

PEARSON EDUCATION

Pearson Education is the world's leading education company, providing print and digital learning materials and services used by more than 100 million students of all ages every year. Our business serves educators and their students in three worldwide sectors: School, Higher education and Professional.

School Over the past five years, we have become the world's leading school company. We built our business around our customers – teachers, schools and administrators – and their mission to make a lasting impact on learning for each and every child.

To do that, we have invested in vivid, research-based instructional content, rigorous assessment, pertinent data about students and powerful technology.



Put together, these resources enable teachers to measure and pinpoint their students' learning needs, and to teach each child in his own way, at his own pace.

That approach puts us in the sweet spot of several trends in school education, which helped us to a record year in 2005 (our School sales were up 16% to almost £1.3bn and profits 29% higher at £147m). In the US, our largest market, the federal government is focusing attention and investment on several areas where we lead the field: testing, reading instruction, student information and the professional development of teachers. In the UK, we are helping to modernise school testing, marking millions of examinations on-screen and making the process faster, more secure and more informative for students, parents and teachers.

SCHOOL PERFORMANCE

SALES £1,295M \$2,227M

05	£1,295M \$2,227M
04	£1,087M \$1,870M
03	£1,149M \$1,977M

ADJUSTED OPERATING PROFIT £147M \$253M

05	£147M \$253M
04	£108M \$186M
03	£116M \$200M



Above: The British Council estimates that, within 10-15 years, two billion people will be learning English. Pearson is the world's leading publisher for students of English as a second language, and in the past two years we have invested in major new international programmes for elementary, secondary, adult and business markets. *English Adventure*, our award-winning course for children aged 3-12, combines the educational pedigree of Pearson Longman with the enchanting power of Disney characters that children know and love. We have launched local versions across the globe and the programme will ultimately be sold in more than 50 countries.

Disney material © 2004 Disney Enterprises, Inc. Pearson produces the English Adventure product pursuant to a license agreement with Disney publishing.

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HOMEWORK

A TEST

BOOK

PLAN

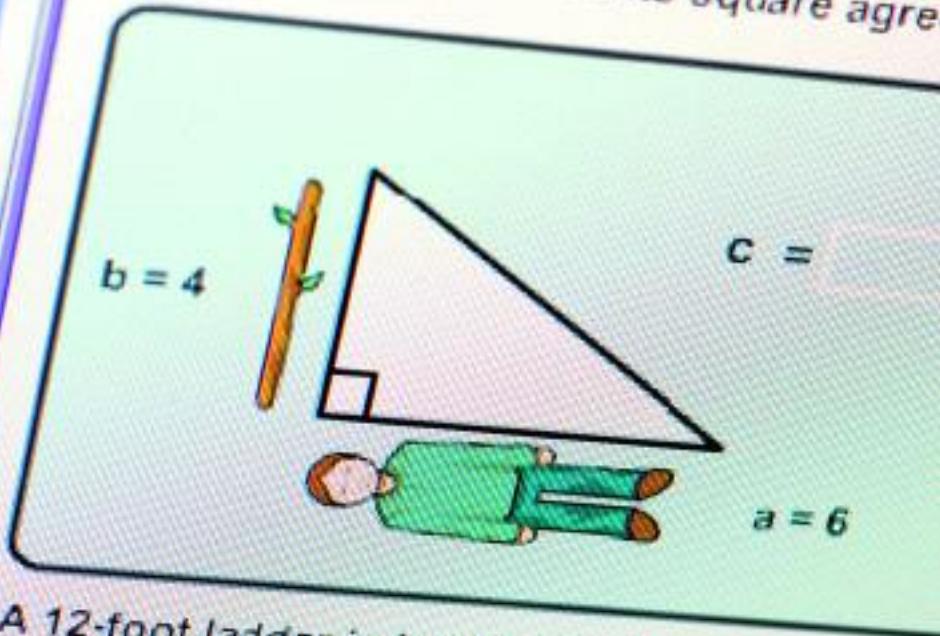
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Media Library

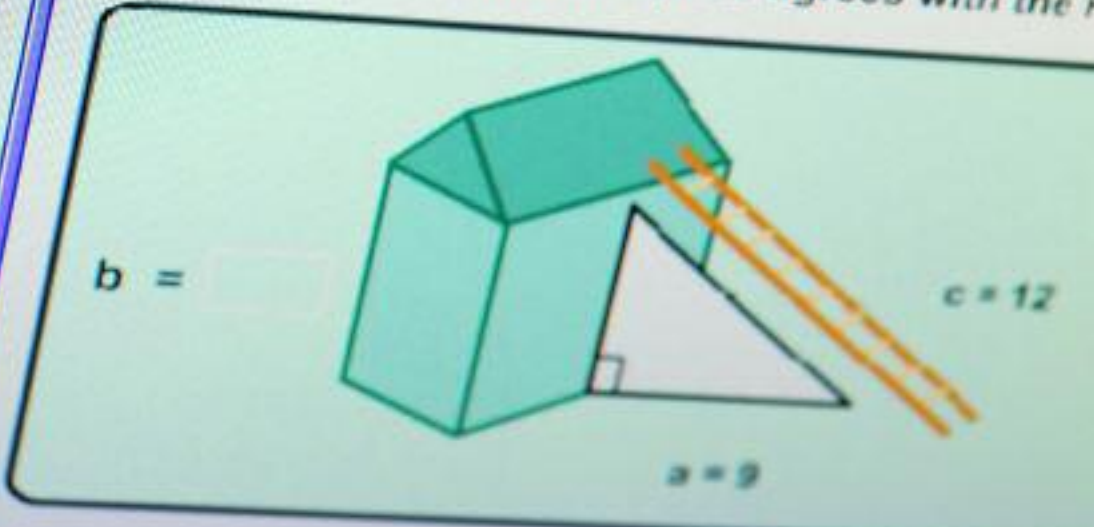
Education

Wizard

You are camping and need to build a lean-to shelter. You want the base to be 6 feet in length. You brought a piece of canvas that is 10 feet long. Use the Pythagorean Theorem to determine the canvas length so that its square agrees with the base length.



A 12-foot ladder is leaning against a house. The distance from the house to the foot of the ladder is 9 feet. Use the Pythagorean Theorem to determine the height of the ladder to the ground (side b). The solution is 9 feet.

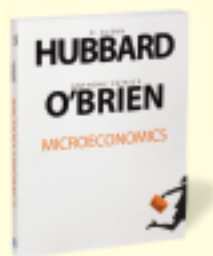


Left: Technology is changing the way that teachers teach and students learn. In US Higher Education, Pearson has pioneered a series of online learning resources such as *MyMathLab*. The system allows college maths students to practice problems and submit assignments online, and the software intervenes and provides assistance if the student is struggling. Last year students submitted 11 million assignments online through this programme, and colleges using the system are reporting significant increases in student pass rates.

In many other markets around the world, demand is growing for materials to improve reading and maths skills and to help students learn English as a second language.

Looking ahead, these trends in school education and the strengths in these very areas built into our business give us plenty of scope for long-term growth. We think our school business will continue its growth in sales and profits as it helps teachers teach and students learn.

Higher education Pearson is the worldwide leader in publishing, technology and related services for college and university students. Our higher education business – the world’s largest, with £779m in sales in 2005 – has grown faster than its industry for each of the past seven years.



The foundation of this business is its content: across almost all academic disciplines, we publish some of the world’s most renowned thinkers and authors, including Kotler in marketing, Campbell in biology and Hubbard in economics. We work very closely with our authors, typically over many years, to ensure their teaching materials meet the learning needs and styles of today’s students.

Higher education publishing has been a very predictable growth market, with industry sales increasing every year for the past two decades. In the US, our largest market, student enrolments have been increasing steadily – from 14 million in

HIGHER EDUCATION PERFORMANCE

SALES £779M \$1,340M

ADJUSTED OPERATING PROFIT £156M \$269M

05	£779M \$1,340M	05	£156M \$269M
04	£729M \$1,254M	04	£129M \$221M
03	£770M \$1,324M	03	£142M \$244M

1995 to 17 million in 2005 – and are projected to continue to grow, reaching 19 million by the end of this decade.

Yet behind this picture of consistent growth also lies one of the most dynamic and innovative segments of the media and publishing industries. We have grown and prospered because of our unique combination of industry-leading innovation and worldwide scale. Three strategies in particular are setting Pearson apart from competitors and helping us to grow faster than the market:



Technology We combine print textbooks with web-based services. Over 3.6 million college students in America use one of our online services which enable them to explore content, do their homework, take practice tests, receive instant feedback and connect with their professors. These services are growing rapidly, helping students to improve their performance.

Customisation We offer educators the chance to create textbooks and digital resources built around their own courses, blending content from our books, their own course materials and many other sources. This business has grown its sales by more than 25% for each of the past five years.

International expansion Many of our higher education textbooks are seasoned travellers. Kotler's *Principles of Marketing*, for instance, has been printed in 23 languages. We are also now taking our online programmes and custom publishing capabilities and making them available in international markets.

Those advantages helped Pearson's higher education business to a record year in 2005, with sales up 5% and profits up 19% to £156m. With strong competitive advantages and healthy markets, we believe this business is well set for continued, steady growth in the years ahead.

Professional Peter Drucker, the world-famous management thinker, once wrote: "The growth industry of the future in the world will soon be the continuing education of adults...the educated person of the future is somebody who realises the need to continue to learn."

If he was right, our professional education business, which provides a range of content and services for adult learners, has good prospects. It has three major parts.

Professional testing and certification We are a world leader in assessing and certifying people to practice in their chosen profession. This year some 3.5 million people – including nurses, dentists, lawyers, securities dealers and business school applicants as well as local real estate and insurance agents – will take a test in one of our 400 centres worldwide. This business is growing very fast indeed – up more than 30% in each of the past two years – as we benefit from a series of large contract wins and our leadership in computer-based testing.



Technology publishing We are the world’s leading publisher of books about technology, from the basics of using a PC, an iPod or a video game through to detailed technical manuals for software engineers. For the past five years, this market has been in decline, reflecting the overall trend of the IT industries. We have been moving our business more toward digital publishing and at the same time maintained our healthy margins and market share, and we now begin to see improved market conditions ahead of us.

Government Solutions We provide a range of services to connect citizens to government services. Our largest customer is the US Department of Education for whom we manage college students’ applications for federal financial support. This business has the advantage of very reliable, predictable revenue streams because it is based on multi-year contracts with governments: in 2005 alone it won more than \$1bn of new business for the future, some of it under contract as far ahead as 2015.

PROFESSIONAL PERFORMANCE

SALES £589M \$1,013M

05	£589M \$1,013M
04	£507M \$872M
03	£503M \$865M

ADJUSTED OPERATING PROFIT £45M \$77M

05	£45M \$77M
04	£40M \$69M
03	£34M \$58M

THE FINANCIAL TIMES GROUP

The FT Group brings together some of the most trusted and reliable brands in business and financial information. In 2005 it increased profits by more than one-third and restored its world-famous pink newspaper to profit.

Interactive Data Corporation, our 62%-owned financial information business, was once again the powerhouse behind this progress. Acquired by Pearson in 1995 to counter the cyclical swings of our advertising-funded business newspapers, IDC has been a model of rapid and consistent growth, increasing profits almost four-fold in only seven years to a record £80m.



2005 was also a year when our business newspapers began to emerge from a deep four-year business advertising recession. The *Financial Times* achieved a profit of £2m – an improvement of £14m on 2004 – as newspaper circulation stabilised and advertising revenues increased by 9%. Global advertising – booked for all print editions of the FT newspaper – was up more than 20%, and it now accounts for around half of all the FT’s advertising. FT.com showed its importance to the FT’s future, with over 3.2 million unique users, 84,000 paying subscribers and online advertising increasing by 27%.

Through the year, the FT continued to expand its reach and influence around the world. The Global Capital Markets Survey named the FT the world’s ‘most important business read’ and the European Opinion Leaders Survey named it Europe’s leading, most credible and most respected title. The FT’s Asia edition, launched in 2003, achieved a circulation of over 36,400 in the second half of 2005 – a 14% increase year on year – and FTChinese.com logged 250,000 registered

THE FINANCIAL TIMES GROUP PERFORMANCE

SALES £629M \$1,082M

ADJUSTED OPERATING PROFIT £101M \$174M

05	£629M \$1,082M	05	£101M \$174M
04	£587M \$1,010M	04	£71M \$122M
03	£588M \$1,011M	03	£41M \$71M

users and a formidable reputation among China's business elite. A similar story was told across the FT's network of leading national business titles. In France, *Les Echos* reached a circulation of 119,000. In Germany, *FT Deutschland* celebrated its fifth anniversary with a circulation of more than 100,000 copies. And *The Economist*, the world's best weekly newspaper, took its circulation past 1,000,000 for the first time in its history.



Above: The FT continues to provide leaders in business, finance and politics with the best news, comment and analysis on the major international issues of the day. Our investment in the FT's Asia edition has coincided with intense interest in the rise of India and China, and the implications for international business, politics and economics.

We've followed a very clear strategy for the FT Group: to take a UK business newspaper and make it the world's business newspaper; to take a once-a-day morning read and make it a relevant through-the-day business tool; to attract premium advertising by collecting a global audience of the people who run the world; and to construct a powerful, resilient financial information business in IDC that can prosper through the business cycle.

That strategy is working, as the FT benefits from its unique position as a global source of news, comment and analysis.

THE PENGUIN GROUP

In 2005, Penguin celebrated 70 years of publishing high quality books for a wide audience at affordable prices. Marking the anniversary, the UK's *Independent* newspaper said: "More than any Education Act, Penguin redesigned the intellectual landscape of Britain," and *The Times* declared: "In its three score and ten, the cheeky Penguin has achieved more for the uplift of the British mind than even the leviathans of Oxbridge."

In publishing terms, it was a year as strong as any in Penguin's proud history. Our authors scooped a string of major awards: a Pulitzer Prize (for Steve Coll's *Ghost Wars*), a National Book Award (William T. Vollman's *Europe Central*), the Whitbread Book of the Year (Hilary Spurling's *Matisse the Master*) and the Financial Times & Goldman Sachs Business Book of the Year Award (Thomas Friedman's *The World is Flat*).



And it was also a year when Penguin put a tough 2004 behind it and looked forward. In its seventieth year, an impressive publishing performance ensured it had an average of two *New York Times* bestsellers and a UK top ten bestseller every week. In 2005, Penguin made its biggest ever investment in new talent, publishing more than 150 first-time authors in the US alone. It also built on its reputation for innovation, launching new book formats and enjoying rapid growth in online sales, online book clubs and podcasts. At the

THE PENGUIN GROUP PERFORMANCE

SALES £804M \$1,383M

ADJUSTED OPERATING PROFIT £60M \$102M

05	£804M \$1,383M	05	£60M \$102M
04	£786M \$1,351M	04	£52M \$90M
03	£840M \$1,445M	03	£83M \$143M

same time, it moved ahead in newer markets like India and China, publishing its first books in Hindi and acquiring worldwide rights to one of China's most popular authors. And it made room for all those investments with a series of actions to reduce costs and become more efficient.



Above: Penguin had a fantastic bestseller performance in the US and UK in 2005, with 129 *New York Times* bestsellers and a 66 week run for Khaled Hosseini's *The Kite Runner*. In the UK, Penguin had 54 titles featured in the top ten in 2005, with 12 titles making it to the number one spot.

Book publishing is not an easy market – it faces pressure from secondhand books, price discounting and the internet. But Penguin marked its 70th birthday in style, beating off world-famous brands from all industries to be named British Brand of the Year. With the power of its brand, the talent of its authors and its commitment to creativity and innovation, the world-famous bird is in good health.