PEARSON PLC
Form 20-F
May 05, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON May 5, 2006

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

Form 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the fiscal year ended December 31, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

for the transition period from to

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes o No o

Commission file number 1-16055
PEARSON PLC
(Exact name of Registrant as specified in its charter)
England and Wales
(Jurisdiction of incorporation or organization)
80 Strand
London, England WC2R 0RL
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

Ordinary Shares, 25p par value	804,020,000

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

Indicate by check mark which financial statement item the Registrant has elected to follow:

Item 17 þ Item 18 o

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

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

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

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

þ Large accelerated filer	oAccelerated filer	o Non-accelerated filer

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INTRODUCTION

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

We have prepared the financial information contained in this Annual Report in accordance with European Union (EU)-adopted International Financial Reporting Standards (IFRS), which differ in certain significant respects from generally accepted accounting principles in the United States, or US GAAP. We describe these differences in Item 5. Operating and Financial Review and Prospects Accounting Principles , and in note 35 to our consolidated financial statements included in Item 17. Financial Statements of this Annual Report. Unless we indicate otherwise, any reference in this Annual Report to our consolidated financial statements is to the consolidated financial statements and the related notes, included elsewhere in this Annual Report.

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

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

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

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

For convenience and except where we specify otherwise, we have translated some Sterling figures into US dollars at the rate of £1.00 = $1.72, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on December 30, 2005, the last business day of 2005. We do not make any representation that the amounts of sterling have been, could have been or could be converted into dollars at the rates indicated. On April 28, 2006 the noon buying rate for sterling was £1.00 = $1.82.

FORWARD-LOOKING STATEMENTS

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

operations and prospects,

growth strategy,

funding needs and financing resources,

expected financial position,

market risk,

currency risk,

US federal and state spending patterns,

debt levels, and

general market and economic conditions.

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

PART I

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

Not applicable.

ITEM 2. ***OFFER STATISTICS AND EXPECTED TIMETABLE***

Not applicable.

ITEM 3. ***KEY INFORMATION***

Selected Consolidated Financial Data

The table below shows selected consolidated financial data for each of the years in the five-year period ended December 31, 2005. The selected consolidated profit and loss account data for the years ended December 31, 2005, 2004 and 2003 and the selected consolidated balance sheet data as at December 31, 2005, 2004 and 2003 have been derived from our audited consolidated financial statements included in Item 17. Financial Statements in this Annual Report and have been prepared in accordance with IFRS.

Our consolidated financial statements for the year ended December 31, 2005 have been prepared in accordance with IFRS, which differs from US GAAP in certain significant respects. See Item 5. Operating and Financial Review and Prospects Accounting Principles and note 35 to the consolidated financial statements. The consolidated financial statements contain a reconciliation to US GAAP of profit/loss for the financial year, shareholders funds and certain other financial data.

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

For convenience, we have translated the 2005 amounts into US dollars at the rate of £1.00 = $1.72, the noon buying rate in The City of New York on December 30, 2005.

Restatement

In accordance with EU regulations, the Company has prepared the financial statements as at December 31, 2005 in accordance with EU-adopted International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee interpretations (IFRIC). Consolidated financial statements of Pearson until December 31, 2004 had been prepared in accordance with UK GAAP. UK GAAP differs in certain respects from IFRS. When preparing the Group s 2005 consolidated financial statements, management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 and 2003 were restated to reflect these adjustments. See note 34 to our consolidated financial statements for an explanation of the effects of transition to IFRS.

	Year Ended December 31			
	2005	2005	2004	2003
	IFRS	IFRS £	IFRS £	IFRS £
	$			
	(In millions, except for per share amounts)			
IFRS Information:				
Consolidated Profit and Loss Account Data				
Statutory Measures				
Total sales	**7,045**	**4,096**	3,696	3,850
Total operating profit/(loss)	**922**	**536**	404	406
Profit/(loss) after taxation from continuing operations	**588**	**342**	262	252
Profit/(loss) for the financial year	**1,108**	**644**	284	275
Basic earnings/(loss) per equity share(4)	**$ 1.35**	**78.2p**	32.9p	31.7p
Diluted earnings/(loss) per equity share(5)	**$ 1.34**	**78.1p**	32.9p	31.7p
Dividends per ordinary share	**$ 0.46**	**27.0p**	25.4p	24.2p
Consolidated Balance Sheet Data				
Total assets (Fixed assets plus Current assets)	**13,072**	**7,600**	6,578	6,736
Shareholders funds	**6,130**	**3,564**	2,800	2,969
Long-term obligations(6)	**(4,300)**	**(2,500)**	(2,403)	(1,982)
Capital stock(1)	**346**	**201**	201	201
Number of equity shares outstanding (millions of ordinary shares)	**804**	**804**	803	802

	Year Ended December 31					
	2005	2005	2004	2003	2002	2001
	$	£	£	£	£	£
	(In m	illions, except for per share amounts)				
US GAAP Information(7):						
Consolidated Profit and Loss Account Data						
Statutory Measures						
Total sales	**7,045**	**4,096**	3,696	3,879	4,320	4,225
Total operating profit/(loss)(2)	**746**	**434**	260	364	453	(389)
Profit/(loss) after taxation from continuing operations	**330**	**192**	203	198	219	(1,483)
Profit/(loss) for the financial year(8)	**707**	**411**	182	173	189	(1,500)
Profit/(loss) from continuing operations for the financial year(3)	**299**	**174**	166	160	221	(424)
(Loss)/profit from discontinued operations(3)	**(3)**	**(2)**	16	16	(10)	(91)
	411	**239**		(3)	(1)	(985)

Profit/(loss) on disposal of discontinued operations(3)							
Basic earnings/(loss) per equity share(4)	$	**0.89**	**51.5p**	22.9p	21.8p	23.7p	(188.6)p
Diluted earnings/(loss) per equity share(5)	$	**0.88**	**51.4p**	22.8p	21.8p	23.7p	(188.6)p
Basic earnings/(loss) from continuing operations per equity share(1)(4)	$	**0.37**	**21.8p**	20.9p	20.1p	27.8p	(53.3)p
Diluted earnings/(loss) from continuing operations per equity shares(3)(5)	$	**0.37**	**21.7p**	20.8p	20.1p	27.8p	(53.3)p
Basic (loss)/earnings per share from discontinued operations(3)(4)	$	**0.51**	**29.7p**	2.0p	1.7p	(4.1)p	(135.3)p
Diluted (loss)/earnings per share from discontinued operations(3)(5)	$	**0.51**	**29.7p**	2.0p	1.7p	(4.1)p	(135.3)p
Dividends per ordinary share	$	**0.46**	**27.0p**	25.4p	24.2p	22.7p	21.9p
Consolidated Balance Sheet Data							
Total assets		**13,416**	**7,800**	7,040	7,101	6,767	8,280
Shareholders funds		**6,601**	**3,838**	3,218	3,333	4,155	4,155
Long-term obligations(6)		**(4,123)**	**(2,397)**	(2,392)	(1,951)	(2,026)	(2,829)

(1) Capital stock and the number of equity shares outstanding are the same under both IFRS and US GAAP.

(2) Total operating profit under US GAAP includes a profit of £nil in 2005 (a profit of £14 million in 2004 and a loss of £7 million in 2003) on the sale of fixed assets and investments. Additionally, the US GAAP operating profit includes the operating profit impact of the GAAP adjustments discussed in note 35 in Item 17. Financial Statements .

(3) Discontinued operations under both IFRS and US GAAP comprise the results of Recoletos Grupo de Comunicacion SA for all years presented and the results of RTL Group for 2002 and 2001. Discontinued operations under US GAAP also include the results of the Forum Corporation for 2003, 2002 and 2001.

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

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

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

(7) See note 35 to the consolidated financial statements included in this Annual Report entitled Summary of principal differences between International Financial Reporting Standards and United States of America generally accepted accounting principles .

(8) The loss of £1,500 million in 2001 is after charging goodwill amortization of £527 million. Since 2002, goodwill has no longer been subject to amortization under US GAAP. See note 35 in Item 17. Financial Statements .

Dividend Information

We pay dividends to holders of ordinary shares on dates that are fixed in accordance with the guidelines of the London Stock Exchange. Our board of directors normally declares an interim dividend in July or August of each year to be paid in September or October. Our board of directors normally recommends a final dividend following the end of the fiscal year to which it relates, to be paid in the following May or June, subject to shareholders approval at our annual general meeting. At our annual general meeting on April 21, 2006 our shareholders approved a final dividend of 17.0p per ordinary share for the year ended December 31, 2005.

The table below sets forth the amounts of interim, final and total dividends paid in respect of each fiscal year indicated, and is translated into cents per ordinary share at the noon buying rate in the city of New York on each of the respective payment dates for interim and final dividends. The final dividend for the 2005 fiscal year will be paid on 5 May 2006.

Fiscal Year	**Interim**	**Final**	**Total**	**Interim**	**Final**	**Total**
	(Pence per ordinary share)			**(Cents per ordinary share)**		
2005	**10.0**	**17.0**	**27.0**	**17.2**	**29.2**	**46.4**
2004	9.7	15.7	25.4	18.6	30.2	48.8
2003	9.4	14.8	24.2	16.7	26.4	43.1
2002	9.1	14.3	23.4	14.7	23.0	37.7

2001	8.7	13.6	22.3	12.6	19.7	32.3

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

Exchange Rate Information

The following table sets forth, for the periods indicated, information concerning the noon buying rate for sterling, expressed in dollars per pound sterling. The average rate is calculated by using the average of the noon buying rates in the city of New York on each day during a monthly period and on the last day of each month during an annual period. On December 30, 2005, the noon buying rate for sterling was £1.00 = $1.72. On April 28, 2006 the noon buying rate for sterling was £1.00 = $1.82.

Month	High	Low
April 2006	$ 1.82	$ 1.74
March 2006	$ 1.76	$ 1.73
February 2006	$ 1.78	$ 1.73
January 2006	$ 1.79	$ 1.74
December 2005	$ 1.77	$ 1.72
November 2005	$ 1.78	$ 1.71

Year Ended December 31	Average Rate
2005	$ 1.81
2004	$ 1.84
2003	$ 1.63
2002	$ 1.51
2001	$ 1.45

Risk Factors

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

Our US educational textbook and testing businesses may be adversely affected by changes in state educational funding resulting from either general economic conditions, changes in government educational funding, programmes and legislation (both at the federal and state level), and/or changes in the state procurement process.

The results of our US educational textbook and testing business depends on the level of US and state educational funding and this funding is a significant influence on our ability to grow.

With the improvement in the US economy state educational expenditure has increased as state tax receipts have increased, reducing or eliminating state budget deficits, thereby minimizing the risk that state educational expenditure is cut or deferred. Federal legislative changes can also affect the funding available for educational expenditure, e.g. the No Child Left Behind Act. These might also include changes in the procurement process for textbooks, learning material and student tests, particularly in the adoptions market. For example, changes in curricula, delays in the timing of the adoptions and changes in the student testing process can all affect these programs and therefore the size of our market in any given year.

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

Our newspaper businesses may be adversely affected by reductions in advertising revenues and/or circulation either due to weak general economic conditions or competing news information distribution channels, particularly online and digital formats.

Our newspaper businesses are highly geared and remain dependent on advertising revenue; relatively small changes in revenue, positive or negative, have a disproportionate affect on profitability. We are beginning to see an increase in advertising revenues compared to prior years, however any downturn in corporate and financial advertising spend would negatively impact our results.

Changes in consumer purchasing habits, as readers look to alternative sources and/or providers of information, such as the internet and other digital formats, may change the way we distribute our content. We might see a decline in print circulation in our more mature markets as readership habits change and readers migrate online, although we see further opportunities for growth in our less mature markets outside Europe. If the migration of readers to new digital formats occurs more quickly than we expect, this is likely to affect print advertising spend by our customers, adversely affecting our profitability.

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

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

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

These unauthorized activities may be more easily facilitated by the internet. The lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for us in protecting our proprietary rights relating to our online business processes and other digital technology rights. The loss or diminution in value of these proprietary rights or our intellectual property could have a material adverse effect on our business and financial performance. In that regard, Penguin Group (USA) Inc. and Pearson Education have joined three other major US publishers in a suit brought under the auspices of the Association of American Publishers to challenge Google s plans to copy the full text of all books ever published without permission from the publishers or the authors. This lawsuit seeks to demarcate the extent to which search engines and other internet operators may rely on the fair-use doctrine to copy content without authorization from the copyright proprietors, and may give publishers more control over on-line users of their intellectual property. If the lawsuit is unsucces