decline in profitability at FT Publishing, as they faced tough conditions in the advertising market, coupled with an increased charge for intangible amortization which offsets a positive performance from Interactive Data. Operating profit attributable to the Penguin Group decreased by £8m, or 9%, to £83m in 2009, from £91m in 2008. This decrease was principally due to charges relating to reorganisation of the business in the UK.

***Net finance costs***

Net finance costs increased from £91m in 2008 to £95m in 2009. Net interest payable in 2009 was £85m, down from £89m in 2008. The Group's net interest payable decreased by £4m in 2009 as we benefitted from a fall in average interest rates on our floating US dollar debt and a decrease in our overall level of average net debt. 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 2.4% to 0.7%. This reduction in floating market interest rates was partially offset by higher fixed bond coupons prevailing at the time of our 2009 bond issue. The overall result was a decrease in the Group's average net interest rate payable by 0.6% to 5.3%. In 2009 the net finance income relating to post-retirement plans was a charge of £12m compared to an income of £8m in the previous year reflecting lower returns on plan assets.

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 loss of £11m in 2008. The losses in 2008 mainly relate to the retranslation of foreign currency bank accounts together with other net losses on inter-company items. In 2009 the loss mainly relates to losses on cross currency swaps. 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 2009 of £198m represents 30% of pre-tax profits compared to a charge of £172m or 29% of pre-tax profits in 2008. Our overseas profits, which arise mainly in the US are largely subject to tax at higher rates than the UK corporation tax rate (28% in 2009 compared to 28.5% in 2008). Higher tax rates were partly offset by releases from provisions reflecting continuing progress in agreeing our tax affairs with the authorities.

***Minority interests***

This comprises mainly the minority share in Interactive Data. Our share of Interactive Data was 61% in 2009, compared to 62% in 2008.

***Discontinued operations***

Discontinued operations in 2008 relate to the disposal of the Data Management business (in February 2008). The results of the Data Management business were included in discontinued operations to the date of disposal in 2008. The loss before tax on disposal in 2008 was £53m, mainly relating to the cumulative translation adjustment. There was a tax charge of £37m on the sale. There were no discontinued operations in 2009.

***Profit for the year***

The profit for the financial year in 2009 was £462m compared to a profit in 2008 of £323m. The overall increase of £139m was mainly due to the absence of the loss on discontinued operations in 2009 but also benefitted from the improved operating performance offset by a small increase 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 53.2p in 2009 compared to 36.6p in 2008 based on a weighted average number of shares in issue of 799.3m in 2009 and 797.0m in 2008. The increase in earnings per share was due to the increase in profit for 2009 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 53.1p in 2009 and 36.6p in 2008 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 2009 compared to 2008. 2009 sales, translated at 2008 average exchange rates, would have been lower by £640m and operating profit, translated at 2008 average exchange rates, would have been lower by £57m. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk” for a discussion regarding our management of exchange rate risks.

***Sales and operating profit by division***

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

In our adjusted operating profit we have excluded amortization of acquired intangibles. The amortization of acquired intangibles is the amortization of intangible assets acquired through business combinations. The charge is not considered to be fully reflective of the underlying performance of the Group.

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

| | Year Ended December 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| £m | North American Education | International Education | Professional | FT Publishing | Interactive Data | Penguin | Total |
| Sales | 2,470 | 1,035 | 275 | 358 | 484 | 1,002 | 5,624 |
| | *44%* | *18%* | *5%* | *6%* | *9%* | *18%* | *100%* |
| Total operating profit | 354 | 109 | 42 | 31 | 136 | 83 | 755 |
| | *47%* | *14%* | *6%* | *4%* | *18%* | *11%* | *100%* |
| Add back: | | | | | | | |
| Amortization of acquired Intangibles | 49 | 32 | 1 | 8 | 12 | 1 | 103 |
| Adjusted operating profit: continuing Operations | 403 | 141 | 43 | 39 | 148 | 84 | 858 |
| Adjusted operating profit: discontinued Operations | — | — | — | — | — | — | — |
| Total adjusted operating profit | 403 | 141 | 43 | 39 | 148 | 84 | 858 |
| | *47%* | *16%* | *5%* | *5%* | *17%* | 10% | *100%* |

| £m | North American Education | International Education | Professional | FT Publishing | Interactive Data | Penguin | Total |
|---|---|---|---|---|---|---|---|
| | Year Ended December 31, 2008 | | | | | | |
| Sales | 2,002 | 866 | 244 | 390 | 406 | 903 | 4,811 |
| | *42%* | *18%* | *5%* | *8%* | *8%* | *19%* | *100%* |
| Total operating profit | 258 | 113 | 35 | 67 | 112 | 91 | 676 |
| | *38%* | *17%* | *5%* | *10%* | *17%* | *13%* | *100%* |
| Add back: | | | | | | | |
| Amortization of acquired Intangibles | 45 | 22 | 1 | 7 | 9 | 2 | 86 |
| Adjusted operating profit: continuing Operations | 303 | 135 | 36 | 74 | 121 | 93 | 762 |
| Adjusted operating profit: discontinued Operations | — | — | — | — | — | — | — |
| Total adjusted operating profit | 303 | 135 | 36 | 74 | 121 | 93 | 762 |
| | *40%* | *17%* | *5%* | *10%* | *16%* | *12%* | *100%* |

*North American Education*

North American Education sales increased by £468m, or 23%, to £2,470m in 2009, from £2,002m in 2008 and adjusted operating profit increased by £100m, or 33%, to £403m in 2009 from £303m in 2008. The results were significantly affected by the relative strength of the US dollar, which we estimate increased sales by £365m and adjusted operating profit by £60m when compared to the equivalent figures at constant 2008 exchange rates. At constant exchange and after taking account of the contribution from acquisitions there was underlying growth in sales of 5% and profits of 13%. Although the contribution from the US school curriculum business declined due to State budget pressures and a fall in the adoption market there were strong contributions from the US Higher Education, US Assessment and Information and Canadian businesses.

In the US school market, the Association of American Publishers' estimate that there was an overall decrease for the industry of 13.8% as state budget pressures and a slower new adoption year caused particular weakness in the basal publishing market. Though Pearson's US School publishing sales declined we attained an estimated 37% of new adoptions we competed for (our highest market share for a decade) and 32% of the total new adoption market. Pearson's enVisionMATH (www.envisionmath.com), an integrated print-and-digital program, was the top-selling basal program in the United States in 2009. It helped the School Curriculum business to an estimated 46% share of all math adoptions and sold strongly across the open territories. Successnet, the online learning platform for teachers and students which supports all Pearson's digital instruction, assessment and remedial programs, also grew strongly achieving more than 4 million registrations in 2009.

The US Assessment and Information business saw significant profit improvement in 2009, benefitting from the successful integration of the Harcourt Assessment business acquired in 2008. Our National Services assessment business renewed its contract with the College Board, worth $210m over 10 years, to process and score the SAT and contracts to support the College Board's new Readi-Step and ACCUPLACER diagnostics programs. Our State Services business won a number of significant new contracts including new programs in Florida and Arizona. We continue to gain share, winning 60% of the contracts bid for by value, and to be a leader in online testing, delivering 9 million secure online assessments in 2009, up more than 100% on 2008. Our Evaluation Systems teacher certification business secured contract extensions in California, Illinois, Arizona and Washington; won re-bids in Michigan and New York, each for five years; and added new contracts in California and Minnesota. In Clinical Assessments, our AIMSWeb response-to-intervention data management and progress monitoring service for children who are having difficulty learning, continued to grow and now has more than 3 million students on the system. Our Edustructures business, which provides interoperable systems to support data collection and reporting between school districts and state governments, doubled the number of students served to 8 million. Our Student Information Systems (SIS) business continued to grow strongly, benefiting from strong demand for its services that help teachers automate and manage student attendance records, gradebooks, timetables and the like. It supports more than 12 million students — 8 million of them through its flagship PowerSchool product which is now available in more than 50 countries. In 2009 it won contracts for new school districts including Nova Scotia Department of Education (133,000 students), Newark, NJ (45,000 students), and the Hamilton County DOE, TN (40,000 students).

The US Higher Education publishing market grew 11.5% in 2009, according to the Association of American Publishers, benefiting from strong enrolment growth and federal government action to support student funding. Our US Higher Education business grew faster than the industry and outperformed the market for the eleventh straight year, continuing to see strong demand for instructional materials enhanced by technology and customization. Our sustained investment in content and technology continues to grow existing franchises and build new ones. In Engineering Mechanics, our market leading textbook, Hibbeler’s Statistics and Dynamics 12th Edition, gained an additional four percentage points of market share with the addition of our newly launched MasteringEngineering digital learning and assessment platform. Pearson became market leader in psychology supported by the recently launched textbook Psychology 2nd Edition by Cicarelli with MyPsychLab. The ‘MyLab’ digital learning, homework and assessment programs again grew strongly. Our MyLab products saw more than 6 million student registrations globally, 39% higher than in 2008. In North America, student registrations grew 37% to more than 5.6m. Custom Solutions grew strongly across both bespoke books and customized services including content creation, technology, curriculum, assessments and courseware. We partnered with the Kentucky Virtual Learning Initiative, for example, to deliver personalized mathematics instruction mapped to state college entry standards and have begun to extend this program into transitional English and Reading. eCollege, our platform for fully-online distance learning in higher education, increased online enrolments by 36% to 3.5m and benefited from continued strong renewal rates of 95% by value, new contract wins and strong growth in the usage of the platform, particularly by US for-profit colleges. Thirteen Pearson higher education and school products in ten categories were nominated as America’s best educational software products in the Software & Information Industry Association’s 25th Annual CODiE Awards. They include MyMathLab, Miller & Levine Biology, PowerSchool, Prentice Hall Literature, myWorld Geography, MyWritingLab, CourseConnect and eCollege.

Overall adjusted operating margins in the North American Education business were higher at 16.3% in 2009 compared to 15.1% in 2008 with the majority of the increase attributable to the Harcourt Assessment integration costs that were charged in 2008.

*International Education*

International Education sales increased by £169m, or 20%, to £1,035m in 2009, from £866m in 2008 and adjusted operating profit increased by £6m, or 4%, to £141m in 2009 from £135m in 2008. The sales results benefit from exchange gains and a full year contribution from acquisitions made in 2009. At the adjusted operating profit level the 2008 results benefitted from transactional exchange gains that were not repeated in 2009.

In the UK, we received over 3.7 million registrations for vocational assessment and general qualifications. We marked 4.5 million ’A’-level and GCSE scripts on-screen and successfully delivered the 2009 National Curriculum test series and were awarded the contract to administer the 2010 National Curriculum Tests at Key Stage 2. We made significant investments in supporting the new Diploma qualification for 14-19 year-olds; the IGCSE qualifications to meet the needs of International schools and colleges; and BTEC, our flagship vocational qualification. BTEC registrations totalled more than 1 million for the first time and were up almost 30% on 2008. Our UK Higher Education business grew strongly, helped by the success of new first editions, the rapid take up of MyLabs adapted to meet local requirements, and the growing popularity of custom publishing. Sales of UK primary resources fell, on the back of minimal curriculum change and some signs of schools managing their budgets more tightly.

In Continental Europe, the launch of our digi libre (Content Plus) products helped us to gain share in the lower and upper secondary markets in Italy and positions us well for major curriculum reforms planned for 2010. In Spain, our sales were down sharply with pressures on central and regional government spending and a worsening retail environment. Our ELT sales continued to grow in Poland, and across central and Eastern Europe we saw good demand for our publishing and digital resources and our fledgling Language Learning Solutions activities. The

Fronter learning management system continued to grow very strongly with more than 6 million students in more than 8,000 schools, colleges and Universities around the world.

In the Middle East we successfully implemented the Abu Dhabi Education Council’s (ADEC) External Measurement of Student Achievement (EMSA) program covering English, Arabic, Math and Science in April 2009 and was also contracted by the United Arab Emirates Ministry of Education to deliver the program in the northern emirates. In South Africa, we launched Platinum, the first blended print and online course developed for the South African National Curriculum. In addition 7,000 students registered for MyMathLab+ at the University of Witwatersrand.

In China, we acquired Wall Street English, the leading provider of premium English language training to adults, for £101m. The combination of Longman Schools and Wall Street English gives Pearson a leading position in the English language teaching market in China, serving students from elementary school to professional levels. We stepped up our presence in the Indian education market with two investments totalling $30m: a 50:50 joint-venture with Educomp, called IndiaCan, to offer vocational and skills training through 120 training centres across the country; and a 17.2% stake in TutorVista, which provides online tutoring for K-12 and college students.

New editions of the proven bestsellers, BackPack and Pockets, along with the successful launch of two new courses, CornerStone and KeyStone, helped to deliver strong growth in the sales of ELT materials across Latin America. In Brazil, which has one of Latin America’s largest and fastest-growing university populations, our virtual library now supports 30 post-secondary institutions. And, in Panama, 75,000 high school students are now learning Biology and Chemistry, using Prentice Hall Virtual Labs.

On a global basis our ‘MyLab’ digital learning, homework and assessment programmes were used by more than 470,000 students, up almost 60% on 2008, and are now sold in more than 200 countries. In 2009, we launched the Pearson Test of English, our new test of Academic English which will be delivered in up to 200 Pearson VUE testing centers in 37 countries. Approximately 1,000 academic programs worldwide now recognise, or are in the process of recognising, the Pearson Test of English. Our eCollege learning management system is growing rapidly in international markets, winning new contracts in Australia, Brazil, Mexico, Colombia, Puerto Rico and Saudi Arabia. Our new Pearson Learning Solutions business won its first contracts in the UK, the Gulf and Africa. It combines a broad range of products and services from across Pearson to deliver a systematic approach to improving student performance.

International Education adjusted operating margins declined from 15.6% in 2008 to 13.6% in 2009 as the benefit from transactional exchange gains at the profit level in 2008 weren’t repeated in 2009.

*Professional*

Professional sales increased by £31m, or 13%, to £275m in 2009 from £244m in 2008. Adjusted operating profit increased by £7m or 19% to £43m in 2009, from £36m in 2008. The sales growth was entirely due to exchange rates which increased sales by £33m when compared to the equivalent figures at constant 2008 exchange rates.

In Professional testing and certification in the UK, we extended our contract with the Driving Standards Agency to deliver the UK drivers theory test until 2014. With the Graduate Management Admissions Test and the recent contract extension for the NCLEX nursing examination, our three largest professional testing contracts now run to 2013 or after. More than seven million secure online tests were delivered in more than 4,000 test centers worldwide in 2009, an increase of 9% over 2008. Registration volumes for the Graduate Management Admissions Council test rose 8% worldwide in 2009, including a 16% increase outside the US. In the US, Pearson VUE won a number of new contracts with organizations including Oracle, Citrix, Novell, VMWare, and Adobe, the National Registry of Food Safety Professionals and the National Institute for Certification in Engineering Technologies. Pearson VUE extended its international reach, signing an agreement with the Dubai Road and Transport Authority to deliver a new, high-tech Driver Testing System and launching the Law School Admission Test in India.

Our Professional education business experienced tough trading conditions in the retail market but benefited from the increased breadth of its publishing and range of revenue streams, from online retail through digital subscriptions. A best-selling product in 2009 was CCNA Network Simulator, which are digital networking labs designed, developed and published by Pearson, to help candidates successfully pass the Cisco CCNA certification exam. Pearson launched new learning solutions for IT Professionals preparing for certification accreditation. Cert Flash Card applications were launched for students studying for Cisco CCNA, CompTIA and Microsoft certification exams and are accessible through web browsers and iPhone and iPod Touch devices. FT Press launched a new e-publishing imprint, FT Press Delivers, providing essential insights from some of its leading business authors including Jim Champy, Brian Solis, Mark Zandi, Jon M. Huntsman, John Kao, Michael Abrashoff, and Seth Goldman.

Overall adjusted operating margins in the Professional business continued to improve and were higher at 15.6% in 2009 compared to 14.8% in 2008 as margins improved again in both the testing and professional publishing businesses.

*FT Publishing*

Sales at FT Publishing decreased by £32m or 8%, from £390m in 2008 to £358m in 2009. Adjusted operating profit decreased by £35m, from £74m in 2008 to £39m in 2009. The sales and profit decrease is mainly from the FT Newspaper business which faced tough market conditions for financial and corporate advertising. The impact of advertising revenue declines was partially mitigated by growth in content revenues, the resilience of our subscription businesses and early actions to manage our cost base tightly.

We continued to see good demand for high-quality analysis of global business, finance, politics and economics which resulted in a 15% increase in paying online subscribers to more than 126,000 with registered users on FT.com up 85% to 1.8 million and users up 12% to 1.4 million on FTChinese.com. Financial Times worldwide newspaper circulation was 7% lower at 402,799 (for the July-December 2009 ABC period) although subscription circulation grew modestly. We continued to invest in fast-growing digital formats. We launched a new luxury lifestyle website, to complement our existing *How To Spend It* magazine; a new iPhone application which has received more than 200,000 downloads; and, in association with Longman, Lexicon, an online glossary of economic, financial and business terms.

Mergermarket faced challenging conditions in some of its markets with reduced Mergers and Acquisition activity impacting the merger arbitrage sector serviced by dealReporter whilst Debtwire benefited from an increased focus on distressed debt. Mergermarket continued to launch new products and expand globally. Our newest product, MergerID, launched in September 2009, provides a secure online environment for principals and professionals to post and view M&A opportunities globally and has secured over 1,500 active users in more than 450 companies across the globe.

*The Economist*, in which Pearson owns a 50% stake, increased global weekly circulation by 2.2% to 1.42 million (for the July — December 2009 ABC period). FTSE, our 50% owned joint-venture with the London Stock Exchange, increased revenues 17% and made a strong improvement in profits.

Overall adjusted operating margins at FT Publishing decreased from 19.0% in 2008 to 10.9% in 2009 as lost advertising revenue fell through to the bottom line.

*Interactive Data*

Interactive Data grew its sales by 19% from £406m in 2008 to £484m in 2009. Adjusted operating profit grew by 22% from £121m in 2008 to £148m in 2009. Interactive Data margins increased from 29.8% in 2008 to 30.6% in 2009. Both sales and adjusted operating profit were affected by the relative strength of the US dollar, which we estimate increased sales by £58m and adjusted operating profit by £19m when compared to the equivalent figures at constant 2008 exchange rates.

Interactive Data’s revenue growth was driven by its Institutional Services segment, despite difficult market conditions in the financial services industry. In the fourth quarter we began to see continued signs of trading conditions easing in certain markets that were difficult earlier in the year, principally in our new sales. Interactive Data continued to benefit from growth trends including: heightened scrutiny around the valuation of securities; increasing regulation and related investment in compliance and risk management processes; increasing adoption of low latency data for algorithmic trading; and continuing need to cost effectively differentiate wealth management offerings with bespoke web-based client solutions.

Pricing and Reference Data (66% of Interactive Data revenues) continued to generate good growth in North America and Europe. Growth was primarily organic and also benefited from bolt-on acquisitions, most recently NDF, a leading provider of financial pricing and services in Japan, and Kler’s Financial Data Service, a leading provider of reference data to the Italian financial industry. Real-Time Services (19% of Interactive Data revenues) faced challenging market conditions as solid demand for web-based Managed Solutions was more than offset by higher cancellations of real-time market data services. In December 2009, we formed the Real-Time Market Data and Trading Solutions Group which combines the resources of our eSignal, Managed Solutions and Real-Time Services businesses into a single organization. This initiative supports plans to integrate the company’s suite of real-time market data and innovative, hosted technology services and solutions to more effectively capitalize on opportunities in the wealth management and electronic trading sectors. In addition, Interactive Data recently completed two acquisitions, 7ticks and the data and tools assets of Dow Jones’ Online Financial Solutions business, that help further strengthen its real-time capabilities in the wealth management and electronic trading sectors. Interactive Data continued to invest in expanding the breadth and depth of the data covered and products offered. Pricing and Reference Data added new information resources, transparency tools, and broader coverage of hard-to-value instruments. It also introduced new services such as the Business Entity Service and Options Volatility Service aimed at helping firms address risk management and compliance challenges. In Real-Time Services, investments were aimed at expanding market coverage to include a broader range of emerging markets, level 2 data for a variety of global exchanges, and multi-lateral trading facilities. New product launches in this business included PlusBook™, a new consolidated order book service for the European financial industry, and enhancements to the PrimePortal product, which are used to create customised Web solutions for wealth management and infomedia applications. eSignal introduced new services and enhanced existing offerings such as its Market-Q browser-based workstation, which has been well received in the North American wealth management market.

Interactive Data made a number of bolt-on acquisitions in late 2009 and into early 2010 including: the data and tools assets of Dow Jones and Company’s OFS business, which expands the growing web-based solutions business in North America; Dubai-based Telerate Systems Limited (completed on 14 January 2010), a long-time eSignal sales agent; and 7ticks (completed on 15 January 2010), an innovative provider of very fast electronic trading networks and managed services.

During January 2010, the Group announced that Interactive Data was undertaking a preliminary review of strategic alternatives for its business. At the date of this report, the outcome of the review is still uncertain.

*The Penguin Group*

Penguin Group sales increased to £1,002m in 2009 from £903m in 2008 but adjusted operating profit was down 10% to £84m in 2009 from £93m in 2008. Both sales and adjusted operating profit were affected by the stronger US dollar which we estimate increased sales by £109m and adjusted operating profit by £7m when compared to the equivalent figures at constant 2008 exchange rates. In 2009, Penguin implemented a series of organisational changes in the UK 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.

In the US, Penguin had 30 number 1 New York Times bestsellers, Penguin’s most ever, and placed 243 bestsellers on New York Times lists. Bestsellers included works from debut novels such as Kathryn Stockett’s *The Help* and Janice Y.K. Lee’s *The Piano Teacher*, along with books by established authors such as Charlaine Harris and Nora Roberts.

In the UK, top-selling titles included Marian Keyes’ *This Charming Man*, Malcolm Gladwell’s *Outliers*, Ant and Dec’s *Ooh! What a Lovely Pair* and Antony Beevor’s *D-Day*. Penguin Children’s list had a very strong year with standout performances from brands such as *The Very Hungry Caterpillar* (which celebrated its 40th anniversary) and *Peppa Pig*. Through an iPhone app, consumers were offered a try-before-you buy model of Paul Hoffman’s *The Left Hand of God*, providing free downloads of the first three chapters.

In Australia, Penguin was named Publisher of the Year for the second year running at the Australian Book Industry Awards. Number 1 bestselling authors included Bryce Courtenay, Tom Winton, Clive Cussler and Richelle

Mead. In Canada, top-selling local authors included Joseph Boyden and Alice Munro, who was awarded the International Man Booker prize, and our international authors Greg Mortenson and Elizabeth Gilbert led the paperback non-fiction category. In India, Penguin is the largest English language trade publisher, with bestselling authors in 2009 including Narayana Murthy and Nandan Nilekani. In South Africa, top-selling Penguin authors included John van de Ruit and Justin Bonello.

eBook sales grew fourfold on the previous year. 14,000 eBook titles are now available. eBook sales are expected to grow rapidly in 2010, benefiting from the popularity of e-readers such as Amazon's Kindle, the Sony Reader and Barnes and Noble's nook as well as new devices such as Apple's iPad.

Penguin's adjusted operating margins deteriorated in 2009, dropping to 8.4% from 10.3% in 2008. The main reason for the decline was the charges in 2009 relating to the reorganisation of the UK business.

***Year ended December 31, 2008 compared to year ended December 31, 2007***

*Consolidated results of operations*

***Sales***

Our total sales from continuing operations increased by £649m, or 16%, to £4,811m in 2008, from £4,162m in 2007. The increase reflected growth, on a constant exchange rate basis, across all the businesses together with additional contributions from acquisitions made in both 2007 and 2008. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2008 sales, translated at 2007 average exchange rates, would have been £4,491m.

Pearson Education increased sales by £484m or 18% from £2,628m to £3,112m. The North American business was the major contributor to the increase and although much of the increase was due to exchange rates and a contribution from the Harcourt Assessment acquisition in 2008, we estimate that after excluding acquisitions there was growth of 3% at constant last year exchange rates. The North American Education business saw growth ahead of the market in its US Higher Education business and strong performances in state testing, catalogue tests and clinical assessment in its US Assessment and Information division. These businesses offset some decline in the US School Curriculum business which faced a decline in the overall US school publishing market of 4.4% (source: Association of American Publishers). International Education sales also benefitted from exchange and a full year contribution from the Harcourt Publishing acquisition in 2007. After excluding the effect of acquisitions we estimate that there was growth of 2% at constant last year exchange rates. Although there was good growth in the International Publishing business, the loss of a key school testing contract held back growth in the International Assessment business. Professional sales increased in 2008 by 8% or 1% at constant last year exchange rates. Growth in professional testing and certification was partially offset by some decline in the professional publishing markets.

FT Group sales were 16% ahead of last year with growth at FT Publishing and Interactive Data. FT Publishing sales were up by 13% or 4% after excluding the contribution from acquisitions made in 2007 and 2008 and the effect of exchange. FT Publishing's sales growth was driven by a shift toward subscription and service based revenues. The newspaper maintained circulation but advertising revenues fell by 3% as the advertising market weakened in the fourth quarter of 2008. Interactive Data sales were up by 18% (9% at constant last year exchange rates and before the contribution from acquisitions) driven by strong sales to both existing and new institutional customers and the maintenance of renewal rates at approximately 95% within the institutional services sector.

Penguin's sales were up 7% in 2008 (3% at constant last year exchange rates and before the effect of portfolio changes) as a result of a strong publishing performance in all its markets in a year where the business continued to publish bestsellers and win awards.

Pearson Education, our largest business sector, accounted for 65% of our continuing business sales in 2008 compared to 63% in 2007. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 63% in 2008 and 62% in 2007.

***Cost of goods sold and operating expenses***

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

| | Year Ended December 31 | |
|---|---|---|
| | 2008 £m | 2007 £m |
| Cost of goods sold | 2,174 | 1,910 |
| Distribution costs | 235 | 202 |
| Administration and other expenses | 1,853 | 1,600 |
| Other operating income | (102) | (101) |
| Total | 1,986 | 1,701 |

*Cost of goods sold.* Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs and royalty charges. Our cost of sales increased by £264m, or 14%, to £2,174m in 2008, from £1,910m in 2007. The increase corresponds to the increase in sales with cost of sales at 45.2% of sales in 2008 compared to 45.9% in 2007.

*Distribution costs.* Distribution costs consist primarily of shipping costs, postage and packing and remained at a fairly constant percentage of sales in 2008 compared to 2007.

*Administration and other expenses.* Our administration and other expenses increased by £253m, or 16%, to £1,853m in 2008, from £1,600m in 2007. As a percentage of sales they increased slightly to 39% in 2008 from 38% in 2007.

*Other operating income.* Other operating income mainly consists of freight recharges, sub-rights and licensing income and distribution commissions together with income from sale of assets. Other operating income remained fairly consistent at £102m in 2008 compared to £101m in 2007.

***Share of results of joint ventures and associates***

The contribution from our joint ventures and associates increased slightly from £23m in 2007 to £25m in 2008. The majority of the profit comes from our 50% interest in the Economist.

***Operating profit***

The total operating profit increased by £102m, or 18%, to £676m in 2008 from £574m in 2007. 2008 operating profit, translated at 2007 average exchange rates, would have been £71m lower.

Operating profit attributable to Pearson Education increased by £45m, or 12%, to £406m in 2008, from £361m in 2007. The increase was mainly due to exchange which offset the effect of increased intangible amortization and the cost of integrating Harcourt Assessment with the existing Assessment businesses. Operating profit attributable to the FT Group increased by £39m, or 28%, to £179m in 2008, from £140m in 2007. The increase reflects exchange differences and a contribution from new acquisitions but also reflects improved margins at Interactive Data which offset some reorganization costs at the Financial Times. Operating profit attributable to the Penguin Group increased by £18m, or 25%, to £91m in 2008, from £73m in 2007. Although Penguin benefitted from exchange there was also continued progress on margin improvement.

***Net finance costs***

Net finance costs decreased from £106m in 2007 to £91m in 2008. Net interest payable in 2008 was £89m, down from £95m in 2007. Although our fixed rate policy reduces the impact of changes in market interest rates, we were still able to benefit from a fall in 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 2.3% to 3.1%. This reduction in floating market interest rates was partially offset by higher fixed bond coupons prevailing at the time of our 2008 bond issue. The overall result was a decrease in the Group’s average net interest rate payable by 1.4% to 5.9%. In 2008 the net finance income relating to post-retirement plans was an income of £8m compared to an income of £10m in the previous year.

Other net finance costs relating to foreign exchange and short-term fluctuations in the market value of financial instruments included a net foreign exchange loss of £11m in 2008 compared to a loss of £17m in 2007. In 2008 the loss related to the retranslation of foreign currency bank overdrafts and a variety of inter-company items. In 2007 the loss mainly related to losses on Euro denominated debt used to hedge the receipt of proceeds from the sale of Les Echos. For a more detailed discussion of our borrowings and interest expenses see "— Liquidity and Capital Resources — Capital Resources" and "— Borrowings" below and "Item 11. Quantitative and Qualitative Disclosures About Market Risk".

***Taxation***

The total tax charge in 2008 of £172m represents 29% of pre-tax profits compared to a charge of £131m or 28% of pre-tax profits in 2007. Our overseas profits, which arise mainly in the US are largely subject to tax at higher rates than the UK corporation tax rate (28.5% in 2008 compared to 30% in 2007). Higher tax rates were offset by releases from provisions reflecting continuing progress in agreeing our tax affairs with the authorities.

***Minority interests***

This comprises mainly the minority share in Interactive Data. Our share of Interactive Data remained at 62% throughout 2008, leaving the minority interest unchanged at 38%.

***Discontinued operations***

Discontinued operations relate to the disposal of Government Solutions (in February 2007), Les Echos (in December 2007), Datamark (in July 2007) and the Data Management business (in February 2008). The results of Government Solutions and Les Echos have been included in discontinued operations for 2007 and have been consolidated up to the date of sale. Operating profit for Government Solutions in 2007 was £2m and the loss on disposal after tax recorded in 2007 was £112m after a tax charge of £93m. Les Echos' operating profit in 2007 amounted to £1m and the profit on sale recorded in 2007 was £165m. There was no tax payable on the Les Echos sale. Datamark was bought with the eCollege acquisition in 2007 and immediately sold. The only profit or loss recognized relating to Datamark was a £7m tax benefit arising from the taxable loss on sale. The Data Management business was included in discontinued operations in 2007 and 2008. In 2007 the operating profit before impairment charges was £12m compared to £nil in 2008. The Data Management business was formerly part of the Group's Other Assessment and Testing cash-generating unit (CGU) and was carved out of this CGU in preparation for disposal. As a result, the Group recognized a goodwill impairment charge of £97m in 2007 in anticipation of the loss on disposal. The loss before tax on disposal in 2008 was £53m, mainly relating to the cumulative translation adjustment. There was a tax charge of £37m on the sale.

***Profit for the year***

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

***Earnings per ordinary share***

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 36.6p in 2008 compared to 35.6p in 2007 based on a weighted average number of shares in issue of 797.0m in 2008 and 796.8m in 2007. The increase in earnings per share was due to the increase in profit for 2008 described above and was not significantly affected by the movement in the weighted average number of shares.

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The diluted earnings per ordinary share of 36.6p in 2008 and 35.6p in 2007 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

***Exchange rate fluctuations***

The strengthening of the US dollar and other currencies against sterling on an average basis had a positive impact on reported sales and profits in 2008 compared to 2007. 2008 sales, translated at 2007 average exchange rates, would have been lower by £320m and operating profit, translated at 2007 average exchange rates, would have been lower by £71m. See "Item 11. Quantitative and Qualitative Disclosures About Market Risk" for a discussion regarding our management of exchange rate risks.

***Sales and operating profit by division***

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

In our adjusted operating profit we have excluded amortization of acquired intangibles. The amortization of acquired intangibles is the amortization of intangible assets acquired through business combinations. The charge is not considered to be fully reflective of the underlying performance of the Group.

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

| | Year Ended December 31, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| £m | North American Education | International Education | Professional | FT Publishing | Interactive Data | Penguin | Total |
| Sales | 2,002 | 866 | 244 | 390 | 406 | 903 | 4,811 |
| | *42%* | *18%* | *5%* | *8%* | *8%* | *19%* | *100%* |
| Total operating profit | 258 | 113 | 35 | 67 | 112 | 91 | 676 |
| | *38%* | *17%* | *5%* | *10%* | *17%* | *13%* | *100%* |
| Add back: | | | | | | | |
| Amortization of acquired Intangibles | 45 | 22 | 1 | 7 | 9 | 2 | 86 |
| Adjusted operating profit: continuing Operations | 303 | 135 | 36 | 74 | 121 | 93 | 762 |
| Adjusted operating profit: discontinued Operations | — | — | — | — | — | — | — |
| Total adjusted operating profit | 303 | 135 | 36 | 74 | 121 | 93 | 762 |
| | *40%* | *17%* | *5%* | *10%* | *16%* | *12%* | *100%* |

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

*North American Education*

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

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

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

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

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

*International Education*

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

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

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

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

In the Middle East, the business won a contract to deliver the Abu Dhabi Education Council's external assessment program that started in 2009 and is expected to run to 2011. The tests cover English, Arabic, mathematics and science for students in grades 3 to 11. Pearson worked with Jordan's Ministry of Education to build a test development system which has been enhanced to support the creation of test items and tests in Arabic, replacing a paper-based system.

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

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

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

*Professional*

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

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

India to expand Pearson VUE's certification network in India, extending a range of tests for students throughout the country. In a first phase, Pearson VUE and NIIT will set up testing facilities in Bangalore, Chennai, New Delhi, Hyderabad and Pune.

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

Overall adjusted operating margins in the Professional business continued their rapid improvement and were higher at 14.8% in 2008 compared to 11.9% in 2007 as margins improved again in both the testing and professional publishing businesses.

*FT Publishing*

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

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

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

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

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

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

*Interactive Data*

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

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

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

*The Penguin Group*

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

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

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

In Australia, Penguin was named Publisher of the Year at the Australian Book Industry Awards (and won four of the seven awards for individual books) and grew sales ahead of its markets with bestsellers including titles from Australian authors Bryce Courtenay and Tim Winton alongside international authors Marian Keyes and Eckhart Tolle. In India, Penguin is the largest trade publisher and continued to grow rapidly with authors such as Shobhaa De, Amitav Ghosh and Nandan Nilekani. It also won the major English language prizes in India's national book awards.

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

**Liquidity and capital resources**

***Cash flows and financing***

Net cash generated from operations increased by £118m (or 13%), to £1,012m in 2009 from £894m in 2008. This increase reflected strong cash contributions, particularly from our education businesses. The exchange rate for translation of dollar cash flows was $1.61 in 2009, $1.56 in 2008 and $1.99 in 2007. In 2009, the average working capital to sales ratio for our book publishing businesses improved to 25.1% from 26.1% in 2008, reflecting tight working capital management and the favourable working capital profile of 2009 acquisitions. 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 £235m (or 36%), to £894m in 2008 from £659m in 2007. This increase reflected strong cash contributions from all businesses, together with the significant strengthening of the US dollar against sterling. In 2008, the headline average working capital to sales ratio for our book publishing businesses deteriorated to 26.1% from 25.6% in 2007, reflecting the higher levels of working capital in Harcourt Assessments (purchased at the end of January 2008). The underlying working capital to sales ratio (excluding the effect of year on year portfolio changes) improved to 25.8% in 2008 from 25.9% in 2007.

Net interest paid increased to £87m in 2009 from £76m in 2008. The increase is due to the timing of payments on bonds issued in 2008 and 2009. Net interest paid decreased to £76m in 2008 from £90m in 2007. The decrease was due to a reduction in US and UK interest rates, with some offset from the higher level of debt following the acquisition of Harcourt Assessments and the strength of the US dollar relative to sterling.

Capital expenditure on property, plant and equipment was £62m in 2009, £75m in 2008 and £86m in 2007. The reduction in spend in 2009 reflects a more cautious approach to capital investment, given the uncertain economic environment, particularly in the first half of the year. The reduction in spend in 2008 reflects reduced infrastructure spend compared to 2007, notwithstanding the Group continued to invest in digital technology.

The acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £222m in 2009 against £400m in 2008 and £476m in 2007. The principal acquisitions in 2009 were of Wall Street English for £101m and a controlling interest in Maskew Miller Longman for £54m, comprising £49m in cash and £5m in other consideration. The principal acquisitions in 2008 were of Harcourt Assessments for £324m and Money Media for £33m. The principal acquisitions in 2007 were Harcourt Education International for £155m and eCollege for £266m.

The sale of subsidiaries and associates produced a cash inflow of £14m in 2009 against £111m in 2008 and £469m in 2007. The disposal in 2009 relates entirely to the proceeds from the take-up of share options issued to minority shareholders. Proceeds of £99m in 2008 relate to the sale of the Data Management business, and £12m to the take-up of share options issued to minority shareholders. The principal disposals in 2007 were of Government Solutions for £278m and Les Echos for £156m.

The cash outflow from financing of £380m 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.

The cash outflow from financing of £149m in 2008 reflects the repayment at maturity of one £100m bond, the repayment of borrowings against a short-term bridge financing facility and a further increase in the dividend. Offsetting this, the Group issued $900m of US Dollar bonds. The cash outflow from financing activities of £444m in 2007 represented the higher dividend and the repayment at maturity of one €591m bond, offset in part by drawings on the Group's revolving credit facility.

***Capital resources***

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

At December 31, 2009, our net debt was £1,092m compared to net debt of £1,460m at December 31, 2008. Net debt is defined as all short-term, medium-term and long-term borrowing (including finance leases), less all cash, cash equivalents and liquid resources. Cash equivalents comprise short-term deposits with a maturity of up to 90 days, while liquid resources comprise short-term deposits with maturities of more than 90 days and other marketable instruments which are readily realizable and held on a short-term basis. Short-term, medium-term and long-term borrowing amounted to £2,008m at December 31, 2009, compared to £2,363m at December 31, 2008 reflecting the impact of the strengthening of sterling relative to the US Dollar. At December 31, 2009, cash and liquid resources were £750m, compared to £685m at December 31, 2008.

***Contractual obligations***

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

| | At December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | 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 | 70 | 70 | — | — | — |
| Bonds | 1,923 | — | 322 | 754 | 847 |
| Finance lease obligations | 15 | 4 | 5 | 6 | — |
| Operating lease obligations | 1,487 | 153 | 144 | 342 | 848 |
| **Total** | **3,495** | **227** | **471** | **1,102** | **1,695** |

At December 31, 2009 the Group had capital commitments for fixed assets, including finance leases already under contract, of £15m (2008: £7m). There are contingent liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities in respect of legal claims. None of these claims or guarantees is expected to result in a material gain or loss.