Mind expanding business

PEARSON

Annual Review and Summary Financial Statements 2006

Contents

Learn more online...

You'll see this symbol throughout our summary annual review. It points you to more detailed information which is available on our website *www.pearson.com*
For our full annual report, go to *www.pearson.com/investor/ar2006*

Throughout this review (unless otherwise stated):

1. Growth rates are on an underlying basis, excluding the impact of currency movements and portfolio changes. In 2006, currency movements reduced sales on a total business basis (including Government Solutions) by £48m and profits by £7m, while portfolio changes increased sales by £197m and profits by £17m.

2. The business performance measures, which Pearson uses alongside other measures to track performance, are non-GAAP measures for both US and UK reporting. Reconciliations of operating profit, adjusted earnings per share and operating free cash flow to the equivalent statutory heading under IFRS are included in notes 2, 7, 9 and 31 of the Governance and Financial Statements 2006.

3. Dollar comparative figures have been translated at the year end rate of $1.96: £1 sterling for illustrative purposes only.

Pearson is a world leader in education, business information and consumer books. Our businesses expand the mind and fire the imagination.

Our goal is to make our businesses more valuable to our customers and to our shareholders. These past few years, we've done that by investing in content, technology, international expansion and efficiency. That strategy paid off again in 2006, with Pearson's best ever results.

Record results

Sales
£4,423m / $8,669m
+4%

Adjusted operating profit
£592m / $1,160m
+15%

Adjusted earnings per share
40.2p / 78.8¢
+18%

Operating cash flow
£575m / $1,127m
+1%

Return on invested capital
8.0%
+1.3% pts

Dividend
29.3p / 57.4¢
+8.5%

Chairman's Statement

Dear shareholder,

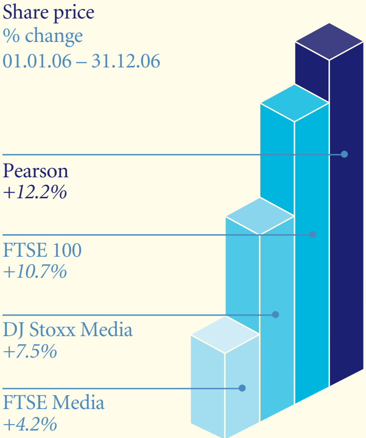
Last year, in my first letter to shareholders, I said that my personal focus as chairman of Pearson would be to help build long-term shareholder value. That focus continues, as does our belief that the key to long-term value is growth in earnings and returns on your capital.

Pearson delivered that growth again in 2006. Our earnings per share increased 18%, and our return on invested capital improved to 8% (above our weighted average cost of capital for the first time in many years).

This growth has produced a good year for Pearson shareholders. The value of your Pearson shares increased by 12% in 2006, a bit better than the UK market as a whole (the FTSE 100 was up 11%) and well ahead of the media sector (the FTSE Media index was up 4%). With growing dividends, our total return to shareholders over the year was 16%.

It is always difficult to identify the reasons for short-term share price movements, but I have little doubt that Pearson's improved performance has led to our share price trading in a higher range over the past year or so. I also believe that long-term growth will continue to be the driver to increased value in your Pearson shares.

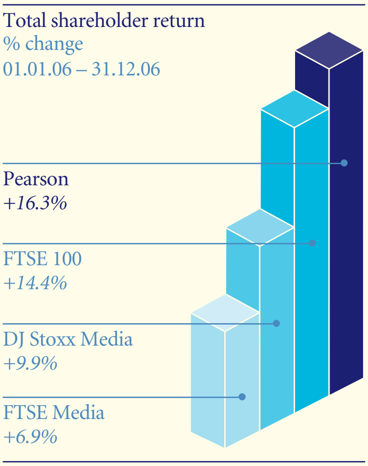
Share price
% change
01.01.06 – 31.12.06



These financial results reflect our success in serving our customers. Pearson's businesses are dedicated to improving peoples' lives through education, information and insight. We work to provide high quality, innovative products and services, using our scale and technology to reach a growing universe of customers.

2006 was another good year for Pearson's businesses, as Marjorie describes later in this report. Once again, our businesses grew ahead of their industries – the surest sign of their competitive advantage. Once again, they improved their profitability, with our margins improving by one percentage point to 13.4%. And once again, our cash generation was strong, at £575m or 97% of operating profit.

These are excellent results, and everyone in Pearson deserves credit for them. On all of those measures, we see a lot more potential ahead.



We've also made some important strategic moves in the past 12 months. We've talked a lot about strategic flexibility; about the need for Pearson to anticipate changes in its markets and constantly to adapt to them.

Over the course of 2006, we acquired 12 new companies. Each one was relatively small, but each one brings us new opportunities for growth in sales, profitability and value. They all either build on our existing skills or take us into new market segments – teacher certification, school software, Italian education publishing, business intelligence.

The returns on those kind of acquisitions are strong. Between 2002 and 2006, we've made more than 20 of these smaller acquisitions at a total cost of $1.4bn. That investment is today generating a return on invested capital of 12%, including all the costs of integrating the businesses. This is an excellent way for Pearson to deploy its capital to increase shareholder value.

The cost of these acquisitions in 2006 was £363m. At the same time, we raised more than £300m from the sale of our Government Solutions business in February 2007. A fine business in its own right, it had grown away from Pearson's focus on education and information. We wish its employees and its new owners every success.

Learn more online...

For details of the companies we acquired in 2006, and the Government Solutions sale, visit *www.pearson.com*

This kind of strategic flexibility will remain important to us. The media industry continues to change at a breathtaking pace, as technology changes customer expectations of how content should be delivered and paid for. The board believes Pearson is well positioned, with its leading market positions, strong brands, unique content and increasingly successful new digital product models.

In my first year here, I've learnt that Pearson is a company that can inspire a special commitment and loyalty from its people, from its customers and from its shareholders.

Thank you for that. We intend to repay that loyalty with continued focus on building shareholder value.

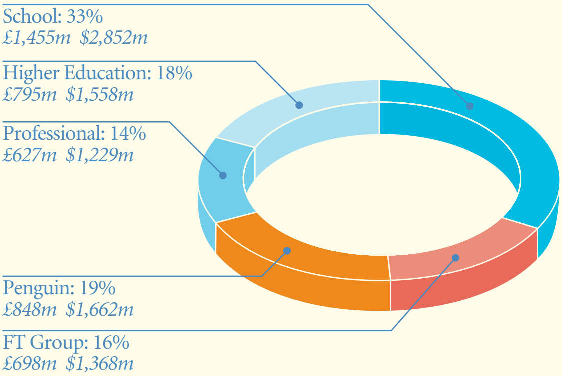
Glen Moreno, *Chairman*

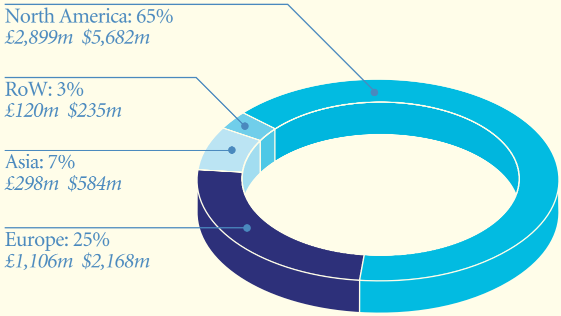
Financial Highlights

	2006		2005			
	£m	*$m*	£m	*$m*	Headline growth %	Underlying growth %
Business performance						
Sales	4,423	*8,669*	4,096	*8,028*	8	4
Adjusted operating profit	592	*1,160*	506	*992*	17	15
Adjusted profit before tax	502	*984*	422	*827*	19	–
Adjusted earnings per share	40.2p	*78.8¢*	34.1p	*66.8¢*	18	–
Operating cash flow	575	*1,127*	570	*1,117*	1	–
Free cash flow	433	*849*	431	*845*	–	–
Return on invested capital	8.0%	–	6.7%	–	1.3% pts	0.6% pts
Net debt	1,059	*2,076*	996	*1,952*	(6)	–
Statutory results						
Sales	4,137	*8,109*	3,808	*7,464*	9	–
Operating profit	540	*1,058*	516	*1,011*	5	–
Profit before tax	466	*913*	446	*874*	4	–
Basic earnings per share	55.9p	*109.6¢*	78.2p	*153.3¢*	(29)	–
Basic earnings per share – continuing	54.1p	*106.0¢*	38.9p	*76.2¢*	39	–
Cash generated from operations	621	*1,217*	653	*1,280*	(5)	–
Dividend per share	29.3p	*57.4¢*	27.0p	*52.9¢*	9	–

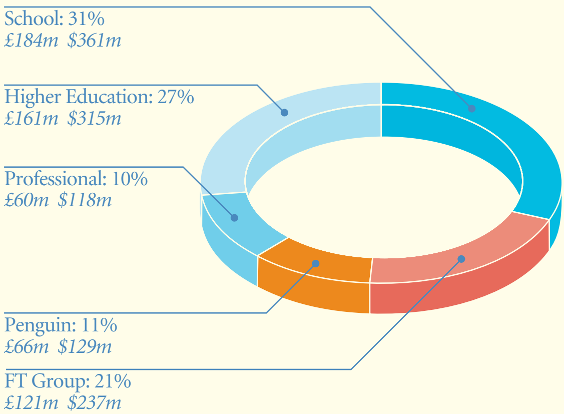
Throughout this review we refer to business performance measures for total operations (including Pearson Government Solutions) and growth rates on an underlying basis (i.e. excluding currency movements and portfolio changes) unless otherwise stated. The business performance measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes to the accounts 2, 7, 9 and 31 of the Governance and Financial Statements 2006. The sales and profit measures within business performance include the results of Pearson Government Solutions for both years. Pearson Government Solutions is treated as a discontinued operation within statutory results. Additionally, profit measures within business performance are presented on an adjusted basis to exclude: i) other gains and losses arising in connection with the sale of subsidiaries, associates and other financial assets; ii) amortisation of acquired intangible assets; iii) short-term fluctuations in the market value of financial instruments (under IAS 39) and other currency movements (under IAS 21); iv) tax benefits on the recognition of tax losses.

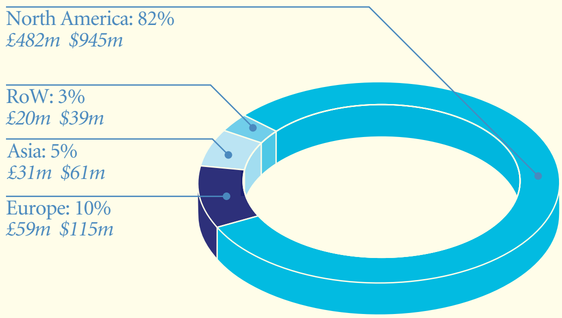
Sales: Total £4,423m *$8,669m*





Adjusted operating profit: Total £592m *$1,160m*





Chief Executive's Review

This past year Pearson passed a number of important milestones, but there are three that may interest you most as shareholders:

1. We produced record results – the highest profits, earnings per share, cash flow and dividends in Pearson's 162-year history.

2. The changes we've been making to the company paid off not only in those strong financial results, but also in the fact that the returns we made were higher than the cost of the capital you've invested in us. In today's business parlance, that's called 'creating value', and we intend to do a lot more of it.

3. It became clearer than ever that the strategy for each one of our businesses is a winner. A resurgent *Financial Times* showed that its international outlook and online capabilities were made-to-measure for this era of globalisation and technological transformation. A buoyant Penguin defied a difficult market and proved that there are always buyers for the world's best books. And a flourishing Pearson Education, through its scale and innovation, helped students of all ages get more out of their formal learning while it was posting its own record profits.

But, important as those achievements are, none of them means that we've achieved our goals or arrived at our destination. We nod to the milestones as we pass them, but we move on at an even faster pace, continuing to invest and to change. It's crucial that we do that, because we're living through a genuine revolution at the heart of what Pearson does: educating, informing and entertaining; provoking the intellect and helping people get on in their lives.

We believe our strategy puts us in a good place to be on the barricades in that revolution – not a victim of it. About ten years ago, we began to focus on 'education' in the broadest sense of the word and to invest to make each one of our businesses a world leader. Our definition of 'leadership' was partly about scale, but more fundamentally about shaping markets with the quality of our content, innovation, technology and our international reach and point of view. We're always revisiting and refining that strategy, but these 2006 results and our sustained momentum give us confidence that the approach is working.

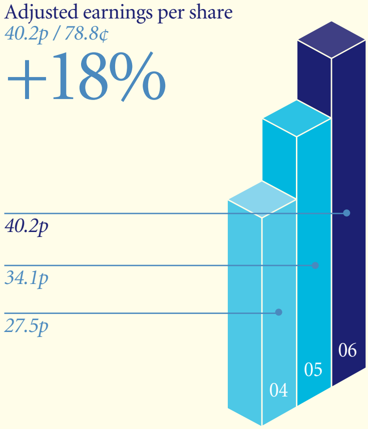
Learn more online...

For details of our 2006 results, visit *www.pearson.com*

Adjusted earnings per share

40.2p / 78.8¢

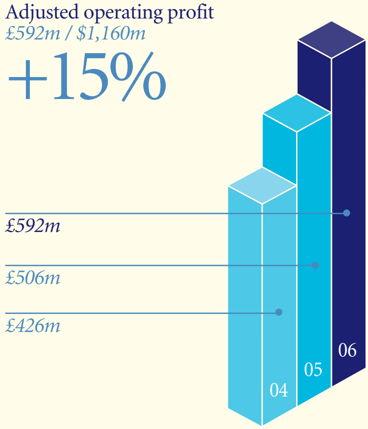
+18%



Adjusted operating profit

£592m / $1,160m

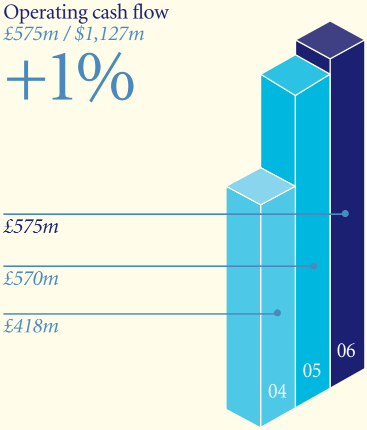
+15%



Operating cash flow

£575m / $1,127m

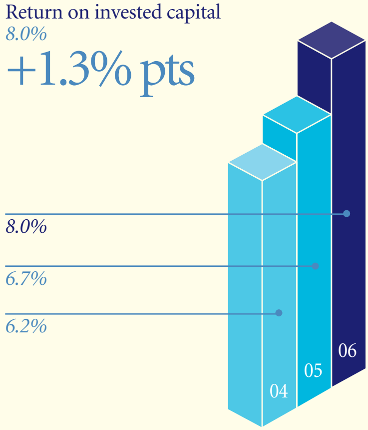
+1%



Return on invested capital

8.0%

+1.3% pts



Learn more online...

To learn more about our world-leading education business, visit *www.pearsoned.com*

Who wins an education revolution?
For some years now, we've planned for the day when technology would transform education, just as it has transformed the worlds of science, medicine, business and finance. We expected that a computer, linked to a network, might be able to solve a problem that has faced every generation of teachers: how can we teach *each* child while keeping order in a class of many? Technology held out the promise of teaching that could adapt to the learning pace and needs of each child.

That was an alluring dream – both as an educational proposition and as a business opportunity – and we began to invest in it about ten years ago. We became the world's leading publisher of educational materials, and then a few years later we added America's leading educational testing and technology company. Those three parts – content, assessment, technology – were the basic building blocks that we needed to personalise learning; to put in place a way to help education that's already almost universally available finally become universally *effective*.

Like most revolutions, it took a while to foment. But today, you can see the signs that it's well under way:

1. Governments are putting personalised education at the centre of their plans for improving their students' performance. While the US government calls its education agenda 'No Child Left Behind', its UK counterpart talks of 'personalised learning'; but they mean the same thing.

2. Students and their teachers – especially the new generation that grew up with technology – are embracing it as a way to enliven learning and to help schools, teachers and students all be more productive.

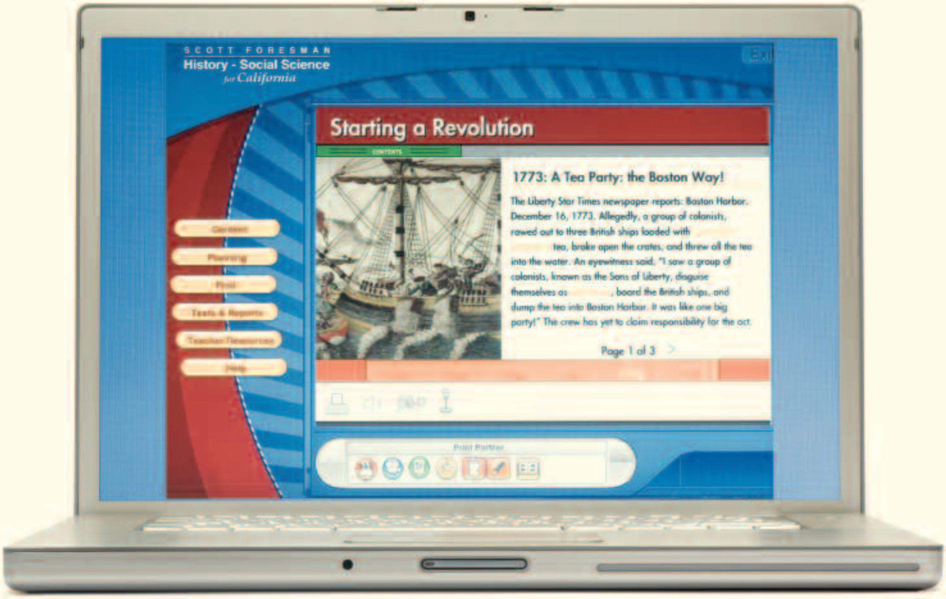
3. The competitive landscape is changing fast. In the past six months, four of the world's six largest education companies have been put up for sale, citing the need to invest in scale and technology to go to the next stage.

We've already made that investment; it helped us pass those milestones. Our School business, which grew sales by 16% in 2005, grew another 6% last year. While the US publishing market and our competitors declined, we grew in publishing, testing and technology, and benefited from a pretty unique breadth of content and services.

At the same time, our Higher Education business grew 4%, propelled by its pioneering online services for college students that have proven over time they really help learning. In the past eight years, the US Higher Education industry has grown at an average rate of 4%, while our business has grown at 7%.

Pearson Education 2006 highlights

Sales up 4% to £2.9bn
Operating profit up 12% to a record £405m
Market share gains in US School and Higher Education publishing
$1bn of sales in School and Professional testing
Approximately $1.1bn of technology revenues – more than 20% of education sales



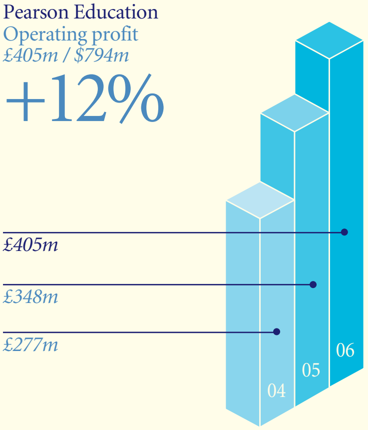
The future of history.

In 2006, when the state of California invited publishers to submit proposals for new textbooks in history and social studies, we tried something new.

We provided a complete digital curriculum, allowing teachers to create lessons from a rich mix of videos, class exercises, tests and digital books. This innovative approach swept the state, taking a market share of more then 40%, and the programme is in use by half of California's elementary students. We're now extending this new digital model to new subjects and new states.

Pearson Education
Operating profit
£405m / $794m

+12%



And last year our Professional education business grew again too, buoyed by the newer businesses we've been building to test and certify professionals, from nurses to potential MBA students to securities dealers. That business has doubled its sales in the past two years alone.

In fact, all parts of our education business did well in 2006, helped by a welcoming attitude toward change and investment. Combined, they produced record profits of £405m, an increase of 12% on 2005. In fact, over the decade we've been building this business, its sales have increased five-fold and its profits six-fold.

And it will continue to grow as the revolution grows. It will propel Pearson forward and help us achieve our goals, both for the company and for the world that surrounds us. In a competitive global economy, all nations share the need to have education and skills, and to sharpen them constantly.

Around the world, governments, educational institutions and individuals are investing – sometimes at great sacrifice – in education. It's no wonder they have only one measure of return on that investment – the success of the student. Our business, with its mix of learning content, technology and assessment, is built to help achieve that return. That's the goal of the revolution in education that, so far, we're winning. But we're only sure to sustain our lead if we remember that the real winners of a revolution in education will be the student and society.

Who killed the newspaper?

All the time we've been changing the shape of Pearson, we've placed great emphasis on its culture. We believe that what a company stands for and how it behaves is critical to its success. One of the things we prize most highly is editorial independence. Pearson has a long history of honouring and defending the rights of editors to decide what books Penguin should publish; what materials are worthy of inclusion in a school book; what the FT's position should be on issues of the day.

So in one way we were proud not too long ago when *The Economist* (of which Pearson owns 50%) dedicated its cover to asking: *Who killed the newspaper?* In that issue it analysed, with all its accustomed probity, wit and style, the issues facing the newspaper industry: a proliferation of news sources; information freely available on the internet; young consumers turning to other forms of media.

The bucks start here.

For the best analysis of global trade, companies and finance, business people and investors turn to the *Financial Times*. Over the past ten years, we have transformed it from a UK business newspaper into a truly international media franchise. Today, two-thirds of its circulation comes from outside the UK and around half of its advertising is booked to run in all four regional editions of the newspaper worldwide. The FT has a unique platform to build its position as the gold standard for international business news in the era of globalisation. In 2006, with circulation increasing and international advertising growing strongly, the newspaper posted an £11m profit – up from £2m in 2005.

Learn more online...

For the FT's global news and analysis throughout the day, visit *www.ft.com*

Yet *The Economist* bashfully omitted telling its own story in that article. It's a newspaper (a weekly, and probably not called a newspaper by anyone but itself anymore) that has swum against the tide. Its circulation has doubled in the past 12 years to reach 1.2m in 2006; and its relevance as a commentator has never been greater or more in demand around the world.

For another example, take the *Financial Times*. It's a newspaper that we've transformed from a domestic business daily into an international service, selling more than two-thirds of its pink copies outside the UK and publishing through the day online. In fact, it's been a digital newspaper pioneer, with a highly popular and helpfully profitable online presence in FT.com and a new way of working that allows journalists, readers and advertisers to switch seamlessly from print to digital and back again.

Those advantages weren't developed enough to prevent the FT from suffering, along with the rest of the industry, from a savage advertising slump between 2000 and 2004. But in the past two years they've gotten more powerful, and the paper has emerged from those dark times faster and fitter than many of its rivals, contributing once again in a meaningful way to Pearson's profits.

So while parts of the newspaper industry may be dying – or at least feeling a little grey – our global newspaper is actually in the pink thanks to these advantages:

1. First of all, it's a well-known and special brand, built on a century-long record of independence and authority. It stands for insight, comment and analysis in an era when reporting what happened yesterday has become a commodity. It provides services that are hard for the search engines and content aggregators of the digital world to replicate: *judgement* about what in the world deserves attention; and *serendipity* – that chance discovery of something that provokes wonder.

2. Most of all, its success is based on the fact that it is truly global, in its worldview as much as in its influence and reach. (While demand for newspapers is slowly declining in developed markets, it is actually on the rise in developing countries around the world, including China and India.)

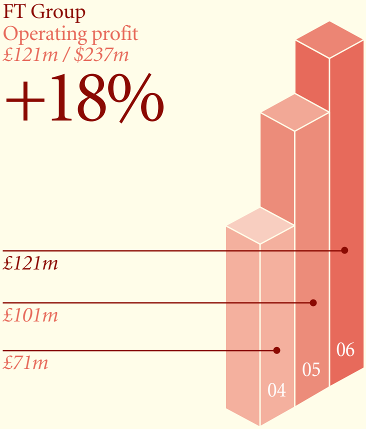
The *Financial Times* attracts an elite audience of influential and affluent leaders in business, financial and political life – and that audience resides at addresses all around the world. Because of that, among a constellation of media channels with fragmented groups of followers, it still offers advertisers a highly targeted and effective medium for connecting with the people who run the world.

FT Group 2006 highlights

- Sales up 6% to £698m
- Operating profit up 18% to £121m
- *Financial Times* increases profit to £11m (from £2m in 2005)
- Circulation growing at the FT, *Les Echos*, *FT Deutschland* and *The Economist*
- IDC reports record profits of £89m, up 9%

FT Group
Operating profit
£121m / $237m

+18%



Today about half of the FT's advertising sales come from global packages – pages bought simultaneously in every edition around the globe.

But the FT hasn't stopped at refining and reinvigorating its global newspaper. It's added to that a number of new editorial-led services – most recently through the acquisition of Mergermarket, an online service that helps finance and other interested professionals predict and track mergers and acquisitions and other market events.

All those special advantages helped the FT Group increase its profits by 18% to £121m last year. Within that was steady growth from IDC, our ever-dependable financial data company. And FT Publishing, our group of business newspapers, magazines and online services, saw profits jump by more than half as cost reductions paid off and as advertising revenues returned.

With those advantages, the FT Group's good progress can continue. There's a new team there, and their plans include some simple approaches to sustain growth: increasing revenues from readers (who are more constant than advertisers); enhancing online services; continuing to grow around the world, and to *be* global; and integrating the financial publishing businesses ever more closely.

With those changes, we expect FT Publishing to increase its profitability once again this year. Our goal is to move its margins into double digits (from 8.7% in 2006), and to make those margins sustainable through the inevitable swings of the advertising cycle. Our goal is *not* to spend time looking for a murderer, because there's no corpse – this newspaper is alive and well.

Learn more online...

For more information about Penguin, its books, its authors and its online innovations, visit *www.penguin.com*

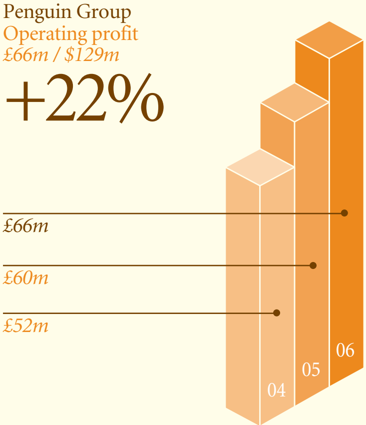
Who has time to read?

The book publishing business might look like the one corner of the media world that's been left relatively untouched by the digital revolution. While downloads and MP3 players have changed the music industry forever, the popular paperback invented by Penguin's founder Allen Lane back in the 1930s appears still to be a convenient and enduring format for a certain kind of entertainment.

But that's just part of the story. It's true that the digital distribution of books and the digital distribution of content from books have been very slow to develop. Electronic books (books down-loaded onto some kind of device, like your PC or a PDA) represent a tiny fraction of the industry's sales so far. Although a new generation of e-book reading devices could yet change everything, it looks for the moment as though books retain more consumer appeal than downloadable text.

Penguin Group
Operating profit
£66m / $129m

+22%



There are, however, plenty of behind-the-scenes ways that digital technology is remaking the book business out of all recognition – less obvious, but no less significant ways. In fact, it changes every area of book publishing: how we create content, how we store it, sell it, licence it, manufacture it and protect it.

Communication with book readers, centred on a particular author or title or publishing genre, has been changed, too. It's become more direct, more immediate and more personal. The audio book is making a comeback, made relevant again to a mass audience through iPods and other MP3 players. And the giant search engines do offer the promise of new ways for readers to discover authors and books – so long as they recognise the ownership rights of the content creators.

This past year, Penguin continued to imagine this future and to invest in and participate in the digital world. It saw rapid growth of around 30% in online sales, through specialist retailers like Amazon and through its own websites. It sold travel guides in small chunks and some novels on subscription, chapter-by-chapter. It used the internet to get communities talking about books, and it even convened an online audience of some 60,000 to collaborate on a novel.

But while all that digital innovation was going on, Penguin also continued to excel at what it has done best for the past 70 years. It simply published the best books in the world, logging a record number of bestsellers and winning a remarkable string of awards. Behind that it became more efficient, making higher margins, using less working capital and delivering a seamless supply chain performance.

Those efforts meant that, as Penguin gained share in the US and the UK last year, margins moved ahead and profits rose 22%, to £66m.

We've made some important changes at Penguin over the past few years. The consumer publishing market grows at a modest but steady rate and publishers bear the risks of paying authors upfront for their works and then taking back books that retailers can't sell. So our aim is to produce rising margins, profits and cash, while investing in publishing that spreads our risk across a wider portfolio of authors and genres and makes the very most of our long, deep backlist.

That strategy, coupled with Penguin's publishing excellence and its readiness for the digital world, means that it should continue to grow profits steadily over the next few years, taking advantage of the fact that, in the US alone, more than 4,000 books are sold every minute of every day. Someone out there loves reading.

Penguin Group 2006 highlights

- Sales up 3% to £848m
- Operating profit up 22% to £66m
- Record bestseller performance: 139 *New York Times* bestsellers in the US and 59 BookScan Top Ten bestsellers in the UK
- Rapid growth in India, China and South Africa
- Successful innovation in digital marketing and new product models

You can win them all.

Around the world, Penguin authors won unprecedented critical acclaim in 2006. They scooped the Pulitzer Prize for Fiction (Geraldine Brooks for *March*); a National Book Critics Circle Award (Francine du Plessix Gray for *THEM: A Memoir of Parents*); two Orange Prizes (Zadie Smith for *On Beauty* and Naomi Alderman for *Disobedience*); two Whitbread Prizes (Ali Smith for *The Accidental* and Hilary Spurling for *Matisse: the Master*) and the Man Booker Prize for Fiction (Kiran Desai for *The Inheritance of Loss*). Publishing successes like these helped Penguin to a record year for bestsellers with 139 books on the *New York Times* bestseller list and 59 titles in the BookScan Top Ten bestseller list in the UK.

Food for thought.

All Pearson's businesses depend on children and adults wanting to read – for business, for education or for pleasure. So our charitable activities centre on projects that inspire the joy of reading. In the US, we helped our partner Jumpstart set a new record for the world's biggest ever shared reading event. On 24 August 2006, more than 150,000 children and adults read the classic Penguin book, *The Little Engine That Could.* And in the UK, we launched a programme to provide a free book to 250,000 five-year-olds as they start school – this year, Lynley Dodd's *Hairy Maclary's Bone* (on which she and her New Zealand publisher generously waived all royalties). In partnership with Booktrust and the UK government, this year we will roll the programme out nationwide.

Who are we?
There's something special about each one of Pearson's businesses. Our customers put their trust in us when they teach from our school or college programs, act on our test results, rely on information, analysis and the intellectual stimulation of our newspapers and books. We know that helping a five-year-old learn to read or helping a business person understand a global context has to be as enriching for those customers as it is for us and for our shareholders, because our strong financial performance will only come if it is the by-product of helping those customers get on in their lives.

For all 29,000 people who work at Pearson, that combination of shareholder, customer and social interests makes it a special privilege and a special responsibility to come to work every day. It gives us the steam to go the second and third mile.

We're very proud of all we achieved in 2006. It was a year when we made as much progress on our mission of educating, informing and entertaining as we did on our financial goals; and a year when we began to realize the competitive advantages of scale and strategy we have.

But we're now heading toward our goals for 2007 as if we were the underdog. That's the kind of spirit and imagination we need if we want to continue to lead a revolution in our markets and at the same time make exciting returns for all who count on us. And in the lead is where we intend to be.

Marjorie Scardino, *Chief executive*

Our Business and Society

Welcome to our report on 'Our Business and Society' for 2006. As one of the world's leading publishing companies, we combine a commitment to achieve our commercial goals with a dedication to a wider public trust. In addition to our core business of educating, informing and entertaining, we run a global programme of CSR activities which you can read about in our full report at www.pearson.com/community/csr_report2006

Each year we set ourselves targets to help us become the kind of company we strive to be: one that is brave, imaginative and decent. Below you can see how we performed in 2006 (with the detail in our online report) and our targets for 2007.

Our targets for 2006

Continue to advance in the key indices of social responsibility.	Achieved
Examine ways to minimise the environmental impact of book packaging.	Ongoing
Extend our environment and labour standards auditing to our printers in South Africa and Latin America.	Achieved
Continue our drive for independently verified certification to ensure the suitability of paper we purchase for our books and newspapers – this will expand to include jackets and covers.	Achieved
Conduct our biennial employee survey.	Achieved
Continue to recruit and promote people from diverse backgrounds and increase the number of women in senior management roles.	Ongoing
Introduce networking groups in the UK and US to develop future leaders and retain key employees.	Ongoing
Conduct a full evaluation of the pilot of our UK community programme and, subject to that, roll out the project more widely.	Achieved
Continue to develop our partnership with Jumpstart in the US, to support and encourage college students to become teachers.	Achieved

Learn more online...

For our full report on 'Our Business and Society' go to *www.pearson.com/community/csr_report2006*

While we are pleased with our progress, we are constantly reminded how much more there is to do and nowhere more so than on the issue of climate change. (In 2007 we will publish a special version of Al Gore's *An Inconvenient Truth* for young readers.) We have an ongoing target to reduce our carbon emissions and have begun the process of becoming a climate neutral company. Penguin UK has become the first of our businesses to start to offset its carbon usage (see www.greenpenguin.co.uk) and we are now at work on both sides of the Atlantic on plans for the rest of our companies to follow suit. Our goal is to have completed the process by the end of 2009.

As always, we welcome any comments or questions. Please e-mail me at david.bell@pearson.com

Our plans for 2007

Maintain our position in the key indices of social responsibility.
Expand the environmentally friendly book packaging options to distribution centres outside our key markets of the US and UK.
Continue our environmental and labour standards auditing programme with our printers in Asia, the Far East and parts of continental Europe.
Continue to advance our programme for independent certification of the paper we purchase for our books and newspapers.
Continue the process of becoming a climate neutral company with a view to completing that process globally by 2009.
Continue our commitment to build a truly international business by helping more of our people experience a new country on a short-term assignment, with our developing markets as a priority.
Show evidence of progress in retention of people with diverse backgrounds for both entry level and management positions.
Launch the Pearson Foundation Development Fund to support our businesses in their work with community-based programmes around the world.
Work with the UK government to extend our flagship community programme Booktime and build on the success of Read for the Record with Jumpstart in the US.

David Bell, *Director for people*

Board of Directors

Chairman
Glen Moreno†• chairman, aged 63, was appointed chairman of Pearson on 1 October 2005. He is the senior independent non-executive director of Man Group plc and also a director of Fidelity International Limited and a trustee of The Prince of Liechtenstein Foundation.

Executive directors
Marjorie Scardino• chief executive, aged 60, 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 a non-executive director of Nokia Corporation.

David Bell director for people, aged 60, became a director of Pearson in March 1996. In 1998 he was appointed Pearson's director for people with responsibility for the recruitment, motivation, development and reward of employees. He is also chairman of The Financial Times Group, a non-executive director of VITEC Group plc and chairman of Sadlers Wells and Crisis, a charity for the homeless.

Rona Fairhead chief executive of The Financial Times Group, aged 45, joined the Pearson board in June 2002 as chief financial officer. She was appointed chief executive of The Financial Times Group in June 2006. From 1996 until 2001, she worked at ICI, where she served as executive vice president, group control and strategy. She is also a non-executive director of HSBC Holdings plc.

Robin Freestone chief financial officer, aged 48, 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), having joined Amersham as chief financial officer of their health business in 2000. Prior to that he held a number of senior financial positions with ICI, Zeneca and Henkel. He is also a non-executive director of eChem Limited.

John Makinson chairman and chief executive officer of The Penguin Group, aged 52, 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 Interactive Data Corporation and a non-executive director of George Weston Limited in Canada.

Non-executive directors
David Arculus*†• aged 60, is a non-executive director of Telefonica SA and was previously chairman of O2 plc from 2004 until it was acquired by Telefonica at the beginning of 2006. His previous roles include chairman of 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.

Terry Burns†• aged 62, has been chairman of Marks and Spencer Group plc since July 2006, having previously been deputy chairman from October 2005. He is chairman of Abbey National plc and a non-executive director of Banco Santander Central Hispano. He is also chairman of Glas Cymru Limited. He was the UK government's chief economic adviser from 1980 until 1991 and Permanent Secretary of HM Treasury from 1991 until 1998. He was appointed a non-executive director of Pearson in May 1999 and senior independent director in February 2004.

Patrick Cescau*• aged 58, is group chief executive of Unilever. He became a non-executive director of Pearson in April 2002.

Susan Fuhrman*• aged 62, is president of Teachers College at Columbia University, America's oldest and largest graduate school of education. She was previously dean of the Graduate School of Education at the University of Pennsylvania. She is a member of the Board of Trustees of the Carnegie Foundation for the Advancement of Teaching and an officer of the National Academy of Education. She became a non-executive director of Pearson in July 2004.

Ken Hydon*• aged 62, is a non-executive director of Tesco plc, Reckitt Benckiser plc and Royal Berks NHS Foundation Trust. 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.

Rana Talwar†• aged 58, was previously group chief executive of Standard Chartered plc. He is chairman of Sabre Capital Worldwide and Centurion Bank and a non-executive director of Schlumberger Limited and Fortis Bank. He became a non-executive director of Pearson in March 2000.

* A member of the audit committee.
† A member of the personnel committee.
• A member of the nomination committee.

Consolidated Income Statement
Year ended 31 December 2006

All figures in £ millions	2006	2005
Continuing operations		
Sales	4,137	3,808
Cost of goods sold	(1,917)	(1,787)
Gross profit	2,220	2,021
Operating expenses	(1,704)	(1,559)
Other net gains and losses	–	40
Share of results of joint ventures and associates	24	14
Operating profit	540	516
Finance costs	(133)	(132)
Finance income	59	62
Profit before tax	466	446
Income tax	(11)	(116)
Profit for the year from continuing operations	455	330
Discontinued operations		
Profit for the year from discontinued operations	14	314
Profit for the year	469	644
Attributable to:		
Equity holders of the company	446	624
Minority interest	23	20
Earnings per share from continuing and discontinued operations	55.9p	78.2p
Earnings per share from continuing operations	54.1p	38.9p

Consolidated Balance Sheet
As at 31 December 2006

All figures in £ millions	2006	2005
Non-current assets		
Property, plant and equipment	348	384
Intangible assets	3,581	3,854
Investments in joint ventures and associates	20	36
Deferred income tax assets	417	385
Financial assets – Derivative financial instruments	36	79
Other financial assets	17	18
Other receivables	124	108
	4,543	4,864
Current assets		
Intangible assets – Pre-publication	402	426
Inventories	354	373
Trade and other receivables	953	1,031
Financial assets – Derivative financial instruments	50	4
Financial assets – Marketable securities	25	–
Cash and cash equivalents (excluding overdrafts)	592	902
	2,376	2,736
Non-current assets classified as held for sale	294	–
Total assets	7,213	7,600
Non-current liabilities		
Financial liabilities – Borrowings	(1,148)	(1,703)
Financial liabilities – Derivative financial instruments	(19)	(22)
Deferred income tax liabilities	(245)	(204)

All figures in £ millions	2006	2005
Retirement benefit obligations	(250)	(389)
Provisions for other liabilities and charges	(29)	(31)
Other liabilities	(162)	(151)
	(1,853)	(2,500)
Current liabilities		
Trade and other liabilities	(998)	(974)
Financial liabilities – Borrowings	(595)	(256)
Current income tax liabilities	(74)	(104)
Provisions for other liabilities and charges	(23)	(33)
	(1,690)	(1,367)
Liabilities directly associated with non-current assets classified as held for sale	(26)	–
Total liabilities	(3,569)	(3,867)
Net assets	3,644	3,733
Equity		
Share capital	202	201
Share premium	2,487	2,477
Reserves	787	886
Total equity attributable to equity holders of the company	3,476	3,564
Minority interest	168	169
Total equity	3,644	3,733

These summary financial statements, extracted from the full financial statements, have been approved for issue by the board of directors on 9 March 2007 and signed on its behalf by

Robin Freestone, *Chief financial officer*

Consolidated Cash Flow Statement
Year ended 31 December 2006

All figures in £ millions	2006	2005
Cash flows from operating activities		
Cash generated from operations	621	653
Interest and tax paid	(165)	(166)
Net cash generated from operating activities	456	487
Cash flows from investing activities		
Net (acquisitions)/disposals	(357)	175
Net investment in property, plant, equipment and intangibles	(89)	(97)
Interest received	24	29
Dividends received from joint ventures and associates	45	14
Net cash (used in)/generated from investing activities	(377)	121
Cash flows from financing activities		
Proceeds from issue of ordinary shares	11	4
Purchase of treasury shares	(36)	(21)
Net repayments of borrowings	(88)	(82)
Dividends paid (including to minorities)	(235)	(222)
Net cash used in financing activities	(348)	(321)
Effects of exchange rate changes on cash and cash equivalents	(44)	13
Net (decrease)/increase in cash and cash equivalents	(313)	300
Cash and cash equivalents at beginning of year	844	544
Cash and cash equivalents at end of year	531	844

Independent Auditors' Statement to the Members of Pearson plc

We have examined the Summary Financial Statements of Pearson plc which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement and the Summary Report on Directors' Remuneration.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Pearson Annual Review and Summary Financial Statements in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the Pearson Annual Review and Summary Financial Statements with the full Pearson Group Financial Statements, the Directors' Report and the Report on Directors' Remuneration, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Pearson Annual Review and Summary Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements.

This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the full Pearson Group Financial Statements describes the basis of our audit opinion on those Financial Statements and the Report on Directors' Remuneration.

Opinion

In our opinion the Summary Financial Statements are consistent with the full Pearson Group Financial Statements, the Directors' Report and the Report on Directors' Remuneration of Pearson plc for the year ended 31 December 2006 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP *Chartered Accountants and Registered Auditors, London*

9 March 2007

Summary Financial Review

Operating profit Total adjusted operating profit increased by £86m or 17% on a headline basis, to £592m in 2006 from £506m in 2005. Adjusted operating profit excludes amortisation and adjustment of acquired intangibles and other gains and losses on the sale of subsidiaries, joint ventures, associates and other financial assets that are included within continuing operations. For the purposes of our adjusted operating profit we add back the profits from discontinued operations. In 2006 these relate to the disposal of the Group's interest in Government Solutions and in 2005 to the disposal of both Government Solutions and Recoletos.

Statutory operating profit increased by £24m or 5%. This was a lower increase than seen in the adjusted operating profit due to an increased intangible amortisation charge and the absence of the Marketwatch profit on disposal recorded in 2005.

Net finance costs Net finance costs reported in our adjusted earnings comprise net interest payable and net finance income relating to post-retirement plans. Net interest payable in 2006 was £94m, up from £77m in 2005. Although we were partly protected by our fixed rate policy, the strong rise in average US dollar floating interest rates had an adverse effect. Year on year, average three month LIBOR (weighted for the Group's borrowings in US dollars, euros and sterling at the year end) rose by 1.5% to 4.9%. Combining the rate rise with an increase in the Group's average net debt of £40m, the Group's average net interest rate payable rose by 1.1% to 7.0%. In 2006 the net finance income relating to post-retirement plans was an income of £4m compared to a cost of £7m in the previous year, giving an overall net finance cost reflected in adjusted earnings of £90m in 2006 compared to £84m in 2005.

Our interest charge in 2007 will reflect the receipt of the sale proceeds from Government Solutions, a £100m cash payment into our UK Group pension plan, and higher interest rates.

Taxation The tax rate on adjusted earnings increased slightly from 30.3% in 2005 to 30.9%. Our overseas profits, which arise mainly in the US, are generally subject to tax rates which are higher than the UK corporation tax rate of 30%. But this factor was again offset by releases of provisions following further progress in agreeing our tax affairs with the authorities and reassessment of the provisions required for uncertain items.

For 2007, we expect our effective tax rate on adjusted earnings per share to be in the 28-30% range. Our tax position benefits from deductions relating to amortisation of goodwill arising on acquisitions, and from 2007 we will reflect these deductions in adjusted earnings per share. The amount of tax paid (£59m in 2006) is not affected.

The reported tax charge on a statutory basis of £11m represents just over 2% of reported profits. This low tax rate was mainly accounted for by two factors. First, in the light of the announcement of the disposal of Government Solutions, we are required to recognise a deferred tax asset in relation to capital losses in the US where previously we were not confident that the benefit of the losses would be realised prior to their expiry. Second, in the light of our trading performance in 2006 and our strategic plans, together with the expected utilisation of US net operating losses in the Government Solutions sale, we have re-evaluated the likely utilisation of operating losses both in the US and the UK; this has enabled us to increase the amount of the deferred tax asset carried forward in respect of such losses. The combined effect of these two factors was to create a non-recurring credit of £127m.

The Group's reported statutory tax rate for 2007 is expected to be significantly higher than normal, as a result of the tax on the disposal of Government Solutions; taxable profit will be higher than the statutory profit expected to be reported, although actual cash tax on the transaction will be substantially reduced by the losses brought forward, recognised in 2006.

Minority interests Following the disposal of our 79% holding in Recoletos and the purchase of the 25% minority stake in Edexcel in 2005, our minority interests now comprise mainly the minority share in IDC. In January 2006 we increased our stake in IDC, reducing the minority interest from 39% to 38%.

Dividends The dividend accounted for in our 2006 financial statements totalling £220m, represents the final dividend (17.0p) in respect of 2005 and the 2006 interim dividend of 10.5p.

We are proposing a final dividend for 2006 of 18.8p, bringing the total paid and payable in respect of 2006 to 29.3p, a 8.5% increase on 2005. This final 2006 proposed dividend was approved by the board in February 2007, is subject to shareholder approval at the forthcoming annual general meeting and will be charged against 2007 profits. For 2006, the dividend is covered 1.4 times by adjusted earnings.

We seek to maintain a balance between the requirements of our shareholders for a rising stream of dividend income and the reinvestment opportunities which we identify around the Group.

In recent years, our dividend policy has been to increase the dividend ahead of the rate of inflation. Looking ahead, the board expects to raise the dividend more in line with earnings growth, while building our dividend cover towards two times earnings.

Pensions Pearson operates a variety of pension plans. Our UK Group plan is by far the largest and includes a significant defined benefit section. We also have some smaller defined benefit plans in the US and Canada. Outside the UK, most of our companies operate defined contribution plans.

The income statement expense for defined benefit plans is determined using annually derived assumptions as to salary inflation, investment returns and discount rates, based on prevailing conditions at the start of the year. We recognise actuarial gains and losses arising when assumptions diverge from reality through the statement of recognised income and expense (SORIE).

Our charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £60m in 2006 (2005: £68m) of which a charge of £64m (2005: £61m) was reported in operating profit and the net finance benefit of £4m (2005: charge £7m) was reported against interest.

Pension funding levels are kept under regular review by the company and the Fund trustees. Following the completion of the latest actuarial valuation of the UK Group pension plan as at January 2006, it was agreed that during 2007 additional payments amounting to £100m would be made by the company to the plan.

Summary financial statements These summary financial statements were approved by the board on 9 March 2007. They do not contain sufficient information to allow for a full understanding of the results and state of affairs of the Pearson Group. For further information, the governance and financial statements of Pearson plc should be consulted. If you have not received the full annual report, but wish to do so, please return the request form attached to your proxy form for the annual general meeting. If, however, you are happy to receive the summary report only (which does include a summary financial statement) you need take no action. The auditors have issued an unqualified report on the financial statements containing no statement under sections 237(2) or 237(3) of the Companies Act 1985.

Summary Report on Directors' Remuneration

This is a summary of the full report on directors' remuneration set out on pages 32 to 51 of the governance and financial statements 2006.

The personnel committee Reuben Mark stood down as chairman of the personnel committee at the annual general meeting in April 2006. He was replaced by David Arculus. Terry Burns and Rana Talwar were the other members during 2006. All members of the committee were independent non-executive directors.

Glen Moreno, chairman of the board, was not a member of the committee during 2006. He joined the committee when this became permissible under the UK Combined Code on 1 November 2006 for accounting periods starting on or after 1 January 2007.

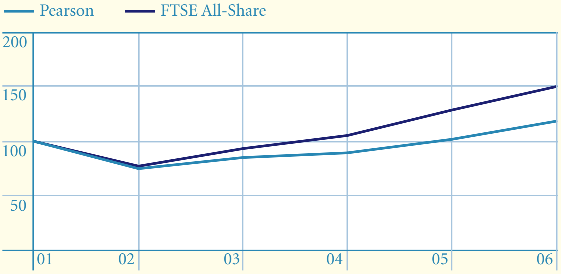
Remuneration policy Pearson seeks to generate a performance culture by operating incentive programmes that support its business goals and reward their achievement. The committee selects performance conditions for the company's various performance-related annual or long-term incentive plans that are linked to the company's strategic objectives and aligned with the interests of shareholders. Share ownership is encouraged throughout the company.

It is the company's policy that total remuneration (base compensation plus short- 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.

Our policy is that the remuneration of the executive directors should be competitive with those of directors and executives in similar positions in comparable companies. We use a range of UK companies in different sectors including the media sector, all of which have very substantial overseas operations, as well as selected media companies in North America. 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.

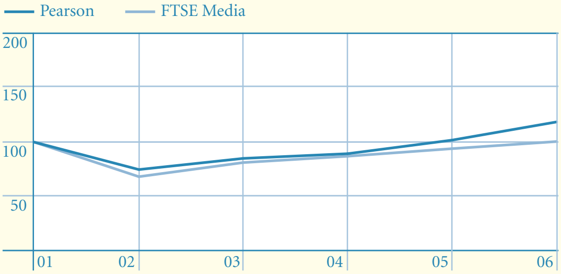
Total shareholder return performance Below, we first set out Pearson's total shareholder return performance relative to the FTSE All-Share index on an annual basis over the five-year period 2001 to 2006. We have chosen this index, and used it consistently in each report on directors' remuneration since 2002, on the basis that it is a recognisable reference point and an appropriate comparator for the majority of our investors.

Total shareholder return



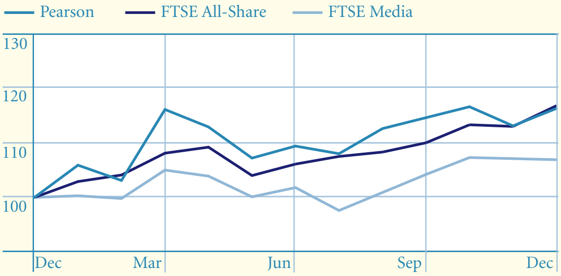
Secondly, to illustrate performance against our sector we show Pearson's total shareholder return relative to the FTSE Media index over the same five-year period.

Total shareholder return



And thirdly, we show Pearson's total shareholder return relative to the FTSE All-Share and Media indices on a monthly basis over 2006, the period to which this report relates.

Total shareholder return



Elements of remuneration

Element	Objective	Structure/performance conditions
Base salary	Reflects competitive market level, role and individual contribution.	Normally reviewed annually taking into account the remuneration of directors and executives in similar positions in comparable companies, individual performance and levels of pay and pay increases throughout the company.
Benefits and allowances	Competitive in the local labour market, also recognising that executives operate worldwide.	Reviewed regularly.
Annual incentives	Motivates achievement of annual strategic goals at both corporate and operating company levels.	Subject to achievement of annual targets for sales, earnings per share or profit, working capital and cash. With the exception of the CEO, 10% of annual incentive opportunity for other members of the Pearson Management Committee is based on performance against personal objectives as agreed with the CEO. For 2007, there are no changes to the executive directors' annual incentive opportunities. For the CEO, the target is 100% of base salary and the maximum is 150%. For the other executive directors and other members of the Pearson Management Committee, the target is up to 75% of salary and the maximum is twice target.
Bonus share matching	Encourages executive directors and other senior executives to acquire and hold Pearson shares and aligns executives and shareholders' interests.	Subject to achievement of three- and five-year targets for earnings per share growth. Permits executive directors and senior executives to invest up to 50% of any after-tax bonus in Pearson shares. If these shares are held and the company's adjusted earnings per share increase in real terms by at least 3% per annum compound, the company will match them on a gross basis of one share for every two held after three years or one share for every one held after five years.
Long-term incentives	Drives long-term earnings and share price growth and value creation. Aligns interests of shareholders, executive directors, other senior executives and managers across the company.	Subject to achievement of three-year targets for relative total shareholder return, return on invested capital and earnings per share growth. Awards vest on a sliding scale based on performance over the period. There is no retesting. Subject to achieving the performance conditions, 75% of the award vests after three years and the remaining 25% of the award only vests if the participant retains the after-tax number of shares that vest at year three for a further two years. The committee establishes each year the expected value of individual awards taking into account assessments by the committee's independent advisers of market practice for comparable companies, directors' total remuneration relative to the market and the potential value of awards should the performance targets be met in full. 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. Where shares vest, participants receive additional shares representing the gross value of dividends that would have been paid on these shares during the performance period and reinvested. The expected value of awards made on this basis takes this into account.

Retirement benefits All but Robin Freestone participate in defined benefit plans, although in the case of Marjorie Scardino and John Makinson, benefit accruals ceased on 31 December 2001. Marjorie Scardino, Rona Fairhead and Robin Freestone participated in defined contribution plans for at least part of the year and the aggregate value of company contributions in 2006 was £615,460.

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. These service agreements provide that the company may terminate these agreements by giving 12 months' notice, and in some instances they specify the compensation payable by way of liquidated damages in circumstances where the company terminates the agreements without notice or cause. We feel that these notice periods and provisions for liquidated damages are adequate compensation for loss of office and in line with the market.

Interests of directors

	Ordinary shares at 1 January 2006 (or date of appointment if later)	Ordinary shares at 31 December 2006 (or date of leaving if earlier)	Restricted shares at 1 January 2006	Restricted shares at 31 December 2006	Share options at 1 January 2006	Share options at 31 December 2006
Glen Moreno	100,000	110,000	–	–	–	–
Marjorie Scardino	184,889	216,777	1,336,015	1,668,675	500,372	460,565
David Arculus (appointed 28 February 2006)	–	1,065	–	–	–	–
David Bell	103,158	122,962	587,829	658,625	163,225	143,804
Terry Burns	5,739	7,097	–	–	–	–
Patrick Cescau	–	2,758	–	–	–	–
Rona Fairhead	43,209	62,593	637,936	750,046	61,904	61,904
Robin Freestone (appointed 12 June 2006)	2,061	2,089	25,000	153,435	1,866	1,866
Susan Fuhrman	2,318	3,830	–	–	–	–
Ken Hydon (appointed 28 February 2006)	5,000	6,065	–	–	–	–
John Makinson	149,466	172,872	642,756	724,562	310,337	252,124
Reuben Mark (resigned 21 April 2006)	16,546	16,908	–	–	–	–
Vernon Sankey (resigned 21 April 2006)	5,285	5,563	–	–	–	–
Rana Talwar	13,103	17,728	–	–	–	–

Note 1 Ordinary shares includes 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.

Note 2 At 31 December 2006, 8,761,458 Pearson ordinary shares of 25p each (and 8,753,437 at 23 February 2007) were held in the Pearson Employee Share Ownership Trust. Of these, the executive directors of the company, as possible beneficiaries, are deemed to be interested in 3,520,843 at 31 December 2006 and 23 February 2007.

Note 3 At 31 December 2006, John Makinson held 1,000 shares in Interactive Data Corporation.

Note 4 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.

Note 5 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 31 December 2006 was 771.5p per share and the range during the year was 670.5p to 810.5p.

Remuneration of the directors

All figures in £000s	2006 Salaries/fees	2006 Bonus	2006 Allowances	2006 Benefits	2006 Total	2005 Total
Chairman						
Glen Moreno	425	–	–	–	425	106
Executive directors						
Marjorie Scardino	830	1,067	50	15	1,962	1,810
David Bell	425	512	0	17	954	972
Rona Fairhead	470	573	0	19	1,062	1,044
Robin Freestone (appointed 12 June 2006)	209	243	0	8	460	0
John Makinson	490	627	183	26	1,326	1,250
Non-executive directors						
David Arculus (appointed 28 February 2006)	51	–	–	–	51	0
Terry Burns	67	–	–	–	67	71
Patrick Cescau	53	–	–	–	53	55
Susan Fuhrman	61	–	–	–	61	55
Ken Hydon (appointed 28 February 2006)	48	–	–	–	48	0
Reuben Mark (resigned 21 April 2006)	20	–	–	–	20	70
Vernon Sankey (resigned 21 April 2006)	17	–	–	–	17	60
Rana Talwar	53	–	–	–	53	55
Total	3,219	3,022	233	85	6,559	5,548
Total 2005 (including former directors)	2,794	2,770	602	77	–	6,243

Note 1 For the full year, Robin Freestone's remuneration was: salary/fees – £315,170; annual incentive – £329,438; benefits – £13,980; total – £658,588.

Note 2 Allowances for Marjorie Scardino include £40,190 in respect of housing costs and a US payroll supplement of £9,646. 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 £183,125 for 2006.

Note 3 Benefits include company car, car allowance and health care. Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur.

Note 4 No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Note 5 The company provided benefits to Dennis Stevenson and Reuben Mark after they stepped down from the board to the value of £22,800 and £17,298 respectively.

Note 6 Patrick Cescau's fee is paid over to his employer.

Shareholder Information

Payment of dividends to mandated accounts

Where shareholders have given instructions for payment to be made direct into a bank or building society, this is done through the Bankers Automated Clearing System (BACS), with the associated tax voucher showing the tax credit attributable to the dividend payment sent direct to the shareholder at the address shown on our register. If you wish the tax voucher to be sent to your bank or building society, please contact Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3986 or, for those shareholders with hearing difficulties, textphone number 0870 600 3950.

Dividend reinvestment plan (DRIP)

The plan provides the benefit of giving shareholders the right to buy the company's shares on the London stock market with the cash dividend. If you would like further information about the DRIP, please contact Lloyds TSB Registrars on 0870 241 3018.

Individual Savings Accounts (ISAs)

Lloyds TSB Registrars offer ISAs in Pearson shares. For more information please call them on 0870 242 4244.

Low cost share dealing facilities

A telephone and internet dealing service has been arranged through Lloyds TSB Registrars which provides a simple way of buying and selling Pearson shares. Commission is 1% with a minimum charge of £25 for telephone dealing and 0.5% with a minimum charge of £15 for internet dealing. For telephone sales call 0870 850 0852 between 8.30 am and 4.30 pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate. A postal facility, which provides a simple, low cost way of buying and selling Pearson shares, is available through the company's stockbroker, JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA. Telephone 020 7588 2828. An alternative weekly postal dealing service is available through our registrars; please telephone 0870 242 4244 for details.

ShareGift

Shareholders with small holdings of shares, whose value makes them uneconomic to sell, may wish to donate them to ShareGift, the share donation charity (registered charity number 1052686). ShareGift is particularly designed to accept unwanted shares and uses the ultimate proceeds to support a wide range of UK charities. Over £10m has been given by ShareGift so far to over 1,000 different UK charities. Further information about ShareGift and the charities it has supported may be obtained from their website, www.ShareGift.org or by contacting ShareGift at 46 Grosvenor Street, London W1K 3HN.

Shareholder information online

Lloyds TSB Registrars provide a range of shareholder information online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. Lloyds TSB Registrars can be contacted for information on 0870 600 3970.

Information about the Pearson share price

The current price of Pearson ordinary shares can be obtained from the company's website, www.pearson.com or from www.ft.com

American Depositary Receipts (ADRs)

Pearson's ordinary shares are listed on the New York Stock Exchange in the form of ADRs and traded under the symbol PSO. Each ADR represents one ordinary share. All enquiries regarding registered ADR holder accounts and payment of dividends should be directed to The Bank of New York, the authorised depositary bank for Pearson's ADR programme, at The Bank of New York, Investor Services, P.O. Box 11258, Church Street Station, New York, NY 10286-1258, telephone 1-888 BNY ADRs (toll free within the US) or 1 212 815 3700 (outside the US), or e-mail shareowners@bankofny.com, or sign-in at www.stockbny.com. Voting rights for registered ADR holders can be exercised through The Bank of New York, and for beneficial ADR holders (and/or nominee accounts) through your US brokerage institution. Pearson will file with the Securities and Exchange Commission a Form 20-F which will contain a US GAAP reconciliation.

Advisers and Financial Calendar

Share register fraud: protecting your investment

Pearson does not contact its shareholders directly to provide recommendation advice and neither does it appoint third parties to do so. As required by law, our shareholder register is available for public inspection but we cannot control the use of information obtained by persons inspecting the register. Please treat any approaches purporting to originate from Pearson with caution.

Tips on protecting your shares

- Keep any documentation that contains your shareowner reference number in a safe place and destroy any documentation which you no longer need by shredding it.
- Inform the registrars promptly when you change your address.
- Be aware of dividend payment dates and contact the registrars if you do not receive your dividend cheque or better still, make arrangements to have the dividend paid directly into your bank account.
- Consider holding your shares electronically in a CREST account via a nominee.

For more information on how you can protect your shares from fraud please visit our website at www.pearson.com/shareholderfaqs

Further information

A full 2006 annual report can be obtained free of charge from the Company Secretary, Pearson plc, 80 Strand, London WC2R 0RL or downloaded from our website www.pearson.com. Shareholders can also elect to receive the full annual report for subsequent years by writing to the Company Secretary.

Advisers

Auditors PricewaterhouseCoopers LLP

Bankers HSBC Bank Plc

Brokers JPMorgan Cazenove Limited, Citigroup

Financial advisers Lazard Brothers & Co. Limited, J. Henry Schroder & Co. Limited

Solicitors Freshfields Bruckhaus Deringer, Herbert Smith and Morgan, Lewis & Bockius

2007 Financial calendar

Ex-dividend date	4 April
Record date	10 April
Last date for dividend reinvestment election	26 April
Annual general meeting	27 April
Payment date for dividend and share purchase date for dividend reinvestment	11 May
Interim results	30 July
Interim dividend	21 September

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Pearson has supported the planting of 400 trees with the Woodland Trust, helping to offset the carbon dioxide emissions generated by the production of this report. This report has been printed on Take 2 Silk which is FSC certified and contains 75% recycled and de-inked pulp from post consumer waste and 25% ECF (Elemental Chlorine Free) virgin pulp. This report was printed by an FSC and ISO 14001 certified printer using vegetable oil and soya based inks. It is 100% recyclable.

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