

OUR STRATEGY

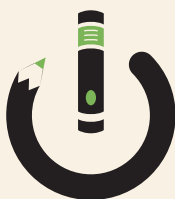
To find out more about our business strategy go to [page 10](#)

OUR PERFORMANCE

For an in-depth analysis of how we performed in 2010 go to [page 15](#)

OUR IMPACT ON SOCIETY

For an explanation of our approach to corporate responsibility go to [page 38](#)



open to learn

PEARSON ANNUAL REPORT AND ACCOUNTS 2010

Always learning

Pearson is the world's leading learning company. We have 36,000 people in more than 70 countries, helping people of all ages to make progress in their lives through all kinds of learning.

Learn more at www.pearson.com



Browse, download or print our interactive online annual report at www.pearson.com/investor/ar2010



View our 2010 results presentation at: www.pearson.com/pearson-2010-results/

Notes

Reliance on this document

Our Business Review on pages 10 to 47 has been prepared in accordance with the Directors' Report Business Review Requirements of section 417 of the Companies Act 2006. It also incorporates much of the guidance set out in the Accounting Standards Board's Reporting Statement on the Operating and Financial Review.

The intention of this document is to provide information to shareholders and is not designed to be relied upon by any other party or for any other purpose.

Forward-looking statements

This document contains forward-looking statements which are made by the directors in good faith based on information available to them at the time of approval of this report. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including

trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated costs savings and synergies and the execution of Pearson's strategy, are forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including a number of factors outside Pearson's control. Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based.

What's inside this report?

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Pearson at a glance

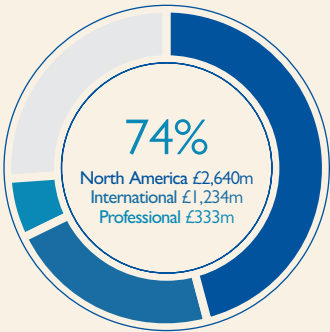
Overview

People

Proportion of Pearson revenue

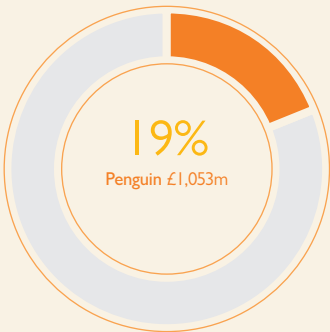
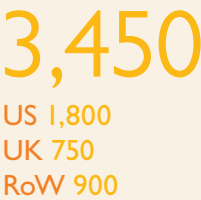
Education

We provide learning materials, technologies, assessments and services to teachers and students of all ages and in more than 70 countries.



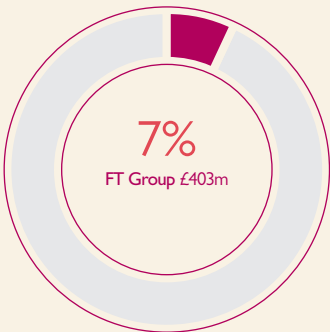
Consumer publishing

Penguin publishes more than 4,000 fiction and non-fiction books each year – on paper, on screens and in audio formats – for readers of all ages. It is one of the world's leading consumer publishing businesses and an iconic global brand.



Business information

The FT Group provides news, data, comment and analysis to the international business community. It is known around the world for its independent and authoritative information.



Business

Markets

We are a leading provider of educational materials and learning technologies. We provide test development, processing and scoring services to governments, educational institutions, corporations and professional bodies around the world. We publish across the curriculum and provide a range of education services including teacher development, educational software and system-wide solutions.

For some years, Pearson has been a leader in education, with leading positions in large developed markets and local publishing centres in more than 30 countries. More recently we have significantly accelerated our international expansion, investing in countries including China, Brazil, India and South Africa.



See more on [page 18](#) and at pearsoned.com

Penguin operates around the world through a series of connected national publishing houses. It publishes under a number of well-known imprints including Putnam, Viking, Allen Lane, Hamish Hamilton, Berkley, the Penguin Press, Puffin and Dorling Kindersley.

Penguin combines a longstanding commitment to local publishing with a determination to benefit from its worldwide scale, a globally recognised brand and growing demand for books in emerging markets. Its largest businesses are in the US, the UK, Australia, Canada, Ireland, India and South Africa.



See more on [page 28](#) and at penguin.com

The FT Group includes: the *Financial Times* and FT.com, a range of specialist financial magazines and online services, and Mergermarket.

The FT Group also has a stake in a number of joint ventures, including those with FTSE International, Vedomosti in Russia, BDFM in South Africa and a 50% stake in The Economist Group.

The *Financial Times* has a network of approximately 600 journalists in 47 countries and a unique model of producing distinctive newspaper editions for Europe, the UK, the US, Asia and the Middle East. FT.com, with 10.6 million monthly unique users and 3.2 million registered users around the world, makes the FT even more widely available.



See more on [page 26](#) and at ft.com

Financial highlights

In financial terms, Pearson's goal is to achieve sustainable growth on three key financial goals – earnings, cash and return on invested capital – and reliable cash returns to our investors through healthy and growing dividends. Over the past five years we have produced, on average, 16% growth in earnings and cash flow. And we have sustained our growth even in the face of very tough economic and market conditions in recent years.

	2010 £m	2009 £m	Headline growth	CER growth	Underlying growth
Business performance					
Sales	5,663	5,140	10%	8%	5%
Adjusted operating profit	857	710	21%	15%	14%
Adjusted profit before tax	853	761	12%		
Adjusted earnings per share	77.5p	65.4p	19%		
Operating cash flow	1,057	913	16%		
Total free cash flow	904	723	25%		
Total free cash flow per share	112.8p	90.5p	25%		
Return on invested capital	10.3%	8.9%	1.4%pts		
Net debt	(430)	(1,092)	61%		

Statutory results

Operating profit	743	619	20%
Profit before tax	670	523	28%
Basic earnings per share	161.9p	53.2p	204%
Cash generated from operations	1,169	1,012	16%
Dividend per share	38.7p	35.5p	9%

Notes

Throughout this document:

- Growth rates are stated on a constant exchange rate (CER) basis unless otherwise stated.
- Where quoted, underlying growth rates exclude both currency movements and portfolio changes.
- Interactive Data is treated as a discontinued business and sales and operating profit are stated on a continuing business basis, excluding Interactive Data from both 2009 and 2010. Until its sale on 29 July 2010, Interactive Data contributed revenues of £296m (full year 2009: £484m) and adjusted operating profit of £81m (2009: £148m).
- The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes 2, 8 and 31 to the annual report.

2010 Sales

£5.7bn
+8%

2010 Adjusted operating profit

£857m
+15%

Our record

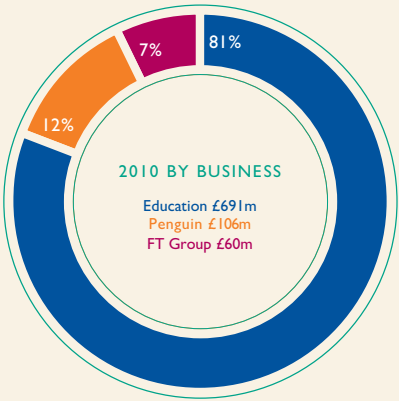
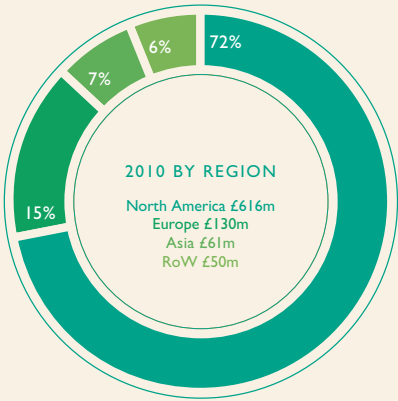
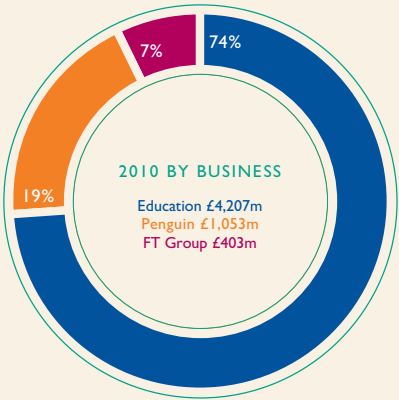
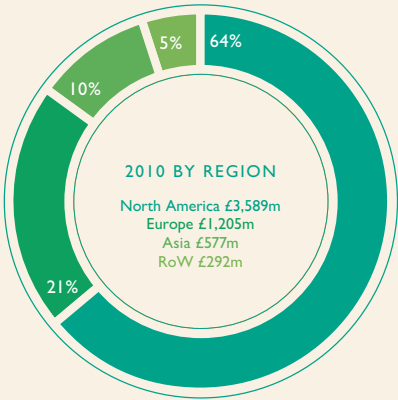
Average annual growth
in headline terms, 2006–2010

ADJUSTED EARNINGS PER SHARE

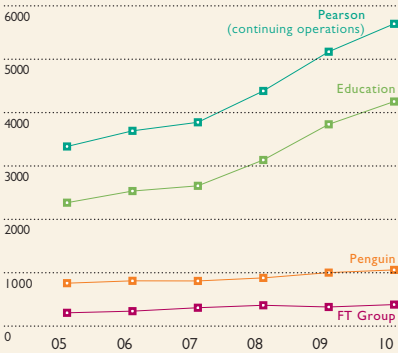
+16%

OPERATING CASH FLOW

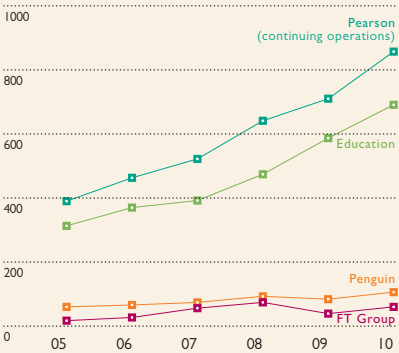
+16%



SALES £m



ADJUSTED OPERATING PROFIT £m



Chairman's statement

We have a clear strategy, a talented team and a proud record of performance. Once again, that was rewarded with good returns for shareholders.



Glen Moreno Chairman

Dear shareholder,

Welcome to our report to you for 2010.

It was another challenging year for your company. The global economy did begin to crawl out of recession, but governments, businesses and consumers continued to suffer the aftershocks of the financial crisis. Confidence was in short supply, and my own guess is that it's likely to remain that way for some time.

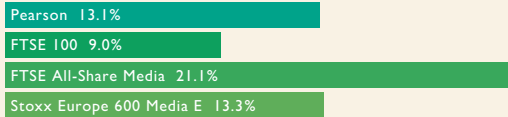
But once again, Pearson rose to the challenge. As you'll have seen, your company posted operating profit and earnings growth of 15% and 19% respectively. Beneath those numbers for all of Pearson stand excellent results in all parts – Penguin, the Financial Times Group and our education company. For that, all our talented people deserve every credit.

On two especially important performance measures – operating cash flow and return on capital – we hit all-time highs of £1.06bn and 10.3% respectively. And much more important than any single year, this continues a trend of consistent, reliable growth through good times and bad. Over the past five years, our profits, earnings per share and free cash flow have all doubled.

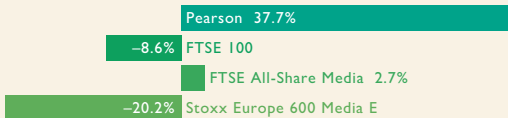
Once again, that strong operational performance was rewarded with good returns for shareholders. After a substantial increase of almost 40% in 2009 our shares began 2010 at 891p. They ended the year 13% higher, just above ten pounds. That growth was a little faster than the overall market (the FTSE 100 was up 9%) but a little slower than our sector as advertising-funded companies that had been hit hard during the recession enjoyed a sharp recovery (the DJ Stoxx 600 Media index was up 13% and the FTSE All-Share Media index 21%).

The second element of our return to shareholders – the dividend – was further increased in 2010. So our total shareholder return (which combines both the share price movement and dividends paid) was up 17% for the year – this coming on top of a gain of close to 50% in 2009. Again, this was ahead of the FTSE 100 (up 13%), but behind the DJ Stoxx 600 Media (up 18%) and the FTSE media sector (up 25%).

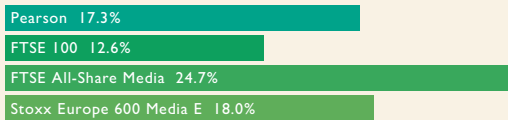
SHARE PRICE PERFORMANCE – 1 YEAR % CHANGE 01.01.10 – 31.12.10



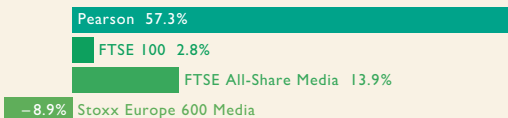
SHARE PRICE PERFORMANCE – 3 YEAR % CHANGE 01.01.08 – 31.12.10



TOTAL SHAREHOLDER RETURN – 1 YEAR % CHANGE 01.01.10 – 31.12.10



TOTAL SHAREHOLDER RETURN – 3 YEAR % CHANGE 01.01.08 – 31.12.10



Source: Datastream as at 31 December 2010

So, there is much to be proud of and I convey my thanks and congratulations to everyone at Pearson. But we cannot look back: our markets are filled with change and we have much to be cautious about.

The economic recovery is not assured and in many parts of the world debt – both public and private – remains a heavy burden. At the same time, the disruptive transformations that have been reshaping Pearson for some time – slower growth in our traditional markets set against rapid expansion in the so-called ‘developing’ world; and the revolutionary impact of connected digital technologies on the way

we all read, learn and communicate – are snowballing. These twin forces – technology and globalisation – have been the dominant trends throughout my business career and Pearson’s strategies, opportunities and risks are to a very great extent shaped by them. As reliable as our growth has been, we cannot take it for granted; as Marjorie writes in her strategy review, we have to keep on investing and changing.

These are the strategic matters that consume the attention of our people and the board. Your board believes it can contribute most to Pearson’s success by focusing on four key themes: governance, strategy, business performance and people. Our annual board cycle and meeting agendas are formally structured around these things.

Governance

As a board, our belief is that good governance supports the long-term development of strategy and good performance. We are determined not to second-guess a highly experienced and effective executive management team; but we do believe that robust, open board debate brings a discipline to important decisions and adds a valuable and diverse set of external perspectives.

We’re fortunate to have a varied group of non-executive directors drawn from successful businesses and education institutions with deep experience of global corporate strategy, education, consumer marketing and technology. Terry Burns’s decision to depart from the board last year, soon followed by the untimely death of CK Prahalad, left us with an unexpected imbalance between executive and non-executive directors. We have addressed this with the recent appointment of Josh Lewis as a non-executive director. We believe Josh will make an excellent addition to our board. We are currently looking to make one further non-executive director appointment.

Chairman’s statement continued

Strategy

At each board meeting your board reviews the detailed strategy and long-term plans for one or more of our businesses. Once a year, at a specific two-day meeting, the board considers Pearson’s overall strategy. We analyse in detail the market conditions and trends facing us, and consider the long-term goals and plans of all parts of Pearson. We have an open and robust debate over major strategic issues such as the shape of the company, the potential value to be created by further acquisitions and disposals, and the priorities for capital allocation and organic investment. Marjorie’s letter to shareholders, which begins on page 10, is as always an excellent summary of our strategic direction.

As I wrote in my letter to shareholders last year, Pearson is a company that has totally transformed itself over the past decade. Yet even by our standards, 2010 was a year of dramatic change. As a board we debated and approved Pearson’s largest disposal ever: the \$2.0bn sale of our stake in Interactive Data to Silver Lake and Warburg Pincus. We looked at all the acquisitions that the company made during the year – including significant investments to expand our position in fast-growing developing markets such as Brazil, India and Africa. And we also, as a matter of routine, revisited acquisitions made in prior years to assess their performance against the plans originally laid out for them. In 2010, in addition to reviewing returns and lessons learned from capital allocation decisions over the past seven or so years, we conducted detailed post-acquisition reviews of acquisitions completed during 2008.

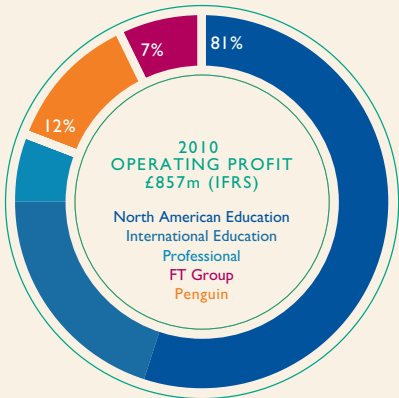
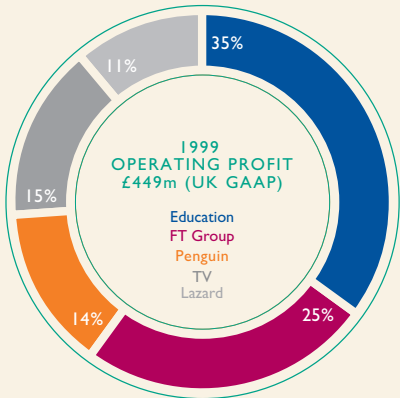
I am convinced that this steady reallocation of resources into learning companies that are heavily oriented towards developing markets and new technologies is an excellent strategy for Pearson to pursue. Our return on capital from all acquired companies from 2002–2010 is 12%, well above our average cost of capital.

Business performance

At the start of each year, in addition to reviewing long-term strategic plans, the board debates and agrees a stretching-but-realistic one-year operating plan. It focuses on a balanced mix of financial goals – sales growth, margins, earnings, cash and working capital reduction – which are intended to contribute to the long-term financial goals of the company, to align executive compensation with shareholders’ interests and to avoid an excessive focus on any single financial measure. These targets in turn form the basis of our expectations for the year and for executive compensation. At every board meeting, we hear from the company’s chief financial officer and executive directors on the company’s business performance relative to plan.

This past year, in monitoring business performance the board has paid particularly close attention to risk management. You can read our full discussion of the material risks affecting the company from page 35; they are dominated by risks related to a prolonged period of low economic growth and the transformational shift towards digital delivery and business models.

CHANGE AT PEARSON
OPERATING PROFIT



People

Your board is keenly aware that a creative business like Pearson is acutely dependent on its internal talent – not just of a small group of senior directors, but of a wide pool of writers, editors, educators, publishers, technologists, marketers and sales experts.

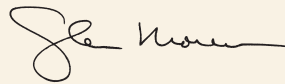
Each year we devote one full board meeting to talent, succession planning and organisational structure. We look in detail at the 20 most senior jobs in Pearson, ensuring that there are several credible candidates for each role, that they are well known by the board and that we have development plans in place to round out their experience and skills and to give them every possible chance of progressing their careers at Pearson.

In addition, in 2010 the board reviewed the goals and plans of Pearson's new director for people, Robin Baliszewski. And the remuneration committee, as always, played the pivotal role in setting overall compensation policy, senior executive reward and incentive targets across the company aligned to our strategy and performance. You can read the full report of our remuneration committee from page 63.

In 2010, in addition to my Pearson responsibilities, I took on a new role as deputy chairman of the Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting. In that capacity I have become even more aware of the desire of shareholders, large and small, to understand how boards are spending their time and how they are ensuring that key decisions around investment, performance and compensation are closely connected to strategy.

I do hope that this report helps provide you with that understanding in relation to Pearson. We have a clear strategy, a focused board, a talented team and a proud record of performance. We will be straining every sinew to continue to build on all those strengths in 2011.

If you have any questions, I invite you to send them to us via our website at www.pearson.com; or to join us in person at our annual shareholders' meeting.



Glen Moreno Chairman