

Pearson Education

North American Education				
£ millions	2008	2007	CER growth	Underlying growth
Sales	2,002	1,667	11%	3%
Adjusted operating profit	303	273	5%	(2)%

Overview

Pearson is the market leader in education publishing and services in North America. This is Pearson's largest business, with 2008 sales of £2bn and operating profit of £303m. Over the past five years, it has increased sales at a compound annual growth rate of 10% and profits at a rate of 9%.

Raising student achievement has long been a key priority across the political spectrum in the US. Though the current economic climate has placed considerable pressure on state and local tax receipts – and therefore education funding – spending on educational materials has historically proved relatively resilient. In addition, the new administration's economic stimulus package contains a range of measures to support state funding and education reform.

The education publishing industry is going through a period of significant change driven by the demand for high educational standards and accountability, the shift from print to digital products and a rapidly changing competitive environment.

Our business serves educators and students 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 educational technologies. Pearson has a leading position in each of these areas and a distinctive strategy of connecting those parts to support institutions and personalise learning. In 2008 we began to integrate 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.


School Curriculum

Highlights in 2008 included:

US School publishing market declined 4.4% in 2008, according to the Association of American Publishers. State budget issues caused particular industry-wide weakness in the supplementary publishing segment and the open territories.


Pearson took an estimated 28% share of the total new adoption market, and 31% of the adoptions competed for. Pearson participated in approximately 92% of the total new adoption market, down from approximately 95% in 2007.

Pearson launched enVisionMATH, an integrated print-and-digital elementary mathematics programme (and the next generation of the innovative and highly successful California social studies programme). enVisionMATH helped Pearson to a market-leading 38% share of all maths adoptions, including 50% in Texas, and sold strongly across the open territories.

 Learn more at www.envisionmath.com

Miller-Levine Biology and enVisionMATH programmes were also successfully launched for the 2009 adoption campaign.

The Association of Educational Publishers honoured two Pearson products, enVisionMATH and Longman English Interactive Online Level 2, as the year's 'most outstanding' materials in the field of teaching and learning.

 Learn more at www.longmanenglishinteractive.com

Three Pearson products were named America's best educational software products in the Software & Information Industry Association's 23rd Annual CODiE Awards. KnowledgeBox was named Best MultiMedia Solution, Waterford Early Learning won the Best Course/Classroom Management award, and Waterford Early Learning – Math and Science was named Best Science Instructional Solution.

Pearson Education *continued*

North American Education: key performance measures

US education publishing school and college sales growth vs industry

Pearson (%)

08 1.8%

07 5.1%

Industry (%)

08 0.2%

07 4.4%

- (i) Pearson's total year on year sales growth in school and college education publishing products in the US versus
(ii) the year on year sales growth of the total US industry.

School publishing adoption cycle win rates

Win rate (%)

08 31%

07 31%

Pearson's market share by value of new business in the US adoption states. Market share is quoted as a percentage of the total value of adoptions that we participated in.

Online learning users

Registrations (no.)

08 4,059,152

07 2,798,690

The number of registrations by students and professors to access one of our US online learning programmes.

Assessment and information testing contract win rates

Win rate (%)

08 47%

07 71%

The lifetime value of US school testing contracts won by Pearson this year as a percentage of the total lifetime value of contracts bid for this year.

The US Department of Defense awarded Pearson a five-year contract to provide elementary-school reading programmes, including Pearson's Reading Street, for its schools around the world.

Pearson created a new Educator Development Group, which brings together the company's leading teacher-centred businesses in North America, to support teachers at every level from preparation at the college level through to professional development and advanced degrees.

Assessment and Information

Highlights in 2008 included:

The integration of Harcourt Assessment progressed well with strong performances in state testing, catalogue tests and clinical assessments.

Our market-leading state assessments division continued to gain share, winning more than half of contracts competed for by value. Pearson now provides major state-wide testing services to 30 states.

We continue to be a leader in online testing with over 3.8 million secure tests delivered across 13 states during the year, up from 2.5 million in 2007.

Our National Assessments division benefited from new long-term contracts including The American Diploma Project (a three-year contract to deliver Algebra II exams to a consortium of 15 states); the College Board's Accuplacer programme (a seven-year contract to deliver computer-adaptive reading, writing and maths tests to assess college readiness); and The National Board for Professional Teaching Standards (a five-year contract to develop, administer and score its National Board Certification programme for accomplished teachers, covering 25 certificate areas).

We extended our leading position in teacher certification boosted by contract renewals in California (for three years), Oklahoma (six years), and New Mexico (four years). We also won a two-year contract to manage California's certification testing for teachers of English as a foreign language.

Clinical Assessments, which provides a wide range of assessments for personality, behaviour, ability, achievement, speech and language, and career interest, benefited from the strong growth of our AimsWeb data management and progress monitoring service for the Response to Intervention (RTI) market (which monitors children who are having difficulty learning) and the publication of WAIS-IV and MMPI-RF, new editions of the key products for assessing intelligence and personality.

Major contract wins in Student Information Systems include South Carolina (709,000 students), Dallas (165,000 students) and Baltimore (83,000 students).

Our new Edustructures business, which provides interoperable systems to support data collection and reporting between school districts and state governments, continued to win contracts with State Education Agencies. It successfully implemented proof-of-concept projects in Kansas and Alaska, and expansion of projects in Virginia, South Carolina and Wyoming.

Higher Education

Highlights in 2008 included:

The US Higher Education publishing market grew 3.6% in 2008, according to the Association of American Publishers. The industry benefited from healthy enrolments, even in tougher economic conditions, and federal government action to support student funding. We continued to see strong demand for instructional materials that are enhanced by technology and customisation.

Pearson grew faster than the industry and outperformed the market for the tenth straight year.

We continued to invest in established and new author franchises, such as Campbell & Reece's *Biology*; Tro's *Chemistry*; Lilienfeld, Lynn, Namy & Woolf's *Psychology*; and Wysocki & Lynch's *DK Handbook*.

Pearson's 'MyLab' digital learning, homework and assessment programmes grew strongly and now span the curriculum. Our MyLab products were used by more than 4.3 million students globally, with student registrations 48% higher than in 2007. Evaluation studies show that the use of the MyLab programmes can significantly improve student test scores and institutional productivity.

Custom Solutions grew strongly, expanding beyond textbooks to educational solutions including on-demand authoring of original content; customised technology; and on-demand curriculum, assessments and courseware.

Pearson formed new strategic partnerships to provide materials and online learning services to educational institutions. These included Rio Salado College in Arizona, which has 450 online classes and 48,000 students; the Colorado Community College system, to provide digital textbooks for 17 courses; and Louisiana Community & Technical College System, to provide students with a customised online learning programme across 47 campuses through the combination of custom textbooks, eCollege and MyLabs.

eCollege, Pearson's platform for fully-online distance learning in higher education, increased enrolments by 34% to 2.5 million and benefited from continued strong renewal rates. It achieved good new business performance both in the US and internationally, including Brazil; deployed its new .Next platform enabling rapid new product development; and sustained investment to drive growth in International and K-12 markets.

Pearson achieved strong growth in publishing and related services for students in workplace and vocational education. We launched new partnerships with the National Restaurant Association's leading food safety programme, ServSafe, and the International Fire Service Training Association (IFSTA) fire training programme.

 Learn more at www.mymathlab.com/makingthegrade_v3.pdf

Pearson Education *continued*

International Education

£ millions	2008	2007	CER growth	Underlying growth
Sales	866	735	11%	2%
Adjusted operating profit	135	92	26%	16%

Overview

Pearson is the world leader in education publishing and related services outside North America. Over the past five years, this has been Pearson's fastest-growing business, increasing sales at a headline compound annual growth rate of 16% (from £484m in 2004 to £866m in 2008) and operating profit five-fold (from £27m in 2004 to £135m in 2008). The business has achieved strong organic growth and successfully integrated a number of acquisitions including Edexcel, Harcourt International and PBM.

Looking ahead, we expect our International Education businesses to continue to benefit from a series of powerful growth trends: increasing public and private spending on education; growing participation rates in elementary, secondary and higher education; the demand for assessment to provide measures of achievement; the growing technology infrastructure in educational institutions; and the rise of English and other international languages.

In 2008, we made good progress on our strategic goals, extending our strong position in English language learning and educational technology, developing services for measuring and certifying student progress, and providing integrated solutions to help educational institutions achieve their goals. We also expanded our product range and geographic presence through the acquisitions of Harcourt International and Fronter. Sales increased by 11% to £866m and profits by 26% to £135m at constant exchange rates. Headline profit growth of 47% also benefited from some transactional foreign exchange gains.

Europe

Highlights in 2008 included:

In the UK, Edexcel received over 1.3 million registrations for vocational assessment which, when combined with more than 2.1 million registrations for general qualifications, made it one of the UK's largest assessment organisations. Edexcel marked 4.3 million 'A'-level and GCSE scripts onscreen, representing 88% of all student work marked by Edexcel examiners.

Edexcel was awarded the contract to administer the 2009 National Curriculum Tests for Key Stage 2 by the UK Qualifications and Curriculum Authority.

Edexcel made a significant investment in supporting the growth of academic and vocational qualifications both in the UK and internationally. These included the UK's new Diploma qualification for 14–19 year-olds; the IGCSE qualifications to meet the needs of international schools and colleges; and BTEC, Edexcel's flagship vocational qualification. In schools, BTEC registrations have grown from about 70,000 to 250,000 in the past two years.

'MyLab' digital learning, homework and assessment programmes were used internationally by more than 237,000 students, up 82% on 2007, and are now sold in more than 65 countries worldwide. MyLabs and Mastering Physics, two of Pearson's online education programmes, continued to win international adoptions, increasingly with localised versions for individual markets.

Our UK school publishing business grew ahead of the market with the successful integration of Harcourt International. This was driven by curriculum reform and market share gains in the secondary market, helped by strong publishing, innovative technology and integrated assessment for learning.

The combination of Pearson content, customisation capabilities and technology supports strong performance in Higher Education and ELT across European markets including France, Benelux and Central & Eastern Europe.

Pearson announced the acquisition of Fronter, a learning platform (also known as a Learning Management System or 'LMS') which provides easy-to-use tools for secure online education and collaboration. The Fronter platform enables students to learn whenever and wherever they choose; review their personal study plan; submit assignments; communicate with teachers, peers and parents; and study on their own or in a group. Teachers use the platform to create, store and repurpose learning resources and coursework which their students access online. The platform includes more than 80 tools for teachers and students and is highly customisable in terms of functionality, design and language.

Africa and the Middle East

Highlights in 2008 included:

Pearson won a contract to deliver the Abu Dhabi Education Council's external assessment programme over three years starting in 2009. The tests cover English, Arabic, mathematics and science for students in grades 3 to 11.

Pearson worked with Jordan's Ministry of Education to build a test development system which has been enhanced to support the creation of test items and tests in Arabic, replacing a paper-based system.

Pearson announced its intention to increase its ownership in Maskew Miller Longman in South Africa, and bring together its education companies in the region into a new organisation, Pearson Southern Africa (85% owned by Pearson). The creation of Pearson Southern Africa will help Pearson deploy its global resources throughout the region, and better support students and teachers in such critical areas as assessment, teacher development and professional and vocational learning.

Pearson announced the acquisition of an additional 22% stake in Longman Nigeria, the leading educational publisher in Africa's most populous country, taking our ownership to a controlling 51% stake. The business performed strongly in 2008 supported by an order for two million textbooks for mathematics and English by the states of Lagos and Bauchi.

Asia and Pacific

Highlights in 2008 included:

The New York Institute of Finance (NYIF) opened a Beijing office under the name of Pearson Financial Consulting to educate and train China's financial and business professionals through classes, in-company courses and monthly financial forums.

In India, Pearson saw rapid sales growth underpinned by strong local publishing of titles including Macroeconomics by Errol D'Sousa of IIM Ahmedabad and Upinder Singh's book on Ancient and Medieval Indian History. Two books published by Pearson Education won the First and Third Prize in the Delhi Management Association's DMA-NTPC Awards.

In Thailand, Pearson secured its largest adoption of MyITLab outside North America at Sripatum University accompanied by the Go! Office 2007 series of textbooks.

Pearson was named Secondary Publisher of the Year 2008 at the Australian Awards for Excellence in Educational Publishing, based on factors including the quality of products, accuracy of information, quality of customer service, innovation of products and services, and prompt delivery of products. Successful and rapid integration of Harcourt International. Good growth in higher education was supported by strong take-up of MyLab and Mastering products.

In China, Pearson acquired two chains of private English-language schools. 'Learning' provides instruction for children aged five through 12, principally in Shanghai. Dell English offers English-language training to students typically between ages of 15 and 35, principally in Beijing.

Pearson Education continued

Latin America

Highlights in 2008 included:

Rapid growth in Mexico, Pearson's largest market in the region, with particularly strong growth in custom publishing. In English Language Teaching, we won an integrated custom publishing, academic support and services solutions contract with CONALEP, the national vocational/technical secondary programme. We developed a custom publishing programme for a leading test prep academy, CONAMAT, which included *Simplified Mathematics*, the best selling title of the programme, selling over 20,000 units.

In Panama, the Ministry of Education adopted Prentice Hall Virtual Labs and Lab Manuals for Chemistry and Biology for 75,000 high school students.

In Brazil, which has Latin America's largest and fastest-growing university population, Pearson provided custom publishing services to five leading universities in business, math, science, engineering and several other fields.

Growing Government tenders business in Maths and Science including the success of a new local math series for middle schools in Mexico and the adoption of two levels of our primary Science programme in Chile, adapted from our US Scott Foresman 5th/6th Grade programme, to support local curriculum standards in Spanish.

Strong growth of English Language Teaching materials across Latin America underpinned by performance in Mexico, Argentina, Colombia, Peru and Central America.

International Education key financial performance measures

Online learning users

Registrations (no.)

08 237,198

07 130,035

The number of registrations by students and professors to access one of our International Education online learning programmes.

Online results logins

Logins (no.)

08 58,288

07 11,033

Number of logins by users of International Education's online results service.

Professional

£ millions	2008	2007	CER growth	Underlying growth
Sales	244	226	1%	1%
Adjusted operating profit	36	27	26%	26%

Overview

Our Professional education business is focused on publishing and other learning programmes for professionals in business and technology, and on testing and certifying adults to become professionals.

Over the past five years, we have increased sales in this division at a compound annual rate of 11% in constant currencies and operating profit from a loss of £5m in 2004 to a profit of £36m in 2008. Over that period, we significantly re-oriented our professional publishing businesses towards long-term growth markets and built professional testing into a profitable industry leader. We see good growth for these businesses, which will benefit from rising demand for work-related skills and qualifications in both developed and developing markets; and from close connections with professional content and customers in other parts of Pearson.

Professional testing and certification

Highlights in 2008 included:

Approximately six million secure online tests were delivered in more than 4,000 test centres worldwide in 2008, an increase of 2% over 2007.

Registration volumes for the Graduate Management Admissions Council test rose 12% worldwide in 2008, including a 22% increase outside the US.

New business included contracts to provide certification exams for the Health Authority Abu Dhabi, end of course exams for Maryland University College, certification exams for the Institute of Supply Management, the development and administration of tests for the Colorado Office of Barber and Cosmetology Licensure and an exclusive contract with Adobe.

Renewals included contracts with the Georgia Insurance Licensing Board, the Virginia Board of Nursing, the Law National Admissions Consortium, Measurement Research Associates, Inc., and the Kentucky Real Estate Commission.

Pearson VUE introduced several security enhancements to its high-stakes testing, including implementation of palm vein recognition technology, a non-intrusive identification system, and of digital watermarking of exam data.

Pearson VUE announced the transition of The Institute of Internal Auditors certification exam, the Certified Internal Auditor, from paper-and-pencil to computer-based test delivery. The Certified Internal Auditor designation is the only globally accepted certification for internal auditors and will be delivered in English, Japanese, French, Spanish and Italian.

Pearson VUE agreed a partnership with NIIT Ltd. of India to expand Pearson VUE's certification network in India, extending a range of tests for students throughout the country. In a first phase, Pearson VUE and NIIT will set up testing facilities in Bangalore, Chennai, New Delhi, Hyderabad and Pune.

Professional publishing

Highlights in 2008 included:

Scott Kelby, an author at our technology imprint Peachpit, was the top-selling author of computer books in the US for the fifth consecutive year with titles such as *The iPhone Book*, *Mac OS X Leopard Book* and *The Adobe CS4 Book for Digital Photographers*.

The *iPhone Developer's Cookbook* by Erica Sadun, initially published online as a DRM-free ebook, became the #1 computer book for Amazon Kindle and the #1 book on Safari. When published in print form, it became the #1 Computers & Internet Book on Amazon.

We created nearly 200 video based educational lessons (230 hours of video) including Aarron Walter's *SEO And Beyond*, and Deitel & Associates' *C# 2008 Fundamentals I and II* and built new distribution channels for video via our websites and via Safari Books Online.

Pearson developed new iterative publishing programme called Rough Cuts which allows authors and customers to interact ahead of publication, building awareness and capturing customer contributions. Almost 25% of the print books published in 2008 entered the Rough Cuts programme, benefiting from comments prior to print publication.

Strong growth of eBooks, videos and other digital assets sold directly (via our websites and our joint-venture, Safari Books Online), and through other digital retail outlets (such as the Amazon Kindle and Sony eReader).

Sales of English and local language technology books saw good growth in international markets including the Middle East, South Africa, India and South America with best-sellers including *CCNA Exam Certification Library* by Wendell Odom, *Presentation Zen* by Garr Reynolds and *Effective Java 2E* by Josh Bloch

Titles by Pearson's business imprints, including FT Press and Wharton School Publishing, included *Financial Shock* by Mark Zandi, Chief Economist at Moody's and an advisor to the White House, on the causes of the credit crunch with particular emphasis on the sub-prime mortgage market.