its multimedia teaching solution Digiclass is installed in approximately 17,000 classrooms. ActiveTeach, our digital learning platform for schools, was adopted by 200 schools serving approximately 100,000 students. In the Middle East, the Abu Dhabi Education Council purchased our print and digital Math and Science resources for all schools from grades 6 to 10, the American University of Sharjah adopted MyLabs for four mathematics courses and three science courses, and we are providing access to digital course content for 5,000 students at Abu Dhabi’s Higher Colleges of Technology through our Pearson e-texts iPad app. In Italy, 6,000 students registered for MyEnglishLab Italiano, our new digital curriculum, helping us gain share in upper secondary adoptions and to see good growth overall.

Overall adjusted operating margins in the International Education business remained constant at 13.8% in both 2011 and 2012.

Professional

Professional sales increased by £8m, or 2%, to £390m in 2012 from £382m in 2011. Adjusted operating profit decreased by £29m or 44% to £37m in 2012, from £66m in 2011. The UK training business Pearson in Practice had a significant negative impact on the 2012 performance, while other parts of the professional division performed well.

Professional training was very weak with our UK adult training business Pearson in Practice, facing a dramatic fall in demand as a result of changes to the apprenticeships programme. Pearson believes that this business no longer has a sustainable model and announced in January that we are to exit Pearson in Practice. The cost of exit and impairment is £113m and is reported as a loss on closure in the 2012 financial statements.

Within professional training, TQ however continues to make significant progress in the direct delivery of training services overseas. In Saudi Arabia, we extended the contract to operate the Saudi Petroleum Services Institute for five years and won a five-year contract to run a new Institute at Al Khafji. In Oman, a TQ-led consortium won the bid to provide training to BP, including a wide range of technical and English language training for BP workers as they prepare to open up the Khazzan oilfield for full scale production in 2016.

Professional publishing grew modestly with good profit growth. In the US, the growth of eBook sales and other digital products and services continued to outpace ongoing challenges in the traditional retail channel.

Professional testing continued to see good revenue and profit growth with test volumes at Pearson VUE up 7% on 2011 to almost 8 million with Certiport adding an additional 2.3 million tests, up 13% on 2011. There were key renewals of the National Council of State Boards of Nursing contract running until 2019 and the Computing Technology Industry Association contract was secured with Pearson VUE as the single vendor running through to 2017. We won a number of new contracts including a 10 year contract to administer all computer and paper based tests for the Australia CPA Professional exams and five year contracts with the National Center for Assessment in Saudi Arabia and the National Council of State Boards of Nursing to provide the NCLEX-RN in Canada beginning in 2015 for ten Canadian registered nurse regulatory bodies. The partnership with the American Council on Education to develop an online General Educational Development (GED) test aligned with new Common Core standards has now launched computer based testing in 37 jurisdictions.

Overall adjusted operating margins in the Professional business were significantly lower at 9.5% in 2012 compared to 17.3% in 2011 as margins fell due to the poor performance at the Pearson in Practice business.

FT Group

Sales at FT Group increased by £16m or 4%, from £427m in 2011 to £443m in 2012. Adjusted operating profit decreased by £27m, from £76m in 2011 to £49m in 2012. Included in the 2011 figure is the share of profit from the investment in FTSE together with royalties received from FTSE prior to the date of sale. Together these totaled £20m and were included in adjusted operating profit.

Within the FT Group, digital and service revenues accounted for 50% of revenues, compared with 31% in 2008. Content comprised 61% of revenues and advertising accounted for 39%; these compare to 48% for content and 52% advertising in 2008.

The *Financial Times* (FT) digital readership continues to grow strongly with digital subscriptions increasing 18% to almost 316,000 and with 3.5 million FT Web App users. The FT's total paid circulation was more than 602,000 across print and online, modestly up on 2011, with digital subscriptions exceeding print circulation for the first time. Mobile devices now account for 30% of FT.com traffic and 15% of new subscriptions. The FT now has almost 2,800 direct corporate licenses, up 40% on 2011. We continued to invest in new products and innovation, including launching a Windows 8 app and the FT Web App on Chrome for Android; a bespoke web app for Latin America; a re-brand of the conferences division, FT Live, with the introduction of live streaming at key events; and the launch of GatekeeperIQ, a new subscription service to track large, retail investment platforms.

Advertising was generally weak and volatile with poor visibility but the FT grew market share with mobile, luxury and business education showing good growth. Digital revenues benefited from the launch of FT SmartMatch, which automatically puts client content such as articles, white papers and videos in front of FT.com users while they are reading related FT new stories.

FT Live, our events business, continued to grow strongly and launch new events, including the Global Commodities Summit, delivering more than 200 events that attracted over 17,000 delegates. We launched a digital portal that offers on-demand webinars, live-streamed events and social media tools. Educational services are an important area of expansion. The FT Non-Executive Director Certificate (in partnership with Pearson Learning Studio and Edexcel) was attended by over 150 candidates across five intakes. FT Newslines, an annotations tool on FT.com that allows students and faculties from around the world to create and share annotations on FT articles, is now being used at many business schools. The new FTChinese MBA Gym App, which features tailored training courses categorized by topic, has ranked among the top paid-for education apps on the iTunes Store and was recognized as one of the 'App Store Best of 2012' by Apple in China.

Money-Media revenues and profits continued to grow well boosted by a strong subscription performance, with the number of individual users growing 6% year on year to 220,000, and new product launches, including Ignites Retirement Research which broadens Money-Media's product offering into the investment industry research sector.

Mergermarket grew well, despite challenging markets, due to a good performance from Debtwire, mergermarket, Xtract and Remark underpinned by a strong offering following investment in its product breadth, strong editorial analysis and global presence. We launched several new products and services, including a new mergermarket Android app, a Debtwire Analytics platform in Europe and Policy and Regulatory Report (PaRR), a global intelligence, analysis and proprietary data product focused on competition law, IP and trade law, and sector-specific regulatory change. We also expanded our coverage in faster growth markets such as Latin America, China and the Middle East, generating new business and extending our international reach.

In the Economist Group, in which Pearson owns a 50% stake, *The Economist* launched three HTML5-powered apps in collaboration with FT Labs. *The Economist*'s worldwide print and digital circulation increased by 2% to 1.67m (at 31 December 2012) of which 150,000 customers bought digital-only copies. The Economist Intelligence Unit acquired Clearstate in Singapore and Bazian, a London-based healthcare research company, as part of its strategy to build a healthcare information business.

Overall adjusted operating margins at FT Group decreased from 17.8% in 2011 to 11.1% in 2012 as the effect of the FTSE disposal in 2011 impacted 2012.

The Penguin Group

Penguin sales increased by £8m or 1%, from £1,045m in 2011 to £1,053m in 2012 as the business faced tough conditions in the physical book market and adjusted operating profit was down 12% to £98m in 2012 from £111m in 2011. These results are included as part of reported discontinued operations.

In market conditions that remained challenging, Penguin had a solid year with momentum and share improving in the second half of the year. It also made several moves to offer a broader range of services to more authors across more platforms in more markets.

In the United States, we published 255 *New York Times* best sellers (254 in 2011) including *No Easy Day: The Firsthand Account of the Mission that Killed Osama bin Laden* by Mark Owen, *Bared to You* by Sylvia Day and Nate Silver's *The Signal and the Noise* as well as new titles from bestselling authors including Ken Follett, Nora Roberts, Tom Clancy and Harlen Coben. In the UK, we published 90 Bookscan bestsellers, our best year on record (compared to 78 in 2011) including Sylvia Day's *Bared to You*; Jamie Oliver's *15 Minute Meals*; Clare Balding's *My Animals and Other Family* and Daniel Kahneman's *Thinking Fast and Slow.*

eBook revenue grew strongly in 2012 and accounted for 17% of Penguin's global revenue (12% in 2011), and almost 30% in the US (20% in 2011). We continued to invest in digital publishing programmes, making eBooks available in new markets including Australia, India, Brazil and China; launching a number of digital-only imprints around the world and expanding our eSpecials list. Global app sales grew by more than 200% driven by brands including Wreck this App, Mad Libs, Moshi Monsters and LEGO® . DK was Apple's only trade publisher launch partner for the January launch of the iBooks Author 2 platform and now has more than 50 interactive titles available.

In Brazil, we acquired 45% of Companhia das Letras, a leading trade book publisher, and in India we launched a local eBook programme and enjoyed considerable success in commercial fiction with bestselling authors including Ravinder Singh and Shobhaa De. In China, we expanded our local publishing programmes in both Chinese and English with more than 100 titles now available, including its first local language top ten title, tennis player Li Na's autobiography and launched its first list of eBooks.

DK performed strongly and grew share globally led by our LEGO® publishing list. In the UK, DK celebrated a number one bestseller with *Mary Berry's Complete Cookbook*, which has sold more than one million copies worldwide. BradyGames had best sellers with *Borderlands 2, Skylanders Giants* and *Call of Duty: Black Ops II.* Author Solutions, which we acquired in July 2012 had a good start. It is the world's leading provider of professional self-publishing services and broadens our expertise in online marketing, consumer analytics, professional services and user-generated content.

Penguin adjusted operating margins reduced from 10.6% in 2011 to 9.3% in 2012.

Year ended December 31, 2011 compared to year ended December 31, 2010

Consolidated results of operations

Sales

Our total sales from continuing operations increased by £207m, or 4%, to £4,817m in 2011, from £4,610m in 2010. The increase reflected growth, on a constant exchange rate basis, at all of our businesses together with additional contributions from acquisitions made in both 2010 and 2011. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2011 sales, translated at 2010 average exchange rates, would have been £4,862m.

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Pearson Education increased sales by £183m or 4% from £4,207m to £4,390m. The International and Professional businesses both contributed to the increase and were helped by acquisitions made in 2010 and 2011. The North American business saw a sales decline of 2% at reported exchange rates although, in US dollar terms, 2011 sales were ahead of 2010. We estimate that after excluding acquisitions and the negative impact of exchange, Pearson Education sales growth was flat in 2011 compared to 2010. Pearson Education, our largest business sector, accounted for 91% of our continuing business sales in each of 2011 and 2010. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 54% in 2011 and 57% in 2010.

The US higher education publishing market was broadly level with 2010, according to the Association of American Publishers, with solid 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 customization, and has now grown faster than the US higher education industry for 13 consecutive years. 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 and we took an estimated 37% of new adoptions competed for (or 31% of the total new adoption market). State funding pressures and the transition to Common Core assessments also made market conditions tough for our state assessment and teacher testing businesses; these were offset by good growth in diagnostic and clinical assessments and revenues at our Assessment and Information division grew modestly in 2011.

In 2011, we continued to make significant organic investments in the International Education business expanding the footprint of Wall Street English in China and rolling out our school services business in India whilst incurring significant charges from the integration of acquisitions, most notably of Sistema Educacional Brasiliero (SEB) in Brazil. After excluding the effect of acquisitions we estimate that there was growth of 4% at constant 2010 exchange rates in the International Education business. Professional sales increased in 2011 by 15% although much of this increase was acquisition related mainly due to the full year contribution from Pearson in Practice (formerly known as Melorio), the UK vocational training business acquired in June 2010 and other smaller acquisitions in 2011. In terms of constant last year exchange rates and after taking out the acquisitions there was still good growth in both the professional testing and professional publishing businesses.

FT Group sales were 6% ahead of last year driven by good underlying growth at both the Financial Times and Mergermarket. Growth at the Financial Times was driven by increases in digital readership and subscriptions, although advertising remained weak and volatile. Mergermarket continued to benefit from its global presence and product breadth which helped to increase usage, grow new sales and produce strong renewal rates. FT Group sales accounted for 9% of our continuing business sales in each of 2011 and 2010.

Cost of goods sold and operating expenses

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

	Year Ended December 31	
	2011	2010
	£m	£m
Cost of goods sold	2,072	1,999
Distribution costs	190	174
Administration and other expenses	1,999	1,919
Other operating income	(117)	(79)
Total	2,072	2,014

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 £73m, or 4%, to £2,072m in 2011, from £1,999m in 2010. The increase corresponds to the increase in sales but is a lower percentage of sales as efficiencies and a mix effect has improved gross margins. Cost of sales at 43.0% of sales in 2011 compares to 43.3% in 2010.

Distribution costs. Distribution costs consist primarily of shipping costs, postage and packing. An increase in costs is in line with an increase in sales revenues.

Administration and other expenses. Our administration and other expenses increased by £80m, or 4%, to £1,999m in 2011, from £1,919m in 2010. As a percentage of sales they remained consistent at approximately 41% in 2011 and 42% in 2010.

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 increased to £117m in 2011 compared to £79m in 2010 largely due to the inclusion in 2011 of a £29m gain on the sale of an investment and an £8m gain on a stepped acquisition in the International Education business.

Profit on sale of associate

On 12 December 2011 the FT Group completed the disposal of its 50% stake in FTSE International Limited (FTSE) realizing a profit on sale of £412m. This profit has been disclosed separately on the face of the income statement.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates decreased from £41m in 2010 to £33m in 2011. 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 £480m, or 75%, to £1,118m in 2011 from £638m 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 £68m or 11%.

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.

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 £162m represents 15% of pre-tax profits compared to a charge of £110m or 19% 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

The results of the Penguin Group have been classified as discontinued in 2011 and 2010.

Discontinued operations in 2010 also 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 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.

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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 £105m and operating profit, translated at 2010 average exchange rates, would have been higher by £10m. 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.

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	Continuing	Discontinued	Total
Sales	2,584	1,424	382	427	4,817	1,045	5,862
	53%	*30%*	*8%*	*9%*	100%		
Total operating profit	463	121	55	479	1,118	108	1,226
	41%	*11%*	*5%*	*43%*	100%		
Add back:							
Other net gains and losses	(29)	6	—	(412)	(435)	—	(435)
Acquisition costs	2	9	—	1	12	—	12
Intangible charges	57	60	11	8	136	3	139
Adjusted operating profit: continuing operations	493	196	66	76	831	—	831
Adjusted operating profit: discontinued operations	—	—	—	—	—	111	111
Total adjusted operating profit	493	196	66	76	831	111	942
	52%	*21%*	*7%*	*8%*	88%	*12%*	*100%*

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£m	North American Education	International Education	Professional	FT Group	Continuing	Discontinued	Total
	Year Ended December 31, 2010						
Sales	2,640	1,234	333	403	4,610	1,349	5,959
	57%	*27%*	*7%*	*9%*	*100%*		
Total operating profit	415	119	42	62	638	1,215	1,853
	65%	*18%*	*7%*	*10%*	*100%*		
Add back:							
Other net gains and losses	—	10	—	(12)	(2)	(1,037)	(1,039)
Acquisition costs	1	7	2	1	11	—	11
Intangible charges	53	35	7	9	104	9	113
Adjusted operating profit: continuing operations	469	171	51	60	751	—	751
Adjusted operating profit: discontinued operations	—	—	—	—	—	187	187
Total adjusted operating profit	469	171	51	60	751	187	938
	50%	*19%*	*5%*	*6%*	*80%*	*20%*	*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 registrations in North America up 22% to almost nine million. Usage continued 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 continued 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 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 (now Pearson in Practice) 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.

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 defense, 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 continued 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).

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. These results are included as part of reported discontinued operations.

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*. 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 in 2011 to 10.6% compared to 10.1% in 2010.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations decreased by £177m (or 16%) to £916m in 2012 from £1,093m in 2011. This decrease in cash generated from operations reflected a later sales profile in the second half of 2012 compared to 2011 (causing the corresponding cash collections to fall into 2013) and increased investment in pre-publication as more of our education programs are updated for digital delivery and adverse currency effects. The average working capital to sales ratio improved to 13.8% in 2012 from 14.2% in 2011 reflecting the more favourable working capital characteristics of digital and service businesses and reduced stock in our print publishing businesses. Net cash generated from operations decreased by £76m (or 7%), to £1,093m in 2011 from £1,169m in 2010. 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 interest paid increased to £66m in 2012 from £60m in 2011 due to higher average net debt following recent acquisitions, with some offset provided from receipt of the proceeds from the sale of FTSE International at the end of 2011. 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.

Capital expenditure on property, plant and equipment and software intangibles was £151m in 2012, £144m in 2011 and £132m in 2010. 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 £755m in 2012 against £788m in 2011 and £557m in 2010. The increase reflects the re-shaping of the portfolio following the sales of Interactive Data and FTSE International. The principal acquisitions in 2012 were of EmbanetCompass for £411m, Certiport for £88m, Author Solutions, Inc for £69m and GlobalEnglish Corporation for £63m. 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 outflow of £11m in 2012 against inflows of £422m in 2011 and £734m in 2010. The cash outflow in 2012 primarily related to expenses incurred in advance of the formation of Penguin Random House. 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 of £984m and tax paid relating to this disposal of £250m.

The cash outflow from financing of £23m in 2012 reflects a further 9% increase in the dividend, offset by the proceeds from a $500m US Dollar Note issued during the year. The cash outflow from financing of £790m in 2011 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.

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, 2012, our net debt was £918m compared to net debt of £499m at December 31, 2011. 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. Total Short-term, medium-term and long-term borrowing amounted to £2,279m at December 31, 2012, compared to £2,051m at December 31, 2011 reflecting the new $500m US dollar note issued during the year. At December 31, 2012, total cash and liquid resources were £1,177m, compared to £1,369m at December 31, 2011. This decrease is due to the continued re-investment of the proceeds from the sales of Interactive Data and FTSE International via the various acquisitions above.

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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. Due to the variability of future interest payments, these have been excluded from the table below.

	At December 31, 2012				
	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	55	33	22	—	—
Bonds	2,200	219	520	527	934
Finance lease obligations	17	10	4	3	—
Operating lease obligations	1,678	186	174	419	899
UK Pension funding obligations	205	41	41	123	—
Total	4,155	489	761	1,072	1,833

At December 31, 2012 the Group had capital commitments for fixed assets, including finance leases already under contract, of £17m (2011: £18m). 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.

We have in place a committed revolving credit facility of $1.75bn, which matures in November 2015. At December 31, 2012, the full $1.75bn was available under this facility. This credit facility contains two key covenants measured for each 12 month period ending June 30 and December 31:

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

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

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

See note 18 of “Item 18. Financial Statements” for information on our longer term loans from banks and capital markets.