PEARSON PLC
Form 20-F
March 25, 2011

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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON March 25, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	or
þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **for the fiscal year ended December 31, 2010**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **for the transition period from to**
	or
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **Date of event requiring this shell company report**

Commission file number 1-16055
PEARSON PLC
(Exact name of Registrant as specified in its charter)

England and Wales
(Jurisdiction of incorporation or organization)

80 Strand
London, England WC2R 0RL
(Address of principal executive offices)

Stephen Jones
Telephone: +44 20 7010 2000
Fax: +44 20 7010 6060
80 Strand
London, England WC2R 0RL
(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
*Ordinary Shares, 25p par value	New York Stock Exchange
American Depositary Shares, each Representing One Ordinary Share, 25p per Ordinary Share	New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the SEC.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock at the close of the period covered by the annual report:

Ordinary Shares, 25p par value	812,677,377

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated file and large accelerated filer , in Rule 12b-2 of the Exchange Act. (Check one):

þ Large accelerated filer	o Accelerated filer	o Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing

o US GAAP	**þ** International financial Reporting Standards as Issued by the International Accounting Standards Board	**o** Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 o	Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes **o**	No **þ**

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INTRODUCTION

In this Annual Report on Form 20-F (the Annual Report) references to Pearson , the Company or the Group are references to Pearson plc, its predecessors and its consolidated subsidiaries, except as the context otherwise requires. Ordinary Shares refer to the ordinary share capital of Pearson of par value 25p each. ADSs refer to American Depositary Shares which are Ordinary Shares deposited pursuant to the Deposit Agreement dated March 21, 1995, amended and restated as of August 8, 2000 among Pearson, The Bank of New York as depositary (the Depositary) and owners and holders of ADSs (the Deposit Agreement). ADSs are represented by American Depositary Receipts (ADRs) delivered by the Depositary under the terms of the Deposit Agreement.

We have prepared the financial information contained in this Annual Report in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) which in respect of the accounting standards applicable to the Group do not differ from IFRS as adopted by the European Union (EU). Unless we indicate otherwise, any reference in this Annual Report to our consolidated financial statements is to the consolidated financial statements and the related notes, included elsewhere in this Annual Report.

We publish our consolidated financial statements in sterling. We have included, however, references to other currencies. In this Annual Report:

references to sterling , pounds , pence or £ are to the lawful currency of the United Kingdom,

references to euro or are to the euro, the lawful currency of the participating Member States in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Commission, and

references to US dollars , dollars , cents or $ are to the lawful currency of the United States.

For convenience and except where we specify otherwise, we have translated some sterling figures into US dollars at the rate of £1.00 = $1.54, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on December 31, 2010, the last business day of 2010. We do not make any representation that the amounts of sterling have been, could have been or could be converted into dollars at the rates indicated. On February 28, 2011 the noon buying rate for sterling was £1.00 = $1.62.

The Group consists of three major worldwide businesses, Pearson Education, The FT Group (FT) and the Penguin Group (Penguin). See Item 4. Information on the Company Overview of operating divisions .

FORWARD-LOOKING STATEMENTS

You should not rely unduly on forward-looking statements in this Annual Report. This Annual Report, including the sections entitled Item 3. Key Information Risk Factors , Item 4. Information on the Company and Item 5. Operating and Financial Review and Prospects , contains forward-looking statements that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terms such as may , will , should expect , intend , plan , anticipate , believe , estimate , predict , potential , continue or the negative of these comparable terminology. Examples of these forward-looking statements include, but are not limited to, statements regarding the following:

operations and prospects,

growth strategy,

funding needs and financing resources,

expected financial position,

market risk,

currency risk,

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- US federal and state spending patterns,
- debt levels, and
- general market and economic conditions.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In evaluating them, you should consider various factors, including the risks outlined under Item 3. Key Information Risk Factors , which may cause actual events or our industry s results to differ materially from those expressed or implied by any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

PART I

ITEM 1. *IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS*

Not applicable.

ITEM 2. *OFFER STATISTICS AND EXPECTED TIMETABLE*

Not applicable.

ITEM 3. *KEY INFORMATION*

Selected consolidated financial data

Following the publication of SEC Release No 33-8879 Acceptance From Foreign Private Issuers of Financial Statements Prepared in Accordance With International Financial Reporting Standards Without Reconciliation to U.S. GAAP , the Group no longer provides a reconciliation between IFRS and U.S. GAAP.

The table below shows selected consolidated financial data under IFRS as issued by the IASB. The selected consolidated profit and loss account data for the years ended December 31, 2010, 2009 and 2008 and the selected consolidated balance sheet data as at December 31, 2010 and 2009 have been derived from our audited consolidated financial statements included in Item 18. Financial Statements in this Annual Report.

The results of the Interactive Data business (disposed in July 2010) have been included in discontinued operations for all the years to 2010. The results of the Data Management business (disposed in February 2008) have been included in discontinued operations for all years to 2008. The results of Government Solutions (disposed in February 2007) and Les Echos (disposed in December 2007) have been included in discontinued operations for all the years to 2007.

The selected consolidated financial information should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report. The information provided below is not necessarily indicative of the results that may be expected from future operations.

For convenience, we have translated the 2010 amounts into US dollars at the rate of £1.00 = $1.54, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on December 31, 2010.

	Year Ended December 31					
	2010	**2010**	**2009**	**2008**	**2007**	**2006**
	$	**£**	**£**	**£**	**£**	**£**
	(In millions, except for per share amounts)					
Consolidated Income Statement data						
Total sales	8,721	5,663	5,140	4,405	3,818	3,658
Total operating profit	1,144	743	619	564	484	440
	807	524	377	344	274	405

Profit after taxation from continuing operations							
Profit for the financial year		2,002	1,300	462	323	310	469
Consolidated Earnings data per share							
Basic earnings per equity share(1)	$	2.49	161.9p	53.2p	36.6p	35.6p	55.9p
Diluted earnings per equity share(2)	$	2.49	161.5p	53.1p	36.6p	35.6p	55.8p
Basic earnings from continuing operations per equity share(1)	$	1.02	66.0p	47.0p	42.9p	34.1p	50.6p
Diluted earnings from continuing operations per equity share(2)	$	1.01	65.9p	47.0p	42.9p	34.1p	50.5p
Dividends per ordinary share	$	0.60	38.7p	35.5p	33.8p	31.6p	29.3p
Consolidated Balance Sheet data at period end							
Total assets (non-current assets plus current assets)		16,429	10,668	9,412	9,896	7,292	7,213
Net assets		8,632	5,605	4,636	5,024	3,874	3,644
Long-term obligations(3)		(4,344)	(2,821)	(3,051)	(2,902)	(1,681)	(1,853)
Capital stock		313	203	203	202	202	202
Number of equity shares outstanding (millions of ordinary shares)		813	813	810	809	808	806

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Notes:

(1) Basic earnings per equity share is based on profit for the financial period and the weighted average number of ordinary shares in issue during the period.

(2) Diluted earnings per equity share is based on diluted earnings for the financial period and the diluted weighted average number of ordinary shares in issue during the period. Diluted earnings comprise earnings adjusted for the tax benefit on the conversion of share options by employees and the weighted average number of ordinary shares adjusted for the dilutive effect of share options.

(3) Long-term obligations comprise any liabilities with a maturity of more than one year, including medium and long-term borrowings, derivative financial instruments, pension obligations and deferred income tax liabilities.

Dividend information

We pay dividends to holders of ordinary shares on dates that are fixed in accordance with the guidelines of the London Stock Exchange. Our board of directors normally declares an interim dividend in July or August of each year to be paid in September or October. Our board of directors normally recommends a final dividend following the end of the fiscal year to which it relates, to be paid in the following May or June, subject to shareholders approval at our annual general meeting. At our annual general meeting on April 28, 2011 our shareholders will be asked to approve a final dividend of 25.7p per ordinary share for the year ended December 31, 2010.

The table below sets forth the amounts of interim, final and total dividends paid in respect of each fiscal year indicated, and is translated into cents per ordinary share at the noon buying rate in The City of New York on each of the respective payment dates for interim and final dividends. The final dividend for the 2010 fiscal year will be paid on May 6, 2011.

Fiscal year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
	(Pence per ordinary share)			**(Cents per ordinary share)**		
2010	13.0	25.7	38.7	20.3	39.6*	59.9
2009	12.2	23.3	35.5	19.8	34.3	54.1
2008	11.8	22.0	33.8	21.6	33.2	54.8
2007	11.1	20.5	31.6	22.4	39.9	62.3
2006	10.5	18.8	29.3	20.0	31.4	51.4

* As the 2010 final dividend had not been paid by the filing date, the dividend has been translated into cents using the noon buying rate for sterling at December 31, 2010.

Future dividends will be dependent on our future earnings, financial condition and cash flow, as well as other factors affecting the Group.

Exchange rate information

The following table sets forth, for the periods indicated, information concerning the noon buying rate for sterling, expressed in dollars per pound sterling. The average rate is calculated by using the average of the noon buying rates in

The City of New York on each day during a monthly period and on the last day of each month during an annual period. On December 31, 2010 the noon buying rate for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes for sterling was £1.00 = $1.54. On February 28, 2011 the noon buying rate for sterling was £1.00 = $1.62.

Month	**High**	**Low**
February 2011	$ 1.62	$ 1.60
January 2011	$ 1.60	$ 1.55
December 2010	$ 1.59	$ 1.54
November 2010	$ 1.63	$ 1.56
October 2010	$ 1.60	$ 1.57
September 2010	$ 1.59	$ 1.53

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Year Ended December 31	Average rate
2010	$ 1.54
2009	$ 1.57
2008	$ 1.84
2007	$ 2.01
2006	$ 1.84

Risk factors

You should carefully consider the risk factors described below, as well as the other information included in this Annual Report. Our business, financial condition or results from operations could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.

Our education, business information and book publishing businesses will be impacted by the rate of and state of technological change, including the digital evolution and other disruptive technologies.

A common trend facing all our businesses is the digitization of content and proliferation of distribution channels, either over the internet, or via other electronic means, replacing traditional print formats. The digital migration brings the need for change in product distribution, consumers perception of value and the publisher s position between retailers and authors, which affects managing stock levels. The trend to e-books has created contraction in the consumer books retail market which increases the risk of bankruptcy of a major retail customer; this could disrupt short-term product supply to the market as well as could result in a large debt write off.

We face competitive threats both from large media players and from smaller businesses, online and mobile portals and news redistributors operating in the digital arena and providing alternative sources of news and information. New distribution channels, e.g. digital format, the internet, online retailers, growing delivery platforms (e.g. e-readers), combined with the concentration of retailer power pose both threats and opportunities to our traditional consumer publishing models, potentially impacting both sales volumes and pricing.

If we do not adapt rapidly to these changes we may lose business to faster more agile competitors, who increasingly are non-traditional competitors, i.e. technology companies, making their identification all the more difficult. We may be required to invest significant resources to further adapt to the changing competitive environment.

Investment returns outside our traditional core US and UK markets may be lower than anticipated.

To take advantage of international growth opportunities and to reduce our reliance on our core US and UK markets we are increasing our investments in a number of emerging markets, some of which are inherently more risky than our traditional markets. Political, regulatory, economic and legal systems in emerging markets may be less predictable than in countries with more developed institutional structures. Political, regulatory, economic, currency, reputational and corporate governance risks (including fraud) as well as unmanaged expansion are all factors which could limit our returns on investments made in these markets.

Our US educational solutions and assessment businesses may be adversely affected by changes in state and local educational funding resulting from either general economic conditions, changes in government educational funding, programs, policy decisions, legislation at both at the federal and state level and/or changes in the state procurement processes.

The results and growth of our US educational solutions and assessment businesses are dependent on the level of federal and state educational funding, which in turn is dependent on the robustness of state finances and the level of funding allocated to educational programs. State, local and municipal finances have been adversely affected by the US recession and the unknown timing of economic recovery. Funding pressures remain, with competition from low price and disruptive new business models and promotion of open source to keep costs down. The current challenging environment could impact our ability to collect on education-related debt.

Federal and/or state legislative changes can also affect the funding available for educational expenditure, which include the impact of education reform, such as the reauthorization of the Elementary and Secondary Education Act, the introduction of the Common Core and Race to the Top funding. Similarly changes in the state procurement process for textbooks, learning material and student tests, particularly in the adoptions market can also affect our markets. For example, changes in curricula, delays in the timing of the adoptions and changes in the student testing process can all affect these programs and therefore the size of our market in any given year.

There are multiple competing demands for educational funds and there is no guarantee that states will fund new textbooks or testing programs, or that we will win this business.

A control breakdown or service failure in our school assessment businesses could result in financial loss and reputational damage.

There are inherent risks associated with our school assessment businesses, both in the US and the UK. A service failure caused by a breakdown in our testing and assessment processes could lead to a mis-grading of student tests and/or late delivery of test results to students and their schools. In either event we may be subject to legal claims, penalty charges under our contracts, non-renewal of contracts and/or the suspension or withdrawal of our accreditation to conduct tests. It is also possible that such events would result in adverse publicity, which may affect our ability to retain existing contracts and/or obtain new customers.

Our reported earnings and cash flows may be adversely affected by changes in our pension costs and funding requirements.

We operate a number of pension plans throughout the world, the principal ones being in the UK and the US. The major plans are self-administered with the plans assets held independently of the Group. Regular valuations, conducted by independent qualified actuaries, are used to determine pension costs and funding requirements. As these assets are invested in the capital markets, which are often volatile, the plans may require additional funding from us, which could have an adverse impact on our results.

It is our policy to ensure that each pension plan is adequately funded, over time, to meet its ongoing and future liabilities. Our earnings and cash flows may be adversely affected by the need to provide additional funding to eliminate pension fund deficits in our defined benefit plans. Our greatest exposure relates to our UK defined benefit pension plan, which is valued once every three years. Pension fund deficits may arise because of inadequate investment returns, increased member life expectancy, changes in actuarial assumptions and changes in pension regulations, including accounting rules and minimum funding requirements.

Our intellectual property and proprietary rights may not be adequately protected under current laws in some jurisdictions and that may adversely affect our results and our ability to grow.

Our products and services largely comprise intellectual property delivered through a variety of media, including newspapers, books, the internet and other growing delivery platforms. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products and services.

We cannot be sure that our proprietary rights will not be challenged, invalidated or circumvented. Our intellectual property rights in countries such as the US and the UK, jurisdictions covering the largest proportion of our operations, are well established. However, we also conduct business in other countries where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. Moreover, despite trademark and copyright protection, third parties may copy, infringe or otherwise profit from our proprietary rights without our authorization.

These unauthorized activities may be more easily facilitated by the internet. The lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights. The loss or diminution in value of these proprietary rights or our intellectual property could have a material adverse effect on our business and financial performance.

In that regard, Google reached a tentative settlement in 2008 with the Author s Guild and the Association of American Publishers over Google s plans to copy the full text of all books ever published without permission of the copyright owners, including Pearson. The agreement was revised in 2009 to narrow the definition of books covered under the settlement agreement to those registered with the US Copyright Office by January 2009 or published in Australia, UK, Canada or US. Subject to final court approvals, the settlement would allow copyright owners of books covered by it to control the online display of those books by Google, with a sharing of revenues derived from that display. The amended settlement agreement has yet to be approved.

A major data privacy breach may cause reputational damage to our brands and financial loss.

Across our businesses we hold large volumes of personal data including that of employees, customers and, in our assessment businesses, students and citizens. Individuals may try to gain unauthorized access to our data in order to misappropriate such information for potentially fraudulent purposes. As the techniques used to gain unauthorized access change frequently, we may be unable to anticipate or protect against the threat of breaches. Failure to adequately protect personal data could lead to penalties, significant remediation costs, reputational damage, potential cancellation of some existing contracts and inability to compete for future business.

Operational disruption to our business caused by our third party providers, a major disaster and/or external threats could restrict our ability to supply products and services to our customers.

Across all our businesses, we manage complex operational and logistical arrangements including distribution centers, data centers and large office facilities as well as relationships with third party print sites. We have also outsourced some support functions, including information technology, to third party providers. The failure of third parties to whom we have outsourced business functions could adversely affect our reputation and financial condition. Failure to recover from a major disaster, (e.g. fire, flood etc) at a key facility or the disruption of supply from a key third party vendor or partner (e.g. due to bankruptcy) could restrict our ability to service our customers. Similarly external threats, such as a flu pandemic, terrorist attacks, strikes, weather etc, could all affect our business and employees, disrupting our daily business activities.

Changes in students buying and distribution behaviour put downward pressure on price.

Students are seeking cheaper sources of content, e.g. online discounters, file sharing, use of pirated copies, and rentals, along with open source. This change in behaviour, along with the move from professor-centric decision-making, puts downward pressure on textbook prices in our major markets.

Our professional services and school assessment businesses involve complex contractual relationships with both government agencies and commercial customers for the provision of various testing services. Our financial results, growth prospects and/or reputation may be adversely affected if these contracts and relationships are poorly managed.

These businesses are characterized by multi-million pound sterling contracts spread over several years. As in any contracting business, there are inherent risks associated with the bidding process, start-up, operational performance and contract compliance (including penalty clauses) which could adversely affect our financial performance and/or reputation. Failure to retain these contracts at the end of the contract term could adversely impact our future revenue growth. At Edexcel, our UK Examination board and testing business, any change in UK Government policy to examination marking (e.g. price capping) could have a significant impact on our present business model.

We operate in markets which are dependent on Information Technology (IT) systems and technological change.

All our businesses, to a greater or lesser extent, are dependent on information technology. We either provide software and/or internet services to our customers or we use complex IT systems and products to support our business activities, particularly in business information publishing, back-office processing and infrastructure. We face several technological risks associated with software product development and service delivery in our educational businesses, information technology security (including virus and hacker attacks), e-commerce, enterprise resource planning system implementations and upgrades. Although plans and procedures are in place to reduce such risks, our businesses could be adversely affected if our systems and infrastructure experience a significant failure or interruption.

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Failure to generate anticipated revenue growth, synergies and/or cost savings from acquisitions could lead to goodwill and intangible asset impairments.

We continually acquire and dispose of businesses to achieve our strategic objectives. In 2010 we acquired Melorio plc, Medley Global Advisors LLC, Sistema Educacional Brasileiro, Wall Street Institute Education Sarl, America s Choice Inc and several other small acquisitions, and we sold our interest in Interactive Data. Acquired goodwill and intangible assets could be impaired if we are unable to generate the anticipated revenue growth, synergies and/or cost savings associated with these or other acquisitions.

Expected benefits from our finance transformation programme initiatives may not be realised.

We have entered into a substantial finance transformation programme based around shared and common processes and services, including the outsourcing of financial transaction processing, which is expected to result in significant cost savings in future years. The programme may take longer than planned, cost more than planned, and may cause disruption to our business. There is no assurance that the full extent of the anticipated benefits will be realised in the timeline envisaged.

Changes in our tax position can significantly affect our reported earnings and cash flows.

Changes in corporate tax rates and/or other relevant tax laws in the UK and/or the US could have a material impact on our future reported tax rate and/or our future tax payments.

We generate a substantial proportion of our revenue in foreign currencies particularly the US dollar, and foreign exchange rate fluctuations could adversely affect our earnings and the strength of our balance sheet.

As with any international business our earnings can be materially affected by exchange rate movements. We are particularly exposed to movements in the US dollar to sterling exchange rate as approximately 60% of our revenue is generated in US dollars. Sales for 2010, translated at 2009 average rates, would have been £128m or 2% lower.

This is primarily a currency translation risk that only arises on consolidation and is the result of translating entities into sterling for reporting purposes (i.e. non-cash flow item), and not a trading risk (i.e. cash flow item) as our foreign currency trading cash flows in individual operating companies are relatively limited. See Item 5. Operating and Financial Review and Prospects General Overview, Exchange rate fluctuations .

Each 5¢ change in the average £:$ exchange rate for the full year (which in 2010 was £1:$1.54) has a translation impact of approximately 1.3p on reported earnings per share and affect shareholders funds by approximately £115m.

The inherent volatility of advertising could adversely affect the profitability of our newspaper business.

Advertising revenue is susceptible to fluctuations in economic cycles. Certain of our products, such as the *Financial Times* newspaper, are more advertising-driven than our other products. Consequently, these products are more affected by decreases in advertising revenue. As the internet continues to grow as a global medium for information, communication and commerce, advertisers are increasingly shifting advertising dollars from print to online media. Any downturn in corporate and financial advertising spend due to the economic slowdown will negatively impact the results.

A significant deterioration in Group profitability and/or cash flow caused by a severe economic depression could reduce our liquidity and/or impair our financial ratios, and trigger a need to raise additional funds from the capital markets and/or renegotiate our banking covenants.

A prolonged and severe economic depression could significantly reduce the Group s revenues, profitability and cash flows as customers would be unable to purchase products and services in the expected quantities and/or pay for them within normal agreed terms. A liquidity shortfall may delay certain development initiatives or may expose the Group to a need to negotiate further funding. If there was a steep decline in operating profit the Group might breach its banking covenants, creating (or exacerbating) a need for further funding (or a renegotiation of the terms of the bank credit agreement) to maintain operations. The current fragile state of the credit markets could expose the Group to a risk that it could neither re-negotiate its existing banking facilities, nor raise enough new funding, at a cost level that was sustainable for the business. Were this to occur, the inability to raise funding would likely lead to a curtailment in investment and growth plans, potential asset disposals (if possible), reduction or elimination in the dividend and in an extreme case a need to restructure the Group s debt, business model and terms of trade. In such event, the value of the Group s equity could not be assured.

Social, environmental and ethical risk.

We consider social, environmental and ethical (SEE) risks no differently to the way we manage any other business risk. Our 2009 risk assessment did not identify any significant under-managed SEE risks, nor have any of our most important SEE risks, many concerned with reputational risks, changed year on year. These are: journalistic/author integrity, ethical business behaviour, intellectual copyright protection, compliance with UN Global Compact standards, environmental impact, people and data privacy.

ITEM 4. *INFORMATION ON THE COMPANY*

Pearson plc

Pearson plc, (Pearson) is an international media and education company with its principal operations in the education, business information and consumer publishing markets. We create and manage intellectual property, which we promote and sell to our customers under well-known brand names, to inform, educate and entertain. We deliver our content in a variety of forms and through a variety of channels, including books, newspapers and online services. We increasingly offer services as well as content, from test creation, administration and processing to teacher development and school software. Though we operate in more than 70 countries around the world, today our largest markets are the US (59% of sales) and Europe (21% of sales) on a continuing basis.

Pearson was incorporated and registered in 1897 under the laws of England and Wales as a limited company and re-registered under the UK Companies Act as a public limited company in 1981. We conduct our operations primarily through our subsidiaries and other affiliates. Our principal executive offices are located at 80 Strand, London WC2R 0RL, United Kingdom (telephone: +44 (0) 20 7010 2000).

Overview of operating divisions

Pearson consists of three major worldwide businesses:

Pearson Education is a leading provider of educational materials and learning technologies. It provides test development, processing and scoring services to governments, educational institutions, corporations and professional bodies around the world. It publishes across the curriculum and provides a range of education services including teacher development, educational software and system-wide solutions. In 2010, Pearson Education operated through three worldwide segments, which we refer to as North American Education , International Education and Professional :

The FT Group provides business and financial news, data, comment and analysis, in print and online, to the international business community. The FT Group includes the *Financial Times* newspaper and FT.com website, a range of specialist financial magazines and online services, and Mergermarket, which provides proprietary forward-looking insights and intelligence to businesses and financial institutions. During the year Pearson sold its 61% interest in Interactive Data, previously part of the FT Group.

The FT Group also has a 50% ownership stake in both The Economist Group and FTSE International.

The Penguin Group is one of the world s leading consumer publishing businesses and an iconic global brand. We publish the works of many authors in an extensive portfolio of fiction, non-fiction and reference titles under imprints including Penguin, Hamish Hamilton, Putnam, Berkley, and Dorling Kindersley.

Our strategy

Our goal is to be the world s leading learning company, and to help people make progress in their lives through learning, wherever and whenever they are learning young or old; at home, school or at work; and through whatever medium and style of learning is most effective.

We aim to produce consistent growth on three key financial measures earnings per share, cash flow and return on invested capital which we believe are, together, good indicators that we are building long-term value of Pearson.

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To achieve this goal, our strategy has four parts, common to all our businesses:

Long-term organic investment in content: We invest steadily in content such as new education programmes, new and established authors for Penguin and the FT Group s journalism. We believe that this constant investment is critical to the quality and effectiveness of our products and services.

Digital products and services businesses: Our strategy centers on adding services to our content, usually enabled by technology, to make the content more useful, personal and valuable. These digital and services businesses give us access to new sources of revenues to sustain growth. We now receive close to one-third of our annual sales from digital products and services which is more than double the total five years ago.

International expansion: Pearson has market leading positions in major developed economies, particularly the US, UK and Western Europe. We are already present in more than 70 countries and we are investing to become a much larger global company, with particular emphasis on emerging markets, such as China, India, Africa and Latin America. Over the past 5 years our international (meaning outside North America) education business has grown sales at an average annual rate of 18% through strong organic growth and acquisitions.

Efficiency: The businesses of Pearson have a lot in common, in costs, assets, and activities. Pooling those makes the company stronger and more efficient. It also allows our businesses to learn from each other and to collaborate to save money. On that basis we have invested for efficiency through savings in our individual businesses and through a strong centralized operations structure. We are integrated in many areas where our businesses share the same needs purchasing, warehousing, distribution, facilities and real estate, project management, people resources, finance and accounting, and transactions. Over the past five years, we have increased our adjusted operating profit margins from 12.7% to 15.1% and reduced average working capital as a percentage of sales from 26.3% to 20.1%. Adjusted operating profit is a key financial measure used by management to evaluate performance and allocate resources to our business segments. See Item 5. Operating and Financial Review and Prospects .

Operating divisions

Pearson Education

Pearson Education is one of the largest publishers of textbooks and online teaching materials, and provider of assessment services. It serves the growing demands of teachers, students, parents and professionals throughout the world for stimulating and effective education programs in print and online.

We report Pearson Education s performance in the three segments: North American Education, International Education, and Professional. In 2010, Pearson Education had sales of £4,207m or 74% (74% in 2009) of Pearson s total continuing sales. Pearson Education generated 78% of Pearson s continuing operating profit.

North American Education

Our North American Education business serves educators and students in the USA and Canada from early education through elementary, middle and high schools and into higher education with a wide range of products and services: curriculum textbooks and other learning materials; student assessments and testing services; and education technologies. Pearson has a leading position in each of these areas and a distinctive strategy of connecting those parts to support institutions and personalize learning. We have now integrated our North American School and Higher Education companies, which we believe will bring significant opportunities to develop growth businesses, to share investments and technologies and to gain further efficiencies.

Our North American School business contains a unique mix of publishing, testing and technology products for the elementary and secondary school markets, which are increasingly integrated. The major customers of this business are state education boards and local school districts. The business publishes high quality curriculum programmes for school students, at both elementary and secondary level, under a number of imprints including Pearson Scott Foresman and Pearson Prentice Hall. We also provide digital instructional solutions under Pearson Digital Learning, such as enVisionMATH and Miller-Levine Biology. The business also provides student information, assessment, reporting and business solutions (Pearson School Systems), which enables elementary and secondary schools and school districts to record and manage information about student attendance and performance.

Our school testing business is the leading provider of test development, processing and scoring services to US states and the federal government. Its capabilities have been further enhanced through the integration of the Harcourt Assessment business.

Our North American Higher Education business is the largest publisher of textbooks and related course materials for colleges and universities in the US. We publish across all of the main fields of study with imprints such as Pearson Prentice Hall, Pearson Addison Wesley, Pearson Allyn & Bacon, Pearson Benjamin Cummings and Pearson Longman. Typically, professors or other instructors select or adopt the textbooks and online resources they recommend for their students, which students then purchase either in a bookstore or online. Today the majority of our textbooks are accompanied by online services which include homework and assessment tools, study guides and course management systems that enable professors to create online courses. We have also introduced new formats such as downloadable audio study guides and electronic textbooks which are sold on subscription. In addition, we have a fast-growing custom publishing business which works with professors to produce textbooks and online resources specifically adapted for their particular course.

See Item 5 Operating and Financial Review and Prospects Results of Operations Year ended December 31, 2010 compared to year ended December 31, 2009 Sales and operating profit by division North American Education for a discussion of developments during 2010 with respect to this division.

International Education

Our International Education business covers all educational publishing and related services outside North America.

Our International schools business publishes educational materials in local languages in a number of countries. We are one of the world s leading providers of English Language Teaching (ELT) materials for children and adults, published under the well-known Longman imprint. In 2009 we strengthened our position further in international markets through the acquisition of Wall Street English, a chain of premium English language schools in China, and investment in vocational training and online learning in India, and in 2010 through the acquisition of Wall Street Institute, providing premium spoken English training for adults in 25 territories across Asia, Europe, the Middle East and Latin America, and Sistema Educacional Brasileiro s schools learning systems business.

Our International higher education business adapts our textbooks and technology services for individual markets, and we have a growing local publishing program, with our key markets including the UK, Benelux, Mexico, Germany, Hong Kong, Korea, Taiwan, Singapore, Japan and Malaysia.

We are also a leading provider of testing, assessment and qualification services in a number of key markets including, the UK under the brand name Edexcel, Australia, New Zealand, South Africa, Hong Kong and the Middle East.

See Item 5. Operating and Financial Review and Prospects Results of Operations Year ended December 31, 2010 compared to year ended December 31, 2009 Sales and operating profit by division International Education for a discussion of developments during 2010 with respect to this division.

Professional

Our Professional education business is focused on publishing, training, testing and certification for professionals. Over the past five years we have significantly re-orientated our professional publishing business towards long-term growth markets and built professional testing into a profitable industry leader.

Our Professional education business publishes under the following imprints: Addison Wesley Professional, Prentice Hall and Cisco Press (for IT professionals); Peachpit Press and New Riders (for graphics and design professionals); Que and Sams (consumer and professional imprint); and Financial Times-Prentice Hall (for the business education market).

Our professional testing business, Pearson VUE, manages major long-term contracts to provide qualification and assessment services through its network of test centers around the world. Key customers include major technology companies, the Graduate Management Admissions Council, NCLEX, the Financial Industry Regulatory Authority and the UK s Driving Standards Agency.

Our professional training business has developed over the year with the acquisition of Melorio plc, a vocational training group.

See Item 5. Operating and Financial Review and Prospects Results of Operations Year ended December 31, 2010 compared to year ended December 31, 2009 Sales and operating profit by division Professional for a discussion of developments during 2010 with respect to this division.

The FT Group

The FT Group provides a broad range of data, analysis and services to an audience of internationally-minded business people and financial institutions. In 2010, the FT Group had sales of £403m, or 7% of Pearson s total continuing sales (7% in 2009), and contributed 8% of Pearson s operating profit from continuing operations.

FT Group comprises the *Financial Times*, FT.com website, and a portfolio of financial magazines and online financial information companies. During the year Interactive Data, our 61%-owned financial information company was sold and has been reclassified as a discontinued operation.

The FT Group has significantly shifted its business towards digital, subscription and content revenues and has continued to invest in talent and in services in faster growing emerging markets.

The *Financial Times* is one of the world s leading international daily business newspapers, with five editions in the UK, Europe, Middle East and Africa, the US and Asia.

Its main sources of revenue are from sales of the newspaper, advertising and conferences. The *Financial Times* is complemented by FT.com which sells content and advertising online, and which charges subscribers for detailed industry news, comment and analysis, while providing general news and market data to a wider audience.

FT Business publishes specialist information on the retail, personal and institutional finance industries through titles including *Investors Chronicle*, *Money Management*, *Financial Adviser* and *The Banker*.

Mergermarket, our online financial data and intelligence provider, provides early stage proprietary intelligence to financial institutions and corporates. Its key products include *Mergermarket*, *Debtwire*, *dealReporter*, *Wealthmonitor* and *Pharmawire*.

See Item 5. Operating and Financial Review and Prospects Results of Operations Year ended December 31, 2010 compared to year ended December 31, 2009 Sales and operating profit by division FT Group for a discussion of developments during 2010 with respect to this division.

Joint Ventures and Associates

The FT Group also has a number of associates and joint ventures, including:

- 50% interest in The Economist Group, publisher of one of the world s leading weekly business and current affairs magazines.

- 50% interest in FTSE International, a joint venture with the London Stock Exchange, which publishes a wide range of global indices, including the FTSE index.

50% interest in *Business Day* and *Financial Mail*, publishers of one of South Africa s leading financial newspapers and magazines.

33% interest in *Vedomosti,* a leading Russian business newspaper.

On March 27, 2008, Financial Times International Publishing Ltd sold its 50% partnership interest in Financial Times Deutschland GmbH & Co KG to Gruner & Jahr AG & Co KG.

The Penguin Group

Penguin is one of the most famous brands in book publishing. It publishes over 4,000 fiction and non-fiction books each year, on paper, screens and in audio formats for readers of all ages, and has an extensive range of backlist and frontlist titles including top literary prize winners, classics, reference volumes and children s titles.

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

In 2010, Penguin had sales of £1,053m, representing 19% of Pearson s total continuing sales (19% in 2009) and contributed 14% of Pearson s operating profit from continuing operations. Its largest market is the US, which generated around 59% of Penguin s sales in 2010. Penguin earns around 93% of its revenues from the sale of hard cover and paperback books. The balance comes from audio books and e-books.

Penguin sells directly to bookshops and through wholesalers. Retail bookshops normally maintain relationships with both publishers and wholesalers and use the channel that best serves the specific requirements of an order. It also sells through online retailers such as Amazon.com, as well as Penguin s own website. Penguin also sells direct to the customer via digital sales agents.

See Item 5. Operating and Financial Review and Prospects Results of Operations Year ended December 31, 2010 compared to year ended December 31, 2009 Sales and operating profit by division The Penguin Group for a discussion of developments during 2010 with respect to this division.

Operating cycles

Pearson determines a normal operating cycle separately for each entity/cash generating unit within the Group with distinct economic characteristics. The normal operating cycle for each of the Group s education businesses is primarily based on the expected period over which the educational programs and titles will generate cash flows, and also takes account of the time it takes to produce the educational programs.

Particularly for the North American Education businesses, there are well established cycles operating in the market:

> The School market is primarily driven by an adoption cycle in which major state education boards adopt programs and provide funding to schools for the purchase of these programs. There is an established and published adoption cycle with new adoptions taking place on average every 5 years for a particular subject. Once adopted, a program will typically sell over the course of the subsequent 5 years. The Company renews its pre-publication assets to meet the market adoption cycles. Therefore the operating cycle naturally follows the market cycle.
>
> The Higher Education market has a similar pattern, with colleges and professors typically refreshing their courses and selecting revised programs on a regular basis, often in line with the release of new editions or new technology offerings. The Company renews its pre-publication assets to meet the typical demand for new editions of, or revisions to, educational programs. Analysis of historical data shows that the average life cycle of Higher Education content is up to 5 years. Again the operating cycle mirrors the market cycle.

A development phase of typically 12 to 18 months for Higher Education and up to 24 months for School precedes the period during which the Company receives and delivers against orders for the products it has developed for the program.

The International Education markets operate in a similar way although often with less formal adoption processes.

The operating cycles in respect of Professional and the Penguin segment are more specialized in nature as they relate to educational or heavy reference products released into smaller markets (e.g. the financial training, IT and travel sectors). Nevertheless, in these markets, there is still a regular cycle of product renewal, in line with demand which management monitor. Typically the life cycle is 5 years for Professional content and up to 4 years for Penguin content. Elsewhere in the Group operating cycles are typically less than one year.

Competition

All of Pearson s businesses operate in highly competitive environments.

Pearson Education competes with other publishers and creators of educational materials and services. These companies include large international companies, such as McGraw-Hill and Houghton Mifflin Harcourt, alongside smaller niche players that specialize in a particular academic discipline or focus on a learning technology.

Competition is based on the ability to deliver quality products and services that address the specified curriculum needs and appeal to the school boards, educators and government officials making purchasing decisions.

The FT Group competes with newspapers and other information sources, such as The Wall Street Journal, by offering timely and expert journalism and market intelligence. It competes for advertisers with other forms of media based on the ability to offer an effective means for advertisers to reach their target audience.

The Penguin Group competes with other publishers of fiction and non-fiction books. Principal competitors include Random House, HarperCollins, and Hachette Group. Publishers compete by developing a portfolio of books by established authors and by seeking out and promoting talented new writers.

Intellectual property

Our principal intellectual property assets consist of our trademarks and other rights in our brand names, particularly the *Financial Times* and the various imprints of Penguin and Pearson Education, as well as all copyrights for our content and our patents held in the testing business in the name of Pearson NCS. We believe we have taken all appropriate available legal steps to protect our intellectual property in all relevant jurisdictions.

Raw materials

Paper is the principal raw material used by each of Pearson Education, the FT Group and the Penguin Group. We purchase most of our paper through our Global Sourcing department located in the United States. We have not experienced and do not anticipate difficulty in obtaining adequate supplies of paper for our operations, with sourcing available from numerous suppliers. While local prices fluctuate depending upon local market conditions, we have not experienced extensive volatility in fulfilling paper requirements. In the event of a sharp increase in paper prices, we have a number of alternatives to minimize the impact on our operating margins, including modifying the grades of paper used in production.

Government regulation

The manufacture of certain of our products in various markets is subject to governmental regulation relating to the discharge of materials into the environment. Our operations are also subject to the risks and uncertainties attendant to doing business in numerous countries. Some of the countries in which we conduct these operations maintain controls on the repatriation of earnings and capital and restrict the means available to us for hedging potential currency fluctuation risks. The operations that are affected by these controls, however, are not material to us. Accordingly, these controls have not significantly affected our international operations. Regulatory authorities may have enforcement powers that could have an impact on us. We believe, however, that in light of the nature of our business the risk of these sanctions does not represent a material threat to us.

Licenses, patents and contracts

We are not dependent upon any particular licenses, patents or new manufacturing processes that are material to our business or profitability. Likewise, we are not materially dependent upon any contracts with suppliers or customers, including contracts of an industrial, commercial or financial nature.

Legal Proceedings

We and our subsidiaries are from time to time the subject of legal proceedings incidental to the nature of our and their operations. These may include private litigation or arbitrations, governmental proceedings and investigations by regulatory bodies. We do not currently expect that the outcome of pending proceedings or investigations, either individually or in aggregate, will have a significant effect on our financial position or profitability nor have any such proceedings had such effect in the recent past. To our knowledge, there are no material proceedings in which any member of senior management or any of our affiliates is a party adverse to us or any of our subsidiaries or in respect of which any of those persons has a material interest adverse to us or any of our subsidiaries.

Recent developments

On November 22, 2010, the Group announced the proposed acquisition of a 75% stake in CTI Education Group, a leading South African education company for £31m. As at the end of December 2010 this acquisition had not been completed but is expected to complete in the first half of 2011.

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On January 18, 2011, the Group announced that it had agreed to increase it shareholding in Tutorvista, the Bangalore based tutoring services company, to a controlling 76% stake for a consideration of $127m.

On March 7, 2011, the Group and Education Development International plc (EDI) announced that they had reached agreement on the terms of a recommended cash offer to be made by Pearson for the entire issued share capital of EDI. The offer values EDI at approximately £112.7m. EDI is a leading provider of education and training qualifications and assessment services, with a strong reputation for the use of information technology to administer learning programmes and deliver on-screen assessments.

Organizational structure

Pearson plc is a holding company which conducts its business primarily through subsidiaries and other affiliates throughout the world. Below is a list of our significant subsidiaries as at December 31, 2010, including name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held.

Name	**Country of incorporation/residence**	**Percentage interest/voting power**
Pearson Education		
Pearson Education Inc.	United States (Delaware)	100%
Pearson Education Ltd.	England and Wales	100%
Edexcel Ltd.	England and Wales	100%
NCS Pearson Inc.	United States (Minnesota)	100%
FT Group		
The Financial Times Limited	England and Wales	100%
Mergermarket Ltd.	England and Wales	100%
The Penguin Group		
Penguin Group (USA) Inc.	United States (Delaware)	100%
The Penguin Publishing Co Ltd.	England and Wales	100%
Dorling Kindersley Holdings Ltd	England and Wales	100%

Property, plant and equipment

Our headquarters are located at leasehold premises in London, England. We own or lease approximately 1,000 properties, including approximately 550 testing/teaching centers in more than 70 countries worldwide, the majority of which are located in the United Kingdom and the United States.

The properties owned and leased by us consist mainly of offices, distribution centers and computer testing/teaching centers.

The vast majority of our printing is carried out by third party suppliers. We operate a small digital print operation as part of our Pearson Assessment & Testing businesses which provides short-run and print-on-demand products, typically custom client applications.

We own the following principal properties at December 31, 2010:

General use of property	Location	Area in square feet
Warehouse/Office	Kirkwood, New York, USA	524,000
Warehouse/Office	Pittston, Pennsylvania, USA	406,000
Office	Iowa City, Iowa, USA	310,000
Warehouse/Office	Old Tappan, New Jersey, USA	210,112
Warehouse/Office	Cedar Rapids, Iowa, USA	205,000
Office	Southwark, London, UK	155,000
Office	Hadley, Massachusetts, USA	137,070
Printing	Owatonna, Minnesota, USA	128,000

We lease the following principal properties at December 31, 2010:

General use of property	Location	Area in square feet
Warehouse/Office	Lebanon, Indiana, USA	1,091,435
Warehouse/Office	Cranbury, New Jersey, USA	886,747
Warehouse/Office	Indianapolis, Indiana, USA	737,850
Warehouse/Office	San Antonio, Texas, USA	559,258
Office	Upper Saddle River, New Jersey, USA	474,801
Warehouse/Office	Rugby, UK	446,077
Office	New York City, New York, USA	443,229
Office	London, UK	282,923
Warehouse/Office	Newmarket, Ontario, Canada	278,912
Warehouse/Office	Austin, Texas, USA	226,076
Office	Boston, Massachusetts, USA	225,299
Warehouse	Scoresby, Victoria, Australia	197,255
Office	Glenview, Illinois, USA	187,500
Warehouse/Office	Bedfordshire, UK	186,570
Office	Bloomington, Minnesota, USA	153,240
Office	Boston, Massachusetts, USA	138,112
Office	Harlow, UK	137,857
Office	Chandler, Arizona, USA	135,460
Warehouse/Office	Cedar Rapids, Iowa, USA	119,682
Office	New York City, New York, USA	117,478
Warehouse	San Antonio Zomeyucan, Mexico	113,638
Office	London, UK	112,000
Call Center	Lawrence, Kansas, USA	105,000

Capital Expenditures

See Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources for description of the Company s capital expenditure.

ITEM 4A. ***UNRESOLVED STAFF COMMENTS***

The Company has not received, 180 days or more before the end of the 2010 fiscal year, any written comments from the Securities and Exchange Commission staff regarding its periodic reports under the Exchange Act which remain unresolved.

ITEM 5. ***OPERATING AND FINANCIAL REVIEW AND PROSPECTS***

The following discussion and analysis is based on and should be read in conjunction with the consolidated financial statements, including the related notes, appearing elsewhere in this Annual Report. The financial statements have been prepared in accordance with IFRS as issued by the IASB.

Where this discussion refers to constant currency comparisons, these are estimated by re-calculating the current year results using the exchange rates prevailing for the prior period. The increase or reduction in the value calculated is the estimate of impact of exchange rates. We believe this presentation provides a more useful period to period comparison as changes due solely to changes in exchange rates are eliminated.

General overview

Introduction

Sales from continuing operations increased from £5,140m in 2009 to £5,663m in 2010, an increase of 10%. The year on year growth was impacted by exchange rates, in particular the US dollar. The average US dollar exchange rate in 2010 strengthened in comparison to sterling in 2009, which had the effect of increasing reported sales in 2010 by £128m when compared to the equivalent figure at constant 2009 rates. When measured at constant 2009 exchange rates, all our businesses contributed to the growth. The International Education business in particular, benefited from acquisitions made in 2009 and 2010.

Reported operating profit increased by 20% from £619m in 2009 to £743m in 2010. The relative strength of the US dollar contributed to this increase and operating profit would have been approximately £37m lower if translated at constant 2009 exchange rates. Again, when measured at constant rates, we saw contributions to the growth in operating profit from all our businesses as we benefited from the improved sales performance and cost efficiencies.

Profit before taxation in 2010 of £670m compares to a profit before taxation of £523m in 2009. The increase of £147m reflects the improved operating performance and a reduction in net finance costs. Net finance costs reduced from £96m in 2009 to £73m in 2010. The Group s net interest payable decreased by £13m in 2010 as we benefited from a fall in average interest rates on our floating-rate US dollar debt and a decrease in our overall level of average net debt following the receipt of proceeds from the sale of Interactive Data. Exchange losses of £7m in 2009 compare to a net exchange gain of £9m in 2010. The gain in 2010 mainly relates to exchange on new US borrowing raised in the year. In 2009, the charge mainly related to losses on cross currency swaps. The finance charge relating to post-retirement plans of £12m in 2010 was the same as that in 2009.

On 29 July 2010, Pearson s 61% share in Interactive Data Corporation was sold to Silver Lake Technology Management LLC (Silver Lake) and Warburg Pincus LLC (Warburg Pincus) for $2bn. The results of Interactive Data have been included as discontinued operations for the period to 29 July 2010 and in prior periods. Included in discontinued operations in 2010 is the gain on sale of Interactive Data of £1,037m and the attributable tax charge of £306m. On February 22, 2008 the Group completed the sale of its Data Management business and this business has been included in discontinued operations for the period to February 22 in 2008, and in prior periods.

Net cash generated from operations increased to £1,169m in 2010 from £1,012m in 2009. The improved cash generation in 2010 was due to strong cash collections, particularly in our education businesses and was helped by our transition to a more digital and service based business. This transition is also helping to reduce our working capital and on an average basis, the ratio of working capital to sales improved from 25.1% to 20.1%, also reflecting tight working capital management and the favourable working capital profile of 2009 and 2010 acquisitions. Average working capital comprises the average of the monthly carrying values over the relevant 12 month period for inventory, pre-publication costs, debtors and creditors. Net interest paid at £68m in 2010 was £19m below the previous year, as a result of the fall in overall net interest and to the timing of interest payments on the bond portfolio. Tax paid excluding the amounts paid on the Interactive Data disposal in 2010 decreased to £85m compared to £103m in 2009 as Interactive Data itself had been a significant tax payer. Net capital expenditure on property, plant and equipment after proceeds from sales increased to £76m in 2010 from £61m in 2009. The net cash outflow in respect of businesses acquired increased from £208m in 2009 to £535m in 2010 whilst the Interactive Data sale in 2010 raised proceeds of £734m net of tax paid. There were no disposals in 2009. Dividends from joint ventures and associates were broadly flat year on year at £23m in 2010 against £22m in 2009. Dividends paid of £293m in 2009 (including £20m paid to non-controlling interests) compares to £298m in 2010 (including £6m paid to non-controlling interests). Overall net borrowings decreased by £662m from £1,092m at the end of 2009 to £430m at the end of 2010 largely due to the proceeds from the Interactive Data sale and the strong cash collections.

Outlook

Over the past five years Pearson has produced growth in earnings and cash flow. We sustained our growth even in the face of very tough economic and market conditions in recent years. We are planning for some of our markets to remain weak in 2011, particularly those that depend on government spending and traditional print publishing business models. In addition, we face tough comparatives (especially in the first half of the year) after our particularly strong competitive and financial performance in 2010.

Even so, we have built a series of competitive advantages which should help us deliver another good year in 2011. These advantages include our sustained investment, digital leadership, educational effectiveness, positions in fast-growing economies and operating efficiency.

Pearson Education

In education, we expect to achieve continued growth in 2011. In North America, we see growth in higher education (despite slower enrolment rates) and assessment more than offsetting a slower year for the school publishing industry (the result of the lower new adoption opportunity and pressure on state budgets). Our International Education business will benefit from its rapidly-growing position in services, technology and developing economies, enabling it to grow again despite the weak public spending environment in some markets.

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FT Group

At the FT Group, we are rapidly shifting our business model towards digital and subscription revenues. Advertising revenues remain unpredictable, but we see healthy demand for the FT s premium content, especially in digital formats, and a recovery in business conditions for Mergermarket.

The Penguin Group

Penguin will face another year of fast-changing industry conditions, driven by the rapid growth of both digital sales channels and digital books, and by the resulting pressures on physical bookstores. After a particularly strong competitive performance and financial results in 2010, we expect Penguin to perform in line with the overall consumer publishing industry this year, while we continue to adapt the business to these industry changes.

Sales information by operating division

The following table shows sales information for each of the past three years by operating division:

	Year Ended December 31		
	2010	**2009**	**2008**
	£m	**£m**	**£m**
Education:			
North American	2,640	2,470	2,002
International	1,234	1,035	866
Professional	333	275	244
FT Group	403	358	390
Penguin	1,053	1,002	903
Total	5,663	5,140	4,405

Sales information by geographic market supplied

The following table shows sales information for each of the past three years by geographic region:

	Year Ended December 31		
	2010	**2009**	**2008**
	£m	**£m**	**£m**
European countries	1,205	1,081	1,092
North America	3,589	3,344	2,761
Asia Pacific	577	497	403
Other countries	292	218	149
Total	5,663	5,140	4,405

Exchange rate fluctuations

We earn a significant proportion of our sales and profits in overseas currencies, principally the US dollar. Sales and profits are translated into sterling in the consolidated financial statements using average rates. The average rate used for the US dollar was £1:$1.54 in 2010, £1:$1.57 in 2009 and £1:$1.85 in 2008. Fluctuations in exchange rates can have a significant impact on our reported sales and profits. In 2010, Pearson generated 59% of its sales in the US (2009: 61%; 2008: 59%). In 2010 we estimate that a five cent change in the average exchange rate between the US dollar and sterling would have had an impact on our reported earnings per share of 1.3p and a five cent change in the closing exchange rate between the US dollar and sterling would have had an impact on shareholders funds of approximately £115m. See Item 11. Quantitative and Qualitative Disclosures about Market Risk for more information. The year-end US dollar rate for 2010 was £1:$1.57 compared to £1:$1.61 for 2009. In terms of the year end rate, the weakening of sterling in comparison to the US dollar in 2010 was less significant than the strengthening of sterling compared to the US dollar in the previous year when the relatively weak value of the US dollar had the effect of reducing shareholders funds. The net effect of movement in all currencies in 2010 was an increase in our shareholders funds of £173m. The year-end rate for the US dollar in 2009 was £1:$1.61 compared to £1:$1.44 for

2008. The comparative weakness of the US dollar, contributed to an overall reduction in shareholders funds due to exchange movements of £388m in 2009.

Critical accounting policies

Our consolidated financial statements, included in Item 18. Financial Statements , are prepared based on the accounting policies described in note 1 to the consolidated financial statements.

Certain of our accounting policies require the application of management judgment in selecting assumptions when making significant estimates about matters that are inherently uncertain. Management bases its estimates on historical experience and other assumptions that it believes are reasonable. These policies are described in note 1a(3) in Item 18. Financial Statements .

Results of operations

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

Consolidated results of operations

Sales

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

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

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

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

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

Cost of goods sold and operating expenses

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

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

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

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

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

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

Share of results of joint ventures and associates

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

Operating profit

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

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

Net finance costs

Net finance costs decreased from £96m in 2009 to £73m in 2010. Net interest payable in 2010 was £73m, down from £86m in 2009. The Group s net interest payable decreased by £13m in 2010, mainly due to a reduction in average interest rates on our floating US dollar debt and the effect of lower average levels of net debt following the receipt of proceeds from the sale of Interactive Data. Year on year, average three month LIBOR (weighted for the

Group s net borrowings in US dollars and sterling at each year end) fell by 0.3% to 0.4%. This reduction in floating market interest rates drove the Group s lower interest charge. However the low rates on deposited funds coupled with the impact on the calculation of significantly lower net debt, created an increase in the Group s average net interest payable of 5.3% to 7.9%. The Group s average net debt fell by £681m, reflecting the impact of the Interactive Data disposal. Finance charges relating to post-retirement plans were £12m in both 2010 and 2009.

Other net finance costs relating to foreign exchange and short-term fluctuations in the market value of financial instruments included a net foreign exchange loss of £7m in 2009 compared to a gain of £9 in 2010. In 2009 the loss mainly relates to losses on cross currency swaps and in 2010 the gain relates to exchange on new US dollar borrowing raised in the year. For a more detailed discussion of our borrowings and interest expenses see Liquidity and Capital Resources Capital Resources and Borrowings below and Item 11. Quantitative and Qualitative Disclosures about Market Risk .

Taxation

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

Non-controlling interest

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

Discontinued operations

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

Profit for the year

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

Earnings per ordinary share

The basic earnings per ordinary share, which is defined as the profit for the financial year divided by the weighted average number of shares in issue, was 161.9p in 2010 compared to 53.2p in 2009 based on a weighted average number of shares in issue of 801.2m in 2010 and 799.3m in 2009. The increase in earnings per share was due to the increase in profit for 2010 described above and was not significantly affected by the movement in the weighted average number of shares.

The diluted earnings per ordinary share of 161.5p in 2010 and 53.1p in 2009 was not significantly different from the basic earnings per share in those years as the effect of dilutive share options was again not significant.

Exchange rate fluctuations

The strengthening of the US dollar and other currencies against sterling on an average basis had a positive impact on reported sales and profits in 2010 compared to 2009. 2010 sales, translated at 2009 average exchange rates, would have been lower by £128m and operating profit, translated at 2009 average exchange rates, would have been lower by £37m. See Item 11. Quantitative and Qualitative Disclosures about Market Risk for a discussion regarding our management of exchange rate risks.

Sales and operating profit by division

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

In our adjusted operating profit we have excluded amortization of acquired intangibles and acquisition costs. The amortization of acquired intangibles is the amortization of intangible assets acquired through business combinations and acquisition costs are the direct costs of acquiring those businesses. Neither of these charges are considered to be fully reflective of the underlying performance of the Group. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are excluded from adjusted operating profit as they distort the performance of the Group.

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

	Year Ended December 31, 2010						
£m	**North American Education**	**International Education**	**Professional**	**FT Group**	**Interactive Data**	**Penguin**	**Total**
Sales	2,640	1,234	333	403		1,053	5,663
	47%	*22%*	*6%*	*7%*		*18%*	*100%*
Total operating profit	415	119	42	62		105	743
	56%	*16%*	*6%*	*8%*		*14%*	*100%*
Add back:							
Other net gains and losses		10		(12)			(2)
Acquisition costs	1	7	2	1			11
Amortization of acquired intangibles	53	35	7	9		1	105
Adjusted operating profit: continuing operations	469	171	51	60		106	857
Adjusted operating profit: discontinued operations					81		81
Total adjusted operating profit	469	171	51	60	81	106	938
	50%	*18%*	*5%*	*6%*	*9%*	*12%*	*100%*

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

North American Education

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

The US School publishing market grew 3.2% in 2010, according to the Association of American Publishers. State budgets continue to be under pressure but the industry returned to growth, benefiting from the stronger new adoption opportunity this year (total opportunity of $800m in 2010 against $500m in 2009). The US School curriculum business gained share with a strong performance from enVisionMATH, our digital math curriculum. Successnet, our online learning platform for teachers and students which supports Pearson s digital instruction, assessment and remediation programs, grew strongly, achieving almost 6 million registrations in 2010, up 33% on 2009, with the number of assessments taken through the system rising 53% to more than 8m. We continue to develop digital programs, platforms and mobile apps to boost achievement and to increase access and affordability. We successfully launched three major new school programs: digits (http://bit.ly/i9NcId), our digital middle school math program, which provides services for teachers including embedded assessment, differentiation of students and automation of administrative tasks; Writing Coach (http://www.phwritingcoach.com/) which is a blended print and online program that helps middle and high school students in writing and grammar with personalized assignments and grading; and Online Learning Exchange (www.onlinelearningexchange.com) which is an open education resource that allows teachers to create personalized digital learning programs using standards-based Pearson content as well as teacher-generated material. Poptropica (www.poptropica.com) is the largest virtual world for young children in the US with average monthly unique visitors growing by 40% to 8.1m from more than 100 countries and speaking more than

70 languages. Poptropica launched seven new islands and was the fifth most searched-for video game on Google.com in 2010. In September 2010 we acquired America s Choice to boost Pearson s services in school reform, a major focus of the US education department. America s Choice brings together instruction, assessment, leadership development, professional development, coaching and ongoing consulting services.

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

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

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

International Education

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

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

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

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

In South Africa s Western Cape province, we won a three-year contract to prepare, administer and report all Grade 9 student assessments. The tests focus on both individual student results and the systemic performance of

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schools and districts. Pearson won new national contracts in Ethiopia, to supply 2.9 million Biology, Physics and English learning materials for Senior Secondary Grades 9 to 12. In Zimbabwe, we were awarded a contract by UNICEF to deliver 13.5 million textbooks to children in Grades 1 to 7 in Mathematics, Environmental Science, English, Shona and Ndebele.

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

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

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

Professional

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

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

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

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

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

FT Group

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

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

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

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

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

The Penguin Group

Penguin sales increased by £51m or 5%, to £1,053m in 2010 from £1,002m in 2009 and adjusted operating profit was up 26% to £106m in 2010 from £84m in 2009. Both sales and adjusted operating profit were affected by the stronger US dollar which we estimate increased sales by £32m and adjusted operating profit by £13m when compared to the equivalent figures at constant 2009 exchange rates. In 2010, Penguin benefited from a series of organisational changes in the UK made in 2009. These were designed to strengthen its publishing, reduce costs and accelerate the transition to digital production, sales channels and formats and to lower cost markets for design and production. Penguin s 2009 results include approximately £9m of charges relating to these organisational changes.

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

eBook sales were up 182% on the previous year and now account for 6% of Penguin revenues worldwide. We accelerated our investment in digital products and innovation with new app releases in the children s market including Spot, Peppa Pig, The Little Engine That Could, Ladybird s Babytouch and the Mad Libs app, which was named one of the best apps at the 2010 E-Book Summit. For adults, we launched the groundbreaking myFry app; published the amplified ebook of Ken Follett s international bestselling novel *The Pillars of the Earth*, featuring video, art and music from the original TV series; and we introduced ten DK Eyewitness Top Ten Travel Guides apps with more to follow in 2011. Penguin continued to invest to transform its internal publishing processes onto Pearson-wide digital platforms enabling faster product development and more efficient creation and re-use of content.

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

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

Year ended December 31, 2009 compared to year ended December 31, 2008

Consolidated results of operations

Sales

Our total sales from continuing operations increased by 735m, or 17%, to £5,140m in 2009, from £4,405m in 2008. The increase reflected growth, on a constant exchange rate basis, at our North American Education and International Education businesses together with additional contributions from acquisitions made in both 2008 and 2009. The year on year growth was impacted by movements in exchange rates, particularly in the US dollar. 2009 sales, translated at 2008 average exchange rates, would have been £4,558m.

Pearson Education increased sales by £668m or 21% from £3,112m to £3,780m. The North American business was the major contributor to the increase although a high proportion of that increase was due to exchange. We estimate that after excluding acquisitions, Pearson Education saw sales growth of 4% at constant last year exchange rates. The North American Education business grew ahead of the market in its US Curriculum and Higher Education businesses which together grew at 5% compared to the industry which remained flat according to the Association of American Publishers. There was also a strong performance in the US Assessment and Information division which benefited from the successful integration of the Harcourt Assessment business acquired at the start of 2008. In International Education sales also benefited from exchange and a contribution from the acquisitions of Wall Street English and Fronter (a European online learning company based in Oslo) and the increased shares of Longman Nigeria and Maskew Miller Longman (MML), our publishing businesses in West Africa and South Africa respectively, which were all acquired in 2009. After excluding the effect of acquisitions we estimate that there was growth of 4% at constant last year exchange rates in the International Education business. Professional sales increased in 2009 by 13% although all of this increase was due to exchange and in terms of constant last year exchange rates there was a small decline in sales of 1%. This decline was entirely due to weakness in the professional publishing market which has offset growth in the professional testing and certification businesses.

FT Group sales were 8% behind last year or 12% after excluding the effect of exchange rates with adverse variances at the *Financial Times*. FT Group s sales decline mainly reflects 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 an increase in paying online subscribers at FT.com.

Penguin s sales were up 11% in 2009 but this represents a 2% decline at constant last year exchange rates and before the effect of portfolio changes. Much of the underlying decline was due to a fall in sales of illustrated reference books which offset good performances in other categories.

Pearson Education, our largest business sector, accounted for 74% of our continuing business sales in 2009 compared to 71% in 2008. North America continued to be the most significant source of our sales and as a proportion of total continuing sales contributed 65% in 2009 and 63% in 2008.

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Cost of goods sold and operating expenses

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

	Year Ended December 31 2009 £m	2008 £m
Cost of goods sold	2,382	2,046
Distribution costs	275	235
Administration and other expenses	2,014	1,687
Other operating income	(120)	(102)
Total	2,169	1,820

Cost of goods sold. Cost of sales consists of costs for raw materials, primarily paper, printing and binding costs, amortization of pre-publication costs, royalty charges and the cost of service provision in our assessment and testing businesses. Our cost of sales increased by £336m, or 16%, to £2,382m in 2009, from £2,046m in 2008. The increase corresponds to the increase in sales with cost of sales at 46.3% of sales in 2009 compared to 46.4% in 2008.

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

Administration and other expenses. Our administration and other expenses increased by £327m, or 19%, to £2,014m in 2009, from £1,687m in 2008. As a percentage of sales they remained consistent at 38% in 2008 and 39% in 2009.

Other operating income. Other operating income mainly consists of freight recharges, sub-rights and licensing income and distribution commissions together with income from the sale of assets. Other operating income increased to £120m in 2009 compared to £102m in 2008 although much of this increase can be ascribed to exchange.

Share of results of joint ventures and associates

The contribution from our joint ventures and associates increased from £25m in 2008 to £30m in 2009. The majority of the profit comes from our 50% interest in the Economist.

Operating profit

The total operating profit increased by £55m, or 10%, to £619m in 2009 from £564m in 2008. 2009 operating profit, translated at 2008 average exchange rates, would have been £40m lower.

Operating profit attributable to Pearson Education increased by £99m, or 24%, to £505m in 2009, from £406m in 2008. The increase was attributable to strong performances in the US Higher Education business and both the US and International Assessments businesses and due to the positive impact of exchange. Operating profit attributable to the FT Group decreased by £36m to £31m in 2009, from £67m in 2008. The decrease reflects the decline in profitability at the *Financial Times*, as they faced tough conditions in the advertising market. 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 £95m in 2008 to £96m in 2009. Net interest payable in 2009 was £86m, down from £93m in 2008. The Group s net interest payable decreased by £7m in 2009 as we benefited 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.

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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 £146m represents 28% of pre-tax profits compared to a charge of £125m or 27% 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.

Non-controlling interest

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

Discontinued operations

On 29 July 2010, Pearson s 61% share in Interactive Data Corporation was sold to Silver Lake and Warburg Pincus for $2bn. The results of Interactive Data have been included as discontinued operations in both 2009 and 2008. Discontinued operations in 2008 also 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.

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 benefited 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 £582m and operating profit, translated at 2008 average exchange rates, would have been lower by £40m. 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 Group**	**Interactive Data**	**Penguin**	**Total**
Sales	2,470	1,035	275	358		1,002	5,140
	48%	*20%*	*6%*	*7%*		*19%*	*100%*
Total operating profit	354	109	42	31		83	619
	57%	*18%*	*7%*	*5%*		*13%*	*100%*
Add back:							
Amortization of acquired intangibles	49	32	1	8		1	91
Adjusted operating profit: continuing operations	403	141	43	39		84	710
Adjusted operating profit: discontinued operations					148		148
Total adjusted operating profit	403	141	43	39	148	84	858
	47%	*16%*	*5%*	*5%*	*17%*	10%	*100%*

	Year Ended December 31, 2008						
£m	**North American Education**	**International Education**	**Professional**	**FT Group**	**Interactive Data**	**Penguin**	**Total**
Sales	2,002	866	244	390		903	4,405
	45%	*20%*	*6%*	*9%*		*20%*	*100%*
Total operating profit	258	113	35	67		91	564
	46%	*20%*	*6%*	*12%*		*16%*	*100%*
Add back:							
	45	22	1	7		2	77

Amortization of acquired intangibles							
Adjusted operating profit: continuing operations	303	135	36	74		93	641
Adjusted operating profit: discontinued operations					121		121
Total adjusted operating profit	303	135	36	74	121	93	762
	40%	*17%*	*5%*	*10%*	*16%*	*12%*	*100%*

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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 estimated that there was an overall decrease for the industry in 2009 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, benefiting 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 continued 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 had more than 3 million students on the system at the end of 2009. 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 grew strongly, benefiting from strong demand for its services that help teachers automate and manage student attendance records, gradebooks, timetables and the like. It supported more than 12 million students 8 million of them through its flagship PowerSchool product which was 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 5.6 million. 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

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distance learning in higher education, increased online enrolments by 36% to 3.5 million 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 benefited 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 positioned us well for major curriculum reforms in 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 at the end of 2009.

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. 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 2009.

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 supported 30 post-secondary institutions. And, in Panama, 75,000 high school students were 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 in 2009. 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. 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 Group

Sales at FT Group 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 in 2009 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. MergerID was launched in September 2009, providing a secure online environment for principals and professionals to post and view merger and acquisition opportunities globally and by the end of 2009 had 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 Group decreased from 19.0% in 2008 to 10.9% in 2009 as lost advertising revenue fell through to the bottom line.

The Penguin Group

Penguin sales increased by £99m or 11%, 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 were available at the end of 2009, 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.

Liquidity and capital resources

Cash flows and financing

Net cash generated from operations increased by £157m (or 16%), to £1,169m in 2010 from £1,012m in 2009. This increase reflected strong cash contributions, particularly from our education businesses. The exchange rate for translation of dollar cash flows was $1.57 in 2010, $1.61 in 2009 and $1.44 in 2008. In 2010, the average working capital to sales ratio for our book publishing businesses improved to 20.1% from 25.1% in 2009, reflecting tight working capital management and the financial impact of the shift to more digital and service-orientated products and businesses. 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 £118m (or 13%), to £1,012m in 2009 from £894m in 2008. This increase reflected strong cash contributions from all businesses, together with the significant strengthening of the US dollar against sterling. In 2009, the headline 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.

Net interest paid decreased to £68m in 2010 from £87m in 2009. The decrease reflects the repayment of a US Dollar bond in 2009 and lower variable interest rates. 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.

Capital expenditure on property, plant and equipment was £76m in 2010, £62m in 2009 and £75m in 2008. The increase in 2010 reflects a return to a more normal level of expenditure given the improved economic environment and exchange rate movements. 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 acquisition of subsidiaries, joint ventures and associates accounted for a cash outflow of £557m in 2010 against £222m in 2009 and £400m in 2008. The principal acquisitions in 2010 were of Sistema Educacional Brasileiro for £228m, Melorio for £98m, Wall Street Institute for £65m and America s Choice for £65m. 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 sale of subsidiaries and associates produced a net cash inflow of £734m in 2010 against £nil in 2009 and £99m in 2008. The proceeds in 2010 relate to the sale of Interactive Data, with proceeds received being £984 and tax paid relating to this disposal of £250m. Proceeds of £99m in 2008 relate to the sale of the Data Management business.

The cash outflow from financing of £92m in 2010 reflects a further increase in the group dividend and the purchase of treasury shares, with some offset from a $350m US Dollar Note issued in the year. The cash outflow from financing of £366m in 2009 reflects the repayment of one $350m bond, the repayment of borrowings under the Group s committed borrowing facility and an increase of the dividend in line with earnings. Offsetting this, the Group issued £300m of sterling bonds in the year. The cash outflow from financing of £137m 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.

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, 2010, our net debt was £430m compared to net debt of £1,092m at December 31, 2009. 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 £2,312m at December 31, 2010, compared to £2,008m at December 31, 2009 reflecting the $350m US Dollar Note issued in the year and the strengthening of sterling relative to the US Dollar. At December 31, 2010, cash and liquid resources were £1,736m, compared to £750m at December 31, 2009. This increase in cash is due to receipt of the proceeds from the sale of Interactive Data, only partially re-invested in acquisitions, and strong cash generation in our education businesses.

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Contractual obligations

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

	At December 31, 2010				
	Total £m	**Less than one year £m**	**One to two years £m**	**Two to five years £m**	**After five years £m**
Gross borrowings:					
Bank loans, overdrafts and commercial paper	73	73			
Bonds	2,226	325		1,077	824
Finance lease obligations	13	6	4	3	
Operating lease obligations	1,437	164	151	337	785
UK Pension funding obligations	410	41	41	123	205
Total	**4,159**	**609**	**196**	**1,540**	**1,814**

At December 31, 2010 the Group had capital commitments for fixed assets, including finance leases already under contract, of £13m (2009: £15m). There are contingent liabilities in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries and associates. In addition there are contingent liabilities in respect of legal and royalty claims. None of these claims or guarantees is expected to result in a material gain or loss.

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

Off-Balance sheet arrangements

The Group does not have any off-balance sheet arrangements, as defined by the SEC Final Rule 67 (FR-67), Disclosure in Management s Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations , that have or are reasonably likely to have a material current or future effect on the Group s financial position or results of operations.

Borrowings

The Group finances its operations by a mixture of cash flows from operations, short-term borrowings from banks and commercial paper markets, and longer term loans from banks and capital markets.

We have in place a committed revolving credit facility of $1.75bn, which matures in November 2015. At December 31, 2010, the full $1.75bn was available under this facility. This credit facility contains two key covenants measured for each 12 month period ending June 30 and December 31:

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

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

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

Treasury policy

Our treasury policy is described in note 19 of Item 18. Financial Statements . For a more detailed discussion of our borrowing and use of derivatives, see Item 11. Quantitative and Qualitative Disclosures about Market Risk .

Related parties

There were no significant or unusual related party transactions in 2010, 2009 or 2008. Refer to note 34 in Item 18. Financial Statements .

Accounting principles

For a description of our principal accounting policies used refer to note 1 in Item 18. Financial Statements .

ITEM 6. *DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES*

Directors and senior management

We are managed by a board of directors and a chief executive who reports to the board and manages through a management committee. We refer to the board of directors and the chairman of the board of directors as our senior management .

The following table sets forth information concerning senior management, as of March 2011*.

Name	Age	Position
Glen Moreno	67	Chairman
Marjorie Scardino	64	Chief Executive
David Arculus	64	Non-executive Director
Patrick Cescau	62	Non-executive Director
Will Ethridge	59	Chief Executive, Pearson North American Education
Rona Fairhead	49	Chairman and Chief Executive, The Financial Times Group
Robin Freestone	52	Chief Financial Officer
Susan Fuhrman	66	Non-executive Director
Ken Hydon	66	Non-executive Director
Joshua Lewis	48	Non-executive Director
John Makinson	56	Chairman and Chief Executive, The Penguin Group

Glen Moreno was appointed chairman of Pearson on October 1, 2005 and is chairman of the nomination committee. He was appointed deputy chairman of The Financial Reporting Council Limited in November 2010. He is also the senior independent director of Lloyds Banking Group plc as well as a non-executive director of Fidelity International Limited. He was previously the senior independent director of Man Group plc and acting chairman of UK Financial Investments Limited, the company set up by HM Treasury to manage the government s shareholdings in UK banks.

Marjorie Scardino joined the Pearson board in January 1997. She trained and practised as a lawyer, and was chief executive of The Economist Group from 1993 until joining Pearson. She is also vice chairman of Nokia Corporation and on the boards of several charitable organisations. In 2010 she was named a fellow of the American Academy of Arts and Sciences.

David Arculus is a non-executive director of Telefónica S.A. He is also chairman of Numis Corporation plc and in October 2010 was appointed chairman of Aldermore Bank plc. His previous roles include chairman of O2 plc, Severn Trent plc and IPC Group, chief operating officer of United Business Media plc and group managing director of EMAP plc. He became a non-executive director of Pearson in February 2006 and is chairman of the remuneration committee.

Patrick Cescau is the senior independent director of Tesco plc and a director of INSEAD, the Business School for the World. In September 2010, he joined the board of IAG, the International Consolidated Airlines Group, S.A. He was previously group chief executive of Unilever. He became a non-executive director of Pearson in April 2002 and senior independent director in April 2010.

Will Ethridge joined the Pearson board in May 2008, having held a number of senior positions within Pearson Education, including CEO of the International and Higher Education divisions. He is chairman of CourseSmart, a publishers digital retail consortium and chairman of the Association of American Publishers.

Rona Fairhead joined the Pearson board in June 2002 as chief financial officer. She was appointed chief executive of The Financial Times Group in June 2006 and became responsible for Pearson VUE in March 2008.

* Terry Burns retired from the Pearson plc board on April 30, 2010. CK Prahalad passed away on April 16, 2010. Joshua Lewis was appointed to the Pearson plc board effective March 1, 2011.

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From 1996 until 2001, she served as executive vice president, group control and strategy at ICI. She is also a non-executive director of HSBC Holdings plc and chairs the HSBC audit and risk committees. In December 2010 she was appointed as a non-executive director of The Cabinet Office.

Robin Freestone joined Pearson in 2004 as deputy chief financial officer and became chief financial officer in June 2006, when he also joined the Pearson board. He was previously group financial controller of Amersham plc (now part of GE). He qualified as a chartered accountant with Touche Ross (now Deloitte). He is also a non-executive director and founder shareholder of eChem Limited.

Susan Fuhrman is president of Teachers College at Columbia University, America s oldest and largest graduate school of education and president of the National Academy of Education. She was previously dean of the Graduate School of Education at the University of Pennsylvania and on the board of trustees of the Carnegie Foundation for the Advancement of Teaching. She became a non-executive director of Pearson in July 2004.

Ken Hydon is a non-executive director of Reckitt Benckiser Group plc, Royal Berkshire NHS Foundation Trust and Tesco plc. He was previously financial director of Vodafone Group plc and of subsidiaries of Racal Electronics. He became a non-executive director of Pearson in February 2006 and is chairman of the audit committee.

Joshua Lewis is managing principal of Salmon River Capital LLC, a private equity/venture capital investment firm, and is also an advisor to the Bill & Melinda Gates Foundation s Next Generation Learning Challenges programme. He was previously a general partner of both Warburg Pincus and Forstmann Little, and served on the board of the Capella Education Company, a pioneering provider of web-based post-secondary education. He was also chair of New Leaders for New Schools, a social enterprise training the next generation of US urban principals, and remains involved with that organisation.

John Makinson joined the Pearson board in March 1996 and was finance director until June 2002. He was appointed chairman of The Penguin Group in May 2001. He is also chairman of The Royal National Theatre and trustee of the Institute for Public Policy Research.

Compensation of senior management

It is the role of the remuneration committee (the committee) to approve the remuneration and benefits packages of the executive directors, the chief executives of the principal operating companies and other members of the Pearson Management Committee. The committee also takes note of the remuneration for those executives with base pay over a certain level, representing approximately the top 50 executives of the company.

Remuneration policy

Our goal as a company is to make an impact on people s lives and on society through education and information. Our strategy to achieve that goal is pursued by all Pearson s businesses in some shape or form and has four parts: investment in quality content; adding services to this content; working in markets around the world, particularly in the developing world; and efficiency.

An important measure of our strategy is financial performance. Our goal is to achieve sustainable growth in three key financial measures earnings, cash and return on invested capital and reliable cash returns to our investors through healthy and growing dividends. Therefore those measures, or others that contribute to them such as operating margins and working capital, form the basis of our annual budgets and plans, and the basis for bonuses and long-term incentives.

Our starting point continues to be that total remuneration (base compensation plus annual and long-term incentives) should reward both short and long-term results, delivering competitive rewards for target performance, but outstanding rewards for exceptional company performance. The performance conditions that we select for the company s various performance related annual or long-term incentive plans are linked to the company s strategic objectives set out above and aligned with the interests of shareholders.

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different objectives. Base salary reflects competitive market level, role and individual contribution. Annual incentives motivate the achievement of annual strategic goals. Bonus share matching encourages executive directors and other senior executives to acquire and hold Pearson shares and aligns executives and shareholders interests. Long-term incentives drive long-term earnings and share price growth and value creation and align executives and shareholders interests.

Consistent with its policy, the committee places considerable emphasis on the performance-linked elements i.e. annual incentives, bonus share matching and long-term incentives. The committee will continue to review the mix of fixed and performance-linked remuneration on an annual basis, consistent with its overall philosophy.

We want our executive directors remuneration to be competitive with those of directors and executives in similar positions in comparable companies. For benchmarking purposes we review remuneration by reference to the UK and US market depending on the relevant market or markets for particular jobs. We look separately at three comparator groups:

First, we use a select peer group of FTSE 100 companies with very substantial overseas operations. These companies are of a range of sizes around Pearson, but the method our independent advisers use to make comparisons on remuneration takes this variation in size into account; secondly, for the US, we use a broad media industry group; and thirdly, we look at the FTSE 20-50, excluding financial services. We use these companies because they represent the wider executive talent pool from which we might expect to recruit externally and the pay market to which we might be vulnerable if our remuneration was not competitive.

Base salary

Our normal policy is to review salaries annually, consistent with the way we benchmark pay and taking into account the approach to pay across the company as a whole.

Allowances and benefits

It is the company s policy that benefit programs should be competitive in the context of the local labour market, but as an international company we require executives to operate worldwide and recognize that recruitment also operates worldwide.

Annual incentives

The committee establishes the annual incentive plans for the executive directors and the chief executives of the company s principal operating companies, including performance measures and targets. These plans then become the basis of the annual incentive plans below the level of the principal operating companies, particularly with regard to the performance measures used and the relationship between the relevant business unit operating plans and the incentive targets.

The committee will continue to review the annual incentive plans each year and to revise the performance measures, targets and individual incentive opportunities in light of current conditions.

Annual incentive payments do not form part of pensionable earnings.

Performance Measures

The financial performance measures relate to the company s main drivers of business performance at both the corporate, operating company and business unit level. Performance is measured separately for each item. For each performance measure, the committee establishes thresholds, target and maximum levels of performance for different levels of payout.

A proportion (which for 2011 may be up to 30%) of the total annual incentive opportunity for the executive directors and other members of the Pearson Management Committee is based on performance against personal objectives as agreed with the chief executive (or in this case the chief executive or chairman). These comprise functional, operational, strategic and non-financial objectives relevant to the executives specific areas of responsibility and *inter alia* may include objectives relating to environmental, social and governance issues.

For 2011 the principle financial performance measures for Pearson plc are sales, operating profit (for the operating companies) and growth in underlying earnings per share for continuing operations at constant exchange rates (for Pearson plc), average working capital as a ratio to sales and operating cash flow. The selection and weighting of the performance measures takes into account the strategic objectives and the business priorities relevant to each operating company and to Pearson overall each year.

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The individual annual incentive opportunities for the executive directors other than the chief executive are expressed as % of base salary. The committee with the advice of the chief executive determines the aggregate level of annual incentives and individual incentive opportunities taking into account all relevant factors. These factors may include the profitability of the company, individual roles and responsibilities, market annual incentive levels, and the level of stretch in the performance targets.

For 2011, there are no changes to the target and maximum annual incentive opportunities for the chief executive which remain at 100% and 180% respectively, of base salary (as in 2010).

For the other members of the Pearson Management Committee, individual incentive opportunities take into account their membership of that committee and the contribution of their respective businesses or role to Pearson s overall financial goals. In the case of the executive directors, the target individual incentive opportunity for 2011 is in a range from 80% to 87.5% of base salary (as in 2010). The maximum opportunity remains at twice target (as in 2010).

The annual incentive plans are discretionary and the committee reserves the right to make adjustments to payouts up or down if it believes exceptional factors warrant doing so. The committee may also award individual discretionary incentive payments.

Name	**Pearson plc**	**Operating company**	**Personal objectives**
Marjorie Scardino	90%		10%
Will Ethridge	30%	60%	10%
Rona Fairhead	30%	60%	10%
Robin Freestone	80%		20%
John Makinson	30%	60%	10%

For Pearson plc, the performance measures were sales, earnings per share growth, average working capital to sales ratio and operating cash flow. Underlying growth in adjusted earnings per share at constant exchange rates, average working capital as a ratio to sales and operating cash flow were all above maximum. Sales were above target but below maximum.

For North American Education, the performance measures were sales, operating profit, and average working capital as a ratio to sales and operating cash flow. Average working capital as a ratio to sales and operating cash flow were above maximum. Sales and operating profit were above target but below maximum.

For FT Publishing, the performance measures were sales, operating profit and operating cash flow. All performance measures were above maximum.

For Pearson VUE, the performance measures were sales, operating profit, average working capital as a ratio to sales and operating cash flow. Sales were above target but below maximum. Performance across all other measures was above maximum.

For Penguin Group, the performance measures were sales, operating profit, operating margin, average working capital as a ratio to sales and operating cash flow. Operating profit, operating margin and average working capital as a ration to sales were all above maximum. Sales and operating cash flow were above target but below maximum.

Bonus share matching

In 2008, shareholders approved the renewal of the annual bonus share matching plan, which permits executive directors and senior executives around the company to invest up to 50% of any after-tax annual bonus in Pearson shares.

If the participant s invested shares are held, they will be matched subject to earnings per share growth over the three-year performance period on a gross basis up to a maximum of one matching share for every one held i.e. the number of matching shares will be equal to the number of shares that could have been acquired with the amount of the pre-tax annual bonus taken in invested shares.

One matching share for every two invested shares held i.e. 50% of the maximum matching award, will be released if the company s adjusted earnings per share increase in real terms by 3% per annum compound over the three-year performance period. One matching share for every one invested share held i.e. 100% of the maximum matching award, will be released if the company s adjusted earnings per share increase in real terms by 5% per annum compound over the same period.

For real growth in adjusted earnings per share of between 3% and 5% per annum compound, the rate at which the participant s invested shares will be matched will be calculated according to a straight-line sliding scale.

Real growth is calculated by reference to the UK Government s Index of Retail Prices (All Items). We choose to test our earnings per share growth against UK inflation over three years to measure the company s financial progress over the period to which the entitlement to matching shares relates.

Where matching shares vest in accordance with the plan, a participant will also receive additional shares representing the gross value of dividends that would have been paid on the matching shares during the performance period and re-invested.

Long-term incentives

By separate resolution, shareholders are being asked to approve the renewal of the long-term incentive plan first introduced in 2001 and renewed again in 2006. The committee has reviewed the operation of this plan in light of the company s strategic goals. The committee has concluded that the plan is achieving its objectives and, looking forward, will continue to enable the company to recruit and retain the most able managers worldwide and to ensure their long-term incentives encourage outstanding performance and are competitive in the markets in which we operate. We are therefore seeking approval of its renewal on broadly its existing terms.

Subject to shareholders approval, executive directors, senior executives and other managers can participate in this plan which can deliver restricted stock and/or stock options. Approximately 6% of the company s employees currently hold awards under this plan. The aim is to give the committee a range of tools with which to link corporate performance to management s long-term reward in a flexible way. It is not the committee s intention to grant stock options in 2011.

Restricted stock granted to executive directors vests only if stretching corporate performance targets over a specified period have been met. Awards vest on a sliding scale based on performance over the period. There is no retesting. The committee determines the performance measures and targets governing an award of restricted stock prior to grant.

The performance measures that will apply for the executive directors for awards in 2011 and subsequent years will continue to be focused on delivering and improving returns to shareholders. These measures, which have applied since 2004, are relative total shareholder return (TSR), return on invested capital (ROIC) and earnings per share (EPS) growth.

Restricted stock may be granted without performance conditions to satisfy recruitment and retention objectives. Restricted stock awards that are not subject to performance conditions will not be granted to any of the current executive directors.

Pearson s approach to the level of individual awards takes into account a number of factors. First, we take into account the face value of individual awards at the time of grant assuming that the performance targets are met in full. Secondly, we take into account the assessments by our independent advisers of market practice for comparable companies and of directors total remuneration relative to the market. And thirdly, we take into account individual roles and responsibilities, and company and individual performance.

Where shares vest, in accordance with the plan, participants receive additional shares representing the gross value of dividends that would have been paid on these shares during the performance period and reinvested.

Pearson wishes to encourage executives and managers to build up a long-term holding of shares so as to demonstrate their commitment to the company. To achieve this, for awards of restricted stock that are subject to performance conditions over a three-year period, a percentage of the award (normally 75%) vests at the end of the three-year period. The remainder of the award (normally 25%) only vests if the participant retains the after-tax number of shares that vest at year three for a further two years.

There are limits on the amount of new-issue equity we can use. In any rolling ten-year period, no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson s share plans, and no more than 5% of Pearson equity will be issued, or be capable of being issued, under executive or discretionary plans. In addition, for existing shares no more than 5% of Pearson equity may be held in trust at any time.

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Shareholding policy

The committee expects executive directors to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee ownership. To complement the operation of the company s long-term incentive arrangements, we will in future, operate formal shareholding guidelines for executive directors. The target holding will be 200% of the salary for the chief executive and 125% of salary for the other executive directors consistent with median practice in FTSE 100 companies that operate such arrangements.

Service agreements

In accordance with long established policy, all continuing executive directors have rolling service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues until retirement.

The committee reviewed the policy on executive service agreements in 2008 and again in 2010. Future executive director service agreements should provide that the company may terminate these agreements by giving no more than 12 months notice. As an alternative, the company may at its discretion pay in lieu of that notice. Payment in lieu of notice may be made in instalments and may be subject to mitigation. In the case of the longer serving directors with legacy employment agreements, the compensation payable in circumstances where the company terminates the agreements without notice or cause takes the form of liquidated damages.

There are no special provisions for notice, pay in lieu of notice or liquidated damages in the event of termination of employment in the event of a change of control of Pearson. On termination of employment, executive directors entitlements to any vested or unvested awards under Pearson s discretionary share plans are treated in accordance with the terms of the relevant plan.

Retirement benefits

Executive directors participate in the pension arrangements set up for Pearson employees. Marjorie Scardino, Will Ethridge, John Makinson, Rona Fairhead and Robin Freestone will also have other retirement arrangements because of the cap on the amount of benefits that can be provided from the pension arrangements in the US and the UK.

The differences in the arrangements for the current executive directors reflect the different arrangements in the UK and the US and the changes in pension arrangements generally over the periods of their employment. Executive directors are entitled to life insurance cover while in employment, and to a pension in the event of ill-health or disability. A pension for their spouse and/or dependants is also available on death.

In the US, the defined benefit arrangement is the Pearson Inc. Pension Plan. This plan provides a lump sum convertible to an annuity on retirement. The lump sum accrued at 6% of capped compensation until December 31, 2001 when further benefit accruals ceased. Normal retirement age is 65 although early retirement is possible subject to a reduction for early payment. No increases are guaranteed for pensions in payment. There is a spouse s pension on death in service and the option to provide a death in retirement pension by reducing the member s pension.

The defined contribution arrangement in the US is a 401(k) plan. At retirement, the account balances will be used to provide benefits. In the event of death before retirement, the account balances will be used to provide benefits for dependants.

In the UK, the pension plan is the Pearson Group Pension Plan and executive directors participate in either the Final Pay or the Money Purchase 2003 section. Normal retirement age is 62, but, subject to company consent, retirement is currently possible from age 55. In the Final Pay section, the accrued pension is reduced on retirement prior to age 60. Pensions in payment are guaranteed to increase each year at 5% or the rise in inflation each year, if lower. Pensions for a member s spouse, dependant children and/or nominated financial dependant are payable in the event of death. In the Money Purchase 2003 section the account balances are used to provide benefits at retirement. In the event of death before retirement pensions for a member s spouse, dependant children and/or nominated financial dependant are payable.

Members of the Pearson Group Pension Plan who joined after May 1989 are subject to an upper limit of earnings that can be used for pension purposes, known as the earnings cap. This limit, £108,600 as at April 6, 2006, was abolished by the Finance Act 2004. However the Pearson Group Pension Plan has retained its own cap , which

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will increase annually in line with the UK Government s Index of Retail Prices (All Items). The cap was £123,600 as at April 6, 2010.

As a result of the UK Government s A-Day changes effective from April 2006, UK executive directors and other members of the Pearson Group Pension Plan who are, or become, affected by the lifetime allowance are provided with a cash supplement as an alternative to further accrual of pension benefits on a basis that is broadly cost neutral to the company.

Marjorie Scardino

Marjorie Scardino participates in the Pearson Inc. Pension Plan and the approved 401(k) plan.

Since 2010, additional pension benefits are provided through: a taxable and non-pensionable cash supplement in place of the unfunded plan; a funded defined contribution plan approved by HM Revenue and Customs (HMRC) as a corresponding plan; and amounts in the legacy unfunded plan. In aggregate, the cash supplement and contributions to the funded plan are based on a percentage of salary and a fixed cash amount index-linked to inflation. The notional cash balance of the legacy unfunded plan increases annually by a specified notional interest rate. The unfunded plan also provides the opportunity to convert a proportion of this notional cash account into a notional share account reflecting the value of a number of Pearson ordinary shares. The number of shares in the notional share account is determined by reference to the market value of Pearson shares at the date of conversion.

Will Ethridge

Will Ethridge is a member of the Pearson Inc. Pension Plan and the approved 401(k) plan. He also participates in an unfunded, non-qualified Supplemental Executive Retirement Plan (SERP) that provides an annual accrual of 2% of final average earnings, less benefits accrued in the Pearson Inc. Pension Plan and US Social Security. Additional defined contribution benefits are provided through a funded, non-qualified Excess Plan.

Rona Fairhead

Rona Fairhead is a member of the Pearson Group Pension Plan. Her pension accrual rate is 1/30th of pensionable salary per annum, restricted to the plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on her behalf. Since April 2006, she has received a taxable and non-pensionable cash supplement in replacement of the FURBS.

Robin Freestone

Robin Freestone is a member of the Money Purchase 2003 section of the Pearson Group Pension Plan. Company contributions are 16% of pensionable salary per annum, restricted to the plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on his behalf. Since April 2006, he has received a taxable and non-pensionable cash supplement in replacement of the FURBS.

John Makinson

John Makinson is a member of the Pearson Group Pension Plan under which his pensionable salary is restricted to the plan earnings cap. The company ceased contributions on December 31, 2001 to his FURBS arrangement. During 2002 it set up an Unfunded Unapproved Retirement Benefits Scheme (UURBS) for him. The UURBS tops up the pension payable from the Pearson Group Pension Plan and the closed FURBS to target a pension of two-thirds of a revalued base salary on retirement at age 62. The revalued base salary is defined as £450,000 effective at June 1, 2002, increased at January 1, each year by reference to the increase in the UK Government s Index of Retail Prices (All Items). In the event of his death a pension from the Pearson Group Pension Plan, the FURBS and the UURBS will be paid to his spouse or nominated financial dependant. Early retirement is currently possible from age 55, with company consent.

The pension is reduced to reflect the shorter service, and before age 60, further reduced for early payment.

Executive directors non-executive directorships

Our policy is that executive directors may, by agreement with the board, serve as non-executives of other companies and retain any fees payable for their services.

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The following executive directors served as non-executive directors elsewhere and received fees or other benefits for the period covered by this report as follows: Marjorie Scardino (Nokia Corporation and MacArthur Foundation); Rona Fairhead (HSBC Holdings plc and Spencer Stuart Advisory Board).

Chairman s remuneration

Our policy is that the chairman s pay should be set at a level that is competitive with those of chairmen in similar positions in comparable companies. He is not entitled to any annual or long-term incentive, retirement or other benefits.

There were no changes in the chairman s remuneration in 2010. With effect from 1 January 2007, his remuneration was £450,000 per year. We reviewed the chairman s remuneration at the end of 2010 and agreed that this would be increased to £500,000 per year with effect from April 1, 2011. The next review will take place in three years time.

Non-executive directors

Fees for non-executive directors are determined by the full board having regard to market practice and within the restrictions contained in Pearson s Articles of Association. Non-executive directors receive no other pay or benefits (other than reimbursement for expenses incurred in connection with their directorship of Pearson) and do not participate in Pearson s equity-based incentive plans.

With effect from July 1, 2010, the structure and fees are as follows:

	Fees payable from July 1, 2010 (£)
Non-executive director fee	65,000
Chairmanship of audit committee	25,000
Chairmanship of remuneration committee	20,000
Membership of audit committee	10,000
Membership of remuneration committee	5,000
Senior independent director	20,000

A minimum of 25% of the basic fee is paid in Pearson shares that the non-executive directors have committed to retain for the period of their directorships.

Non-executive directors serve Pearson under letters of appointment and do not have service contracts. There is no entitlement to compensation on the termination of their directorships.

Remuneration of senior management

Excluding contributions to pension funds and related benefits, senior management remuneration for 2010 was as follows:

	Salaries/ Fees £000	**Annual Incentive £000**	**Allowances(1) £000**	**Benefits(2+3) £000**	**Total £000**

Non-executive Chairman					
Glen Moreno	450				450
Executive directors					
Marjorie Scardino	969	1,606	70	17	2,662
Will Ethridge	661	1,010			1,671
Rona Fairhead	516	826	12	19	1,373
Robin Freestone	460	685	7	6	1,158
John Makinson	536	801	232	6	1,575
Senior management as a group	**3,592**	**4,928**	**321**	**48**	**8,889**

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Notes:

(1) Allowances for Marjorie Scardino include £45,005 in respect of housing costs and a US payroll supplement of £11,754. John Makinson is entitled to a location and market premium in relation to the management of the business of the Penguin Group in the US and received £218,653 for 2010.

(2) Benefits include company car, car allowance and UK health care premiums. US health and welfare benefits for Marjorie Scardino and Will Ethridge are self-insured and the company cost, after employee contributions, is tax free to employees. For Marjorie Scardino, benefits include £15,450 for pension planning and financial advice. Marjorie Scardino, Rona Fairhead and John Makinson have the use of a chauffeur.

(3) No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Share options of senior management

This table sets forth for each director the number of share options held as of December 31, 2010 as well as the exercise price, rounded to the nearest whole pence/cent, and the range of expiration dates of these options.

Director	Number of Options	(2)	Exercise Price	Earliest Exercise Date	Expiry Date
Marjorie Scardino	1,672	a	547.2p	08/01/12	02/01/13
	41,550	b*	1421.0p	05/09/02	05/09/11
	41,550	b*	1421.0p	05/09/03	05/09/11
	41,550	b*	1421.0p	05/09/04	05/09/11
	41,550	b*	1421.0p	05/09/05	05/09/11
Total	**167,872**				
Will Ethridge	11,010	b*	$21.00	05/09/02	05/09/11
	11,010	b*	$21.00	05/09/03	05/09/11
	11,010	b*	$21.00	05/09/04	05/09/11
	11,010	b*	$21.00	05/09/05	05/09/11
Total	**44,040**				
Rona Fairhead	2,371	a	690.4p	08/01/12	02/01/13
	20,000	b*	822.0p	11/01/02	11/01/11
	20,000	b*	822.0p	11/01/03	11/01/11
	20,000	b*	822.0p	11/01/04	11/01/11
Total	**62,371**				
Robin Freestone	1,757	a	534.8p	08/01/11	02/01/12
Total	**1,757**				

John Makinson	19,785	b*	1421.0p	05/09/02	05/09/11
	19,785	b*	1421.0p	05/09/03	05/09/11
	19,785	b*	1421.0p	05/09/04	05/09/11
	19,785	b*	1421.0p	05/09/05	05/09/11
Total	**79,140**				

(1) No variations to the terms and conditions of share options were made during the year.

(2) Each plan is described below.

a Worldwide save for shares The acquisition of shares under the worldwide save for shares plan is not subject to the satisfaction of a performance target.

b Long-term incentive All options that remain outstanding are exercisable and lapse if they remain unexercised at the tenth anniversary of the date of grant.

* Where options are exercisable.

(3) Marjorie Scardino contributes US$1,000 per month (the maximum allowed) to the US employee stock purchase plan. The terms of this plan allow participants to make monthly contributions for 6 month periods

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and to acquire shares twice annually at the end of these periods at a price that is the lower of the market price at the beginning or the end of each period, both less 15%.

(4) The market price on December 31, 2010 was 1,008.0p per share and the range during the year was 855.0p to 1,051.0p.

Share ownership of senior management

The table below sets forth the number of ordinary shares and restricted shares held by each of our directors as at February 28, 2011. Additional information with respect to share options held by, and bonus awards for, these persons is set out above in Remuneration of Senior Management and Share Options of Senior Management . The total number of ordinary shares held by senior management as of February 28, 2011 was 2,735,220 representing less than 1% of the issued share capital on February 28, 2011.

As at February 28, 2011	Ordinary shares(1)	Restricted shares(2)
Glen Moreno	150,000	
Marjorie Scardino	1,107,118	1,641,511
David Arculus	14,053	
Terry Burns (stepped down on April 30, 2010)	12,222	
Patrick Cescau	6,282	
Will Ethridge	333,395	665,820
Rona Fairhead	342,669	467,143
Robin Freestone	193,954	560,526
Susan Fuhrman	11,363	
Ken Hydon	10,715	
John Makinson	551,039	446,042
CK Prahalad (deceased April 16, 2010)	2,410	

Notes:

(1) Ordinary shares include both ordinary shares listed on the London Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. The figures include both shares and ADRs acquired by individuals investing part of their own after-tax annual bonus in Pearson shares under the annual bonus share matching plan.

(2) From 2004, Marjorie Scardino is also deemed to be interested in a further number of shares under her unfunded pension arrangement described in this report, which provides the opportunity to convert a proportion of her notional cash account into a notional share account reflecting the value of a number of Pearson shares.

(3) The register of directors interests (which is open to inspection during normal office hours) contains full details of directors shareholdings and options to subscribe for shares. The market price on December 31, 2010 was 1,008.0p per share and the range during the year was 855.0p to 1,051.0p.

(4) At December 31, 2010, Patrick Cescau held 168,000 Pearson bonds.

(5) Ordinary shares do not include any shares vested but held pending release under a restricted share plan.

Employee share ownership plans

Worldwide save for shares and US employee share purchase plans

In 1998, we introduced a worldwide save for shares plan. Under this plan, our employees around the world have the option to save a portion of their monthly salary over periods of three, five or seven years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equal to 80% of the market price prevailing at the commencement of the employee s participation in the plan.

In the United States, this plan operates as a stock purchase plan under Section 423 of the US Internal Revenue Code of 1986. This plan was introduced in 2000 following Pearson s listing on the New York Stock Exchange. Under it, participants save a portion of their monthly salary over six month periods, at the end of which they have the

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option to purchase ADRs with their accumulated funds at a purchase price equal to 85% of the lower of the market price prevailing at the beginning or end of the period.

Board practices

Our board currently comprises the chairman, who is a part-time non-executive director, five executive directors and five non-executive directors. Our articles of association provide that at every annual general meeting, one-third of the board of directors, or the number nearest to one-third, shall retire from office. The directors to retire each year are the directors who have been longest in office since their last election or appointment. A retiring director is eligible for re-election. If at any annual general meeting, the place of a retiring director is not filled, the retiring director, if willing, is deemed to have been re-elected, unless at or prior to such meeting it is expressly resolved not to fill the vacated office, or unless a resolution for the re-election of that director has been put to the meeting and lost. Our articles of association also provide that every director be subject to re-appointment by shareholders at the next annual general meeting following their appointment.

However since 2008, in accordance with good corporate governance, the board has resolved that all directors should offer themselves for re-election on an annual basis at the company s annual general meeting. Accordingly, all of the directors will offer themselves for re-election, (or re-appointment in the case of directors who were appointed since the last meeting), at the forthcoming annual general meeting on 28 April 2011.

Pearson is listed on the New York Stock Exchange (NYSE). As a listed non-US issuer, we are required to comply with some of the NYSE s corporate governance rules, and otherwise must disclose on our website any significant ways in which our corporate governance practices differ from those followed by US companies under the NYSE listing standards. At this time, the Company believes that it is in compliance in all material respects with all the NYSE rules except that the Nomination Committee is not composed entirely of independent directors, and that it is the full board, not the Nomination Committee, that develops and recommends corporate governance principles.

The board of directors has established the following committees, all of which report to the board. Each committee has its own written terms of reference setting out their authority and duties. These can be found on our website (www.pearson.com/investors/shareholder-information/governance).

Audit committee

This committee provides the board with a vehicle to appraise our financial management and reporting and to assess the integrity of our accounting procedures and financial controls. Ken Hydon chairs this committee and its other members are David Arculus, Patrick Cescau, Susan Fuhrman and Joshua Lewis. Ken Hydon is also the designated audit committee financial expert within the meaning of the applicable rules and regulations of the US Securities and Exchange Commission. Our internal and external auditors have direct access to the committee to raise any matter of concern and to report the results of work directed by the committee.

Remuneration committee

This committee meets regularly to decide the remuneration and benefits of the executive directors and the chief executives of our three operating divisions. The committee also recommends the chairman s remuneration to the board of directors for its decision and reviews management development and succession plans. David Arculus chairs this committee and its other members are Patrick Cescau, Glen Moreno and Ken Hydon.

Nomination committee

This committee meets from time to time as necessary to consider the appointment of new directors. The committee is chaired by Glen Moreno and comprises Marjorie Scardino and all of the non-executive directors.

Employees

The average number of persons employed by us in continuing operations during each of the three fiscal years ended 2010 were as follows:

36,317 in fiscal 2010,

34,705 in fiscal 2009, and

31,171 in fiscal 2008.

We, through our subsidiaries, have entered into collective bargaining agreements with employees in various locations. Our management has no reason to believe that we would not be able to renegotiate any such agreements on satisfactory terms. We encourage employees to contribute actively to the business in the context of their particular job roles and believe that the relations with our employees are generally good.

The table set forth below shows for 2010, 2009 and 2008 the average number of persons employed in each of our operating divisions.

Average number employed	**2010**	**2009**	**2008**
North American Education	14,828	15,606	15,412
International Education	10,713	8,899	5,718
Professional	3,721	2,662	2,641
FT Group	2,557	2,328	2,379
Penguin	3,470	4,163	4,112
Other	1,028	1,047	909
Continuing operations	**36,317**	**34,705**	**31,171**

The average number employed in discontinued operations was 2,459 in 2009 and 2,509 in 2008.

ITEM 7. *MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS*

To our knowledge, as of February 28, 2011, the beneficial owners of 3% or more of our issued and outstanding ordinary share capital were as follows:

Name of shareholder	**Number of ordinary shares held**	**% of outstanding ordinary shares represented by number of shares held**
Legal & General Group plc	32,300,784	3.98%
Libyan Investment Authority	24,431,000	3.01%

On February 28, 2011, record holders with registered addresses in the United States held 48,543,471 ADRs, which represented 5.97% of our outstanding ordinary shares. Some of these ADRs are held by nominees and so these numbers may not accurately represent the number of beneficial owners in the United States.

Loans and equity advanced to joint ventures and associates during the year and as at December 31, 2010 are shown in note 12 in Item 18. Financial Statements. Dividends receivable from joint ventures and associates are set out in note 12 in Item 18. Financial Statements . There were no other related party transactions in 2010.

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ITEM 8. *FINANCIAL INFORMATION*

The financial statements filed as part of this Annual Report are included on pages F-1 through F-69 hereof.

Other than those events described in note 35 in Item 18. Financial Statements of this Form 20-F and seasonal fluctuations in borrowings, there has been no significant change to our financial condition or results of operations since December 31, 2010. Our borrowings fluctuate by season due to the effect of the school year on the working capital requirements of the educational book 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.

Our policy with respect to dividend distributions is described in response to Item 3. Key Information above.

ITEM 9. *THE OFFER AND LISTING*

The principal trading market for our ordinary shares is the London Stock Exchange. Our ordinary shares also trade in the United States in the form of ADSs evidenced by ADRs under a sponsored ADR facility with The Bank of New York Mellon, as depositary. We established this facility in March 1995 and amended it in August 2000 in connection with our New York Stock Exchange listing. Each ADS represents one ordinary share.

The ADSs trade on the New York Stock Exchange under the symbol PSO .

The following table sets forth the highest and lowest middle market quotations, which represent the average of closing bid and asked prices, for the ordinary shares, as derived from the Daily Official List of the London Stock Exchange and the average daily trading volume on the London Stock Exchange:

on an annual basis for our five most recent fiscal years,

on a quarterly basis for our most recent quarter and two most recent fiscal years, and

on a monthly basis for the six most recent months.

Reference period	Ordinary shares High (In pence)	Ordinary shares Low (In pence)	Average daily trading volume (Ordinary shares)
Five most recent fiscal years			
2010	1051	855	2,424,600
2009	893	578	4,030,500
2008	733	519	4,758,300
2007	915	695	6,405,600
2006	811	671	5,004,500
Most recent quarter and two most recent fiscal years			
2010 Fourth quarter	1034	926	2,126,500
Third quarter	1029	864	2,167,800
Second quarter	1051	888	2,967,400
First quarter	1037	855	2,466,700

2009 Fourth quarter	893	755	2,777,200
Third quarter	777	578	3,158,500
Second quarter	733	600	4,554,700
First quarter	714	584	5,695,700
Most recent six months			
February 2011	1064	1013	1,524,200
January 2011	1066	983	2,075,800
December 2010	1034	961	1,673,100
November 2010	974	926	1,909,900
October 2010	1009	948	2,806,800
September 2010	1022	985	1,877,000

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ITEM 10. *ADDITIONAL INFORMATION*

Articles of association

We summarize below the material provisions of our articles of association, as amended, which have been filed as an exhibit to our annual report on Form 20-F for the year ended December 31, 2010. The summary below is qualified entirely by reference to the Articles of Association. We have multiple business objectives and purposes and are authorized to do such things as the board may consider fit to further our interests or incidental or conducive to the attainment of our objectives and purposes.

Directors powers

Our business shall be managed by the board of directors and the board may exercise all such of our powers as are not required by law or by the Articles of Association or by any directions given by the Company by special resolution, to be exercised in a general meeting.

Interested directors

For the purposes of section 175 of the Companies Act 2006 the board may authorize any matter proposed to it which would, if not so authorized, involve a breach of duty by a Director under that section, including, without limitation, any matter which relates to a situation in which a Director has, or can have, an interest which conflicts, or possibly may conflict, with the interests of the Company. Any such authorization will be effective only if:

(a) any requirement as to quorum at the meeting at which the matter is considered is met without counting the Director in question or any other interested Director; and

(b) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

The board may (whether at the time of the giving of the authorization or subsequently) make any such authorization subject to any limits or conditions it expressly imposes, but such authorization is otherwise given to the fullest extent permitted. The board may vary or terminate any such authorization at any time.

Provided that he has disclosed to the board the nature and extent of his interest, a Director notwithstanding his office:

(a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;

(b) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;

(c) may be a director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is otherwise (directly or indirectly) interested.

A Director shall not, by reason of his office, be accountable to the Company for any remuneration or other benefit which he derives from any office or employment or from any transaction or arrangement or from any interest in any body corporate:

(a) the acceptance, entry into or existence of which has been approved by the board (subject, in any such case, to any limits or conditions to which such approval was subject); or

(b) which he is permitted to hold or enter into by virtue of paragraph (a), (b) or (c) above;

nor shall the receipt of any such remuneration or other benefit constitute a breach of his duty under section 176 of the Act.

A Director shall be under no duty to the Company with respect to any information which he obtains or has obtained otherwise than as a director of the Company and in respect of which he owes a duty of confidentiality to another person. However, to the extent that his relationship with that other person gives rise to a conflict of interest or possible conflict of interest, which has been approved by the board: the director shall not be in breach of the general duties he owes to the Company by virtue of sections 171 to 177 of the Act because he fails:

(a) to disclose any such information to the board or to any Director or other officer or employee of the Company; and/or

(b) to use or apply any such information in performing his duties as a Director of the Company.

Where the existence of a Director s relationship with another person has been approved by the board and his relationship with that person gives rise to a conflict of interest or possible conflict of interest, the Director shall not be in breach of the general duties he owes to the Company by virtue of sections 171 to 177 of the Act because he:

(a) absents himself from meetings of the board at which any matter relating to the conflict of interest or possible conflict of interest will or may be discussed or from the discussion of any such matter at a meeting or otherwise; and/or

(b) makes arrangements not to receive documents and information relating to any matter which gives rise to the conflict of interest or possible conflict of interest sent or supplied by the Company and/or for such documents and information to be received and read by a professional adviser,

for so long as he reasonably believes such conflict of interest or possible conflict of interest subsists.

Except as stated below, a Director shall not vote in respect of any contract or arrangement or any other proposal whatsoever in which he has an interest which is, to his knowledge, a material interest, otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in the quorum at a meeting of the Board in relation to any resolution on which he is debarred from voting.

Notwithstanding the foregoing, a director will be entitled to vote, and be counted in the quorum, on any resolution concerning any of the following matters:

the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiaries;

the giving of any guarantee, security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;

any proposal relating to the Company or any of its subsidiary undertakings where it is offering securities in which offer a Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which a Director is to participate;

any proposal relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in sections 820 to 825 of the Act) representing one per cent or more of either any class of the equity share capital, or the voting rights, in such company;

any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and any proposal concerning insurance that we propose to maintain or purchase for the benefit of directors or for the benefit of persons, including directors.

Where proposals are under consideration concerning the appointment of two or more directors to offices or employment with us or any company in which we are interested, these proposals may be divided and considered separately and each of these directors, if not prohibited from voting under the provisions of the eighth paragraph before this one, will be entitled to vote and be counted in the quorum with respect to each resolution except that concerning his or her own appointment.

Borrowing powers

The board of directors may exercise all powers to borrow money and to mortgage or charge our undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any of our or any third party s debts, liabilities or obligations. The board of directors must restrict the borrowings in order to secure that the aggregate amount of undischarged monies borrowed by us (and any of our subsidiaries), but excluding any intra-group debts, shall not at any time (without the previous sanction of the Company in the form of an ordinary resolution) exceed a sum equal to twice the aggregate of the adjusted capital and reserves.

Other provisions relating to directors

Under the articles of association, directors are paid out of our funds for their services as we may from time to time determine by ordinary resolution and, in the case of non-executive directors, up to an aggregate of £750,000 or such other amounts as resolved by the shareholders at a general meeting. Directors currently are not required to hold any share qualification.

Annual general meetings

In every year the Company must hold an annual general meeting (within a period of not more than 15 months after the date of the preceding annual general meeting) at a place and time determined by the board. The following matters are usually considered at an annual general meeting:

- approving final dividends;
- consideration of the accounts and balance sheet;
- ordinary reports of the board of directors and auditors and any other documents required to be annexed to the balance sheet;
- the re-appointment or re-election of directors;
- appointment or reappointment of, and authorizing the directors to determine the remuneration of, the auditors; and
- the renewal, limitation, extension, variation or grant of any authority to the board in relation to the allotment of securities.

The board may call a general meeting whenever it thinks fit. If at any time there are not within the United Kingdom sufficient directors capable of acting to form a quorum, any director or any two members may convene a general meeting in the same manner as nearly as possible as that in which meetings may be convened by the board.

No business shall be dealt with at any general meeting unless a quorum is present when the meeting proceeds to business. Three members present in person and entitled to vote shall be a quorum for all purposes. A corporation being a member shall be deemed to be personally present if represented by its duly authorized representative.

If a quorum for a meeting convened at the request of shareholders is not present within fifteen minutes of the appointed time, the meeting will be dissolved. In any other case, the general meeting will be adjourned to the same day in the next week, at the same time and place, or to a time and place that the chairman fixes. If at that rescheduled meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, the shareholders present in person or by proxy will be a quorum. The chairman or, in his absence, the deputy chairman or any other director nominated by the board, will preside as chairman at every general meeting. If no director is present at the general meeting or no director consents to act as chairman, the shareholders present shall elect one of their number to be chairman of the meeting.

Share certificates

Every person whose name is entered as a member in the Company s Register of Members shall be entitled to one certificate in respect of each class of shares held. (The law regarding this does not apply to stock exchange nominees). Subject to the terms of issue of the shares, certificates are issued following allotment or receipt of the form of transfer bearing the appropriate stamp duty by our registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom, telephone number +44 (0) 121 415 7062.

Share capital

Any share may be issued with such preferred, deferred or other special rights or other restrictions as we may determine by way of a shareholders vote in general meeting. Subject to the Act, any shares may be issued on terms that they are, or at our or the shareholders option are, liable to be redeemed on such terms and in such manner as we, before the issue of the shares, may determine by special resolution of the shareholders.

There are no provisions in the Articles of Association which discriminate against any existing or prospective shareholder as a result of such shareholder owning a substantial number of shares.

Subject to the terms of the shares which have been issued, the directors may from time to time make calls upon the shareholders in respect of any moneys unpaid on their shares, provided that (subject to the terms of the shares so issued) no call on any share shall be payable at less than fourteen clear days from the last call. The directors may, if they see fit, receive from any shareholder willing to advance the same, all and any part of the moneys uncalled and unpaid upon any shares held by him.

Voting rights

Every holder of ordinary shares present in person at a meeting of shareholders has one vote on a vote taken by a show of hands. On a poll, every holder of ordinary shares who is present in person or by proxy has one vote for every ordinary share of which he or she is the holder. Voting at any meeting of shareholders is by a show of hands unless a poll is properly demanded before the declaration of the results of a show of hands. A poll may be demanded by:

- the chairman of the meeting;
- at least three shareholders present in person or by proxy and entitled to vote;
- any shareholder or shareholders present in person or by proxy representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting; or
- any shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which the aggregate sum paid up is equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Dividends

Holders of ordinary shares are entitled to receive dividends out of our profits that are available by law for distribution, as we may declare by ordinary resolution, subject to the terms of issue thereof. However, no dividends may be declared in excess of an amount recommended by the board of directors. The board may pay interim dividends to the shareholders as it deems fit. We may invest or otherwise use all dividends left unclaimed for six months after having been declared for our benefit, until claimed. All dividends unclaimed for a period of twelve years after having been declared will be forfeited and revert to us.

The directors may, with the sanction of an ordinary resolution of the shareholders, offer any holders of ordinary shares the right to elect to receive ordinary shares credited as fully paid, in whole or in part, instead of cash in respect of such dividend.

The directors may deduct from any dividend payable to any shareholder all sums of money (if any) presently payable by that shareholder to us on account of calls or otherwise in relation to our shares.

Liquidation rights

In the event of our liquidation, after payment of all liabilities, our remaining assets would be used to repay the holders of ordinary shares the amount they paid for their ordinary shares. Any balance would be divided among the holders of ordinary shares in proportion to the nominal amount of the ordinary shares held by them.

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Other provisions of the articles of association

Whenever our capital is divided into different classes of shares, the special rights attached to any class may, unless otherwise provided by the terms of the issue of the shares of that class, be varied or abrogated, either with the written consent of the holders of three-fourths of the issued shares of the class or with the sanction of a special resolution passed at a separate meeting of these holders.

In the event that a shareholder or other person appearing to the board of directors to be interested in ordinary shares fails to comply with a notice requiring him or her to provide information with respect to their interest in voting shares pursuant to section 820 of the Act, we may serve that shareholder with a notice of default. After service of a default notice, that shareholder shall not be entitled to attend or vote at any general meeting or at a separate meeting of holders of a class of shares or on a poll until he or she has complied in full with our information request.

If the shares described in the default notice represent at least one-fourth of 1% in nominal value of the issued ordinary shares, then the default notice may additionally direct that in respect of those shares:

- we will not pay dividends (or issue shares in lieu of dividends); and

- we will not register transfers of shares unless the shareholder is not himself in default as regards supplying the information requested and the transfer, when presented for registration, is in such form as the board of directors may require to the effect that after due and careful inquiry, the shareholder is satisfied that no person in default is interested in any of the ordinary shares which are being transferred or the transfer is an approved transfer, as defined in our articles of association.

No provision of our articles of association expressly governs the ordinary share ownership threshold above which shareholder ownership must be disclosed. Under UK regulations, any person who acquires, either alone or, in specified circumstances, with others an interest in our voting share capital equal to or in excess of 3% (and each percentage point above it) comes under an obligation to disclose prescribed particulars to us in respect of those ordinary shares. A disclosure obligation also arises where a person s notifiable interests fall below the notifiable percentage, or where, above that level, the percentage of our voting share capital in which a person has a notifiable interest increases or decreases.

Limitations affecting holders of ordinary shares or American Depositary Shares (ADSs)

Under English law and our articles of association, persons who are neither UK residents nor UK nationals may freely hold, vote and transfer ordinary shares in the same manner as UK residents or nationals.

With respect to the items discussed above, applicable UK law is not materially different from applicable US law.

Material contracts

Pearson has not entered into any contracts outside the ordinary course of business during the two year period immediately preceding the date of this annual report.

Executive employment contracts

We have entered into agreements with each of our executive directors pursuant to which such executive director is employed by us. These agreements describe the duties of such executive director and the compensation to be paid by us. See Item 6. Directors, Senior Management and Employees Compensation of Senior Management . Each agreement may be terminated by us on 12 months notice or by the executive director on six months notice. In the event we terminate any executive director, excluding the current chief financial officer, without giving the full 12 months advance notice, the executive director is entitled to receive liquidated damages equal to 12 months base salary and benefits together with a proportion of potential bonus. The chief financial officer has no contractual provisions for compensation on termination by the company without notice or cause.

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Exchange controls

There are no UK government laws, decrees, regulations or other legislation which restrict or which may affect the import or export of capital, including the availability of cash and cash equivalents for use by us or the remittance of dividends, interest or other payments to nonresident holders of our securities, except as otherwise described under Tax Considerations below.

Tax considerations

The following is a discussion of the material US federal income tax considerations and UK tax considerations arising from the acquisition, ownership and disposition of ordinary shares and ADSs by a US holder. A US holder is a beneficial owner of ordinary shares or ADSs who is:

- an individual citizen or resident of the US, or
- a corporation created or organized in or under the laws of the US or any of its political subd