Other financial information

Net finance costs

£ millions	2008	2007
Net interest payable	**(89)**	(95)
Net foreign exchange losses reflected in adjusted earnings	**(7)**	–
Finance income in respect of employee benefits	**8**	10
Net finance costs reflected in adjusted earnings	**(88)**	(85)
Other net finance costs	**(3)**	(21)
Net finance costs	**(91)**	(106)

Net finance costs reported in our adjusted earnings comprise net interest payable, net finance income relating to employee benefits and certain foreign exchange gains and losses.

Net interest payable in 2008 was £89m, down from £95m in 2007. Although our fixed rate policy reduces the impact of changes in market interest rates, we were still able to benefit from a fall in average US dollar and sterling interest rates during the year. Year on year, average three month LIBOR (weighted for the Group's net borrowings in US dollars and sterling at each year end) fell by 2.3% to 3.1%. This reduction in floating market interest rates was partially offset by higher fixed bond coupons prevailing at the time of our 2008 bond issue. The overall result was a decrease in the Group's average net interest rate payable by 1.4% to 5.9%. The Group's average net debt rose by £266m, reflecting the impact of acquisitions and disposals and the weakening of sterling relative to the US dollar, in which the majority of our debt is denominated.

Net finance income relating to employee benefits fell by £2m from £10m in 2007 to £8m in 2008. Exchange losses reported in adjusted earnings in 2008 of £7m related to the retranslation of foreign currency bank overdrafts. There were no material exchange differences on these accounts in 2007 but the weakness of sterling in the fourth quarter made this a more significant item in 2008.

Also included in the statutory definition of net finance costs are foreign exchange and other gains and losses. These are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. These other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity. In 2008 the total of these items excluded from adjusted earnings was a loss of £3m compared to a loss of £21m in 2007. The loss in 2007 mainly related to euro denominated debt held to hedge the receipt of proceeds from the sale of Les Echos.

Funding position and liquid resources

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. Our objective is to secure continuity of funding at a reasonable cost from diverse sources and with varying maturities. The Group does not use off-balance sheet special purpose entities as a source of liquidity or for any other financing purposes.

The net debt position of the Group is set out below.

Net debt

	2008 £m	2007 £m
Cash and cash equivalents	**685**	560
Marketable securities	**54**	40
Net derivative assets	**164**	35
Bonds	**(2,128)**	(1,150)
Bank loans and overdrafts	**(228)**	(452)
Finance leases	**(7)**	(6)
Net debt	**(1,460)**	(973)

Reflecting the geographical and currency split of our business, a large proportion of our debt is denominated in US dollars (see note 19 for our policy). The weakening of sterling against the US dollar during 2008 (from $1.99 to $1.44:£1) is a significant contributor to the increase in our reported net debt.

The Group's credit ratings remained unchanged during the year. The long-term ratings are Baa1 from Moody's and BBB+ from Standard & Poor's, and the short-term ratings are P2 and A2 respectively. The Group's policy is to strive to maintain a rating of Baa1/BBB+ over the long term.

In May 2008, the Group accessed the US capital markets, raising $900m: $350m through the sale of notes maturing in 2013 and bearing interest at 5.50% and $550m through the sale of notes maturing in 2018 and bearing interest at 6.25%. The proceeds of the debt issuance were swapped to floating rate to conform with the policy described in note 19 and used to repay floating rate amounts outstanding under our revolving credit facility, as described below.

The Group has in place a $1,750m committed revolving credit facility, of which $92m matures in May 2011 and the balance of $1,658m matures in May 2012. At 31 December 2008, $190m was drawn under this facility. The facility is intended to be used for short-term drawings and providing refinancing capabilities, including acting as a back-up for our US commercial paper programme. This programme is primarily used to finance our US working capital requirements, in particular our US educational businesses which have a peak borrowing requirement in July. At 31 December 2008, no commercial paper was outstanding.

The Group also maintains other committed and uncommitted facilities to finance short-term working capital requirements in the ordinary course of business.

Further details of the Group's approach to the management of financial risks are set out in note 19 to the financial statements.

Taxation

The effective tax rate on adjusted earnings in 2008 was 26.4% which was the same effective rate as that for 2007. Our overseas profits, which arise mainly in the US are largely subject to tax at higher rates than the UK corporation tax rate (an effective rate of 28.5% in 2008 compared to 30% in 2007). Higher tax rates were more than offset by amortisation-related tax deductions and releases from provisions reflecting continuing progress in agreeing our tax affairs with the authorities.

The reported tax charge on a statutory basis was £172m (29.4%) compared to a charge of £131m (28.0%) in 2007. The tax charge relating to the sale of the Data Management business in February 2008 is included in the loss on discontinued businesses. A charge arises on this disposal as although there is a book loss there is a gain for tax purposes. Tax paid in 2008 was £89m compared to £87m in 2008.

We received cash proceeds of $211m on the sale of the Scanners business and realised a loss before tax of £53m mainly due to exchange. The tax charge on the sale is £37m.

Minority interests

Our minority interests comprise mainly the 38% minority share of Interactive Data.

Dividends

The dividend accounted for in our 2008 financial statements totalling £257m represents the final dividend in respect of 2007 (20.5p) and the interim dividend for 2008 (11.8p). We are proposing a final dividend for 2008 of 22.0p, bringing the total paid and payable in respect of 2008 to 33.8p, a 7.0% increase on 2007. This final 2008 dividend was approved by the board in February 2009, is subject to approval at the forthcoming AGM and will be charged against 2009 profits. For 2008 the dividend is covered 1.7 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. The board expects to raise the dividend 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 discount rates, investment returns and salary inflation, based on prevailing conditions at the start of the year. The assumptions for 2008 are disclosed in note 25 to our accounts, along with the year end surpluses and deficits in our defined benefit plans. We recognise actuarial gains and losses arising when assumptions diverge from reality through the statement of recognised income and expense (SORIE).

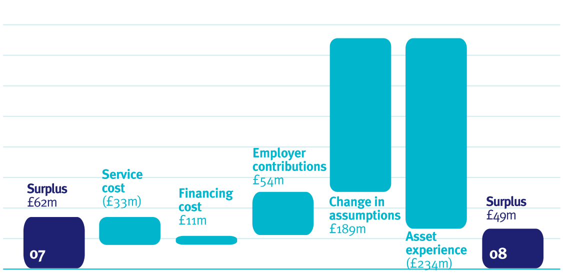
Our charge to profit in respect of worldwide pensions and post retirement benefits amounted to £76m in 2008 (2007: £61m) of which a charge of £84m (2007: £71m) was reported in operating profit and the net finance benefit of £8m (2007: £10m) was reported against net finance costs.

Pension funding levels are kept under regular review by the company and the plan Trustee. A full actuarial valuation of our UK Group plan will be carried out as at January 2009. Any changes in funding requirements will be evaluated on completion of this review.

Other financial information continued

Pensions

Movement in funding position of UK Group plan £m



Discontinued operations

Discontinued operations in 2008 relates to the Data Management business that was sold on 22 February 2008. The Scanners business was reported as discontinued in the 2007 figures along with Government Solutions (sold February 2007), Datamark (acquired with eCollege and immediately sold in July 2007) and Les Echos (sold December 2007).

Acquisitions

On 2 January 2008 the FT Group acquired Money-Media, a US-based company offering online news and commentary for the money management industry, for $66m. On 30 January 2008, Pearson's North American Education business completed the $635m acquisition of Harcourt Assessment after receiving clearance from the US Department of Justice. Harcourt Assessment provides an extensive catalogue of high quality research-based education and clinical assessment products for children and adults. On 1 August 2008, Interactive Data acquired Kler's Financial Data Service, a provider of reference data to the Italian finance industry, for €19m and on 15 December 2008 Interactive Data acquired a 79% interest in NTT Data Financial Corporation (NDF), a provider of reference data to the Japanese finance industry, for approximately $26m.

Net cash consideration for all acquisitions made in the year ended 31 December 2008 was £394m and provisional goodwill recognised was £153m.

In total acquisitions made in 2008 contributed an additional £161m of sales and £30m of adjusted operating profit.

Capital expenditure

Net capital expenditure in the year on property, plant, equipment and software amounted to £121m. The analysis of capital expenditure and details of capital commitments are shown in the notes 10, 11 and 35 of the financial statements.

Transactions with related parties

Transactions with related parties are shown in note 36 of the financial statements.

Post balance sheet events

During 2008 Pearson's International Education business announced its intention to increase its stakes in Longman Nigeria from 29% to 51% for £9m and Maskew Miller Longman (MML), its South African publishing business, from 50% to 85%. Under the terms of the MML agreement, Pearson intends to create a new Southern Africa business and in return for the increased stake in MML our current joint venture partner will receive £46m in cash and a 15% interest in Pearson's Heinemann and Edexcel businesses in that region. In addition the International Education business also announced the acquisition of Fronter, a European online learning company based in Oslo, for £16m. The Longman Nigeria acquisition completed in early January 2009 and the Fronter acquisition in February 2009. The Maskew Miller Longman transaction is expected to complete in the second quarter of 2009 following regulatory approval.

Supplier payment policy

Operating companies are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. These supplier payment terms vary by operating company reflecting the different industries and countries in which they operate. It is company policy that suppliers are aware of such terms of payment and that payments to them are made in accordance with these, provided that the supplier is also complying with all relevant terms and conditions. Group trade creditors at 31 December 2008 were equivalent to 31 days of purchases during the year ended on that date. The company does not have any significant trade creditors and therefore is unable to disclose average supplier payment terms.