

PEARSON INVESTMENT SERVICES LIMITED

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2006**

Registered Office:

**80 Strand
London
WC2R 0RL**

**Registered in England
Number 59713**

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COMPANIES HOUSE

PEARSON INVESTMENT SERVICES LIMITED

Directors

S A Jones
A J Midgley

Report of the Directors

The directors present their report and the audited financial statements for Pearson Investment Services (the "company") for the year ended 31 December 2006

The company is an investment holding company. The directors believe that the company will continue in this activity for the foreseeable future.

The profit after tax for the year was £916,000 (2005 £1,159,000). The profit for the year has been transferred to reserves.

The present directors are listed above. Both directors served throughout the year.

The ultimate parent company is Pearson plc. The interests of the directors in the ordinary shares of 25p and debentures and loan stocks of Pearson plc and its subsidiaries, as shown by the register of the company kept for the purpose of section 324 of the Companies Act 1985, are as follows:

	At 01 01 2006	SAYE/ Granted	Exercised	Lapsed	At 31 12 2006
S A Jones					
Pearson plc					
Ordinary shares	447	2,761	(2,000)	-	1,208
SAYE options on ordinary shares	2,224	594	(2,224)	-	594
Annual Bonus Matching Shares	393	321	-	-	714
Executive Options on ordinary shares	1,500	-	-	-	1,500
Long term incentive plan options	2,100	-	-	-	2,100
Long term incentive plan shares	3,500	3,500	(500)	-	6,500
A J Midgley					
Pearson plc					
Ordinary shares	4,616	3,201	-	-	7,817
SAYE options on ordinary shares	2,224	1,485	(2,224)	-	1,485
Annual Bonus Matching Shares	1,688	-	-	-	1,688
Executive Options on ordinary shares	10,078	-	-	-	10,078
Long Term Incentive Plan options	4,200	-	-	-	4,200
Long Term Incentive Plan shares	6,600	4,000	(1,500)	-	9,100

PEARSON INVESTMENT SERVICES LIMITED

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each of the persons who are directors at the time when this report is approved, the following applies:

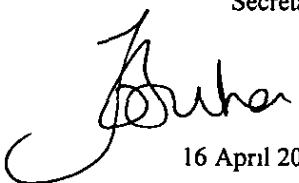
- so far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

The Company has passed Elective Resolutions in accordance with the Companies Act 1985 to dispense with the holding of annual general meetings, the laying of accounts and reports before general meetings and the annual reappointment of Auditors. PricewaterhouseCoopers LLP will, accordingly, continue in office as Auditors of the Company pursuant to Section 386 of the Companies Act 1985.

However, pursuant to Section 253(2) of the Companies Act 1985, any Member or the Auditors of the Company may require the accounts and reports to be laid before a general meeting by depositing a notice to that effect at the registered office of the Company not later than 28 days after the despatch of the accounts and reports to Members.

By order of the board
J S Burton
Secretary



16 April 2007

PEARSON INVESTMENT SERVICES LIMITED

Profit and Loss Account for the year ended 31 December 2006

	<u>Notes</u>	<u>2006</u> £000	<u>2005</u> £000
Other operating (expenses) / income		(17)	506
Operating profit		(17)	506
Interest receivable from parent undertaking		1,333	1,332
Bank interest receivable		—	7
Profit on ordinary activities before taxation		1,316	1,845
Tax on profit on ordinary activities	5	(400)	(686)
Profit for the financial year		<u>916</u>	<u>1,159</u>

The company has no recognised gains and losses other than those included in the profit above and therefore no statement of total recognised gains and losses has been presented

There is no difference between the profit on ordinary activities before taxation and retained profit for the year stated above, and their historical cost equivalents

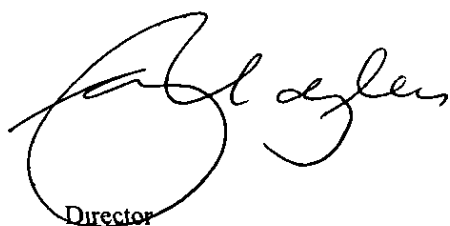
All the above results are derived from continuing operations

PEARSON INVESTMENT SERVICES LIMITED

Balance Sheet at 31 December 2006

	<u>Notes</u>	<u>2006</u> £000	<u>2005</u> £000
Fixed assets			
Investments	6	<u>34,148</u>	<u>34,148</u>
Current assets			
Due from ultimate parent	7	27,127	26,212
Cash at bank and in hand		<u>-</u>	<u>-</u>
		<u>27,127</u>	<u>26,212</u>
Current liabilities			
Corporation Tax		<u>(400)</u>	<u>(401)</u>
Net current assets		<u>26,727</u>	<u>25,811</u>
Total assets less current liabilities		<u>60,875</u>	<u>59,959</u>
Provisions for liabilities and charges	8	<u>-</u>	<u>-</u>
Net assets		<u>60,875</u>	<u>59,959</u>
Capital and reserves			
Called up share capital	9	53,092	53,092
Share premium account	10	19,873	19,873
Profit and loss account	10	<u>(12,090)</u>	<u>(13,006)</u>
Total shareholders' funds	11	<u>60,875</u>	<u>59,959</u>

The financial statements on pages 4 to 8 were approved by the board on 16 April 2007



Director

PEARSON INVESTMENT SERVICES LIMITED

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the UK. A summary of the more important accounting policies, which have been applied consistently, is set out below.

- a) Basis of accounting - the financial statements are prepared under the historical cost convention
- b) Fixed asset investments are stated at cost less provisions for diminution in value

2 Cash flow statement

The company is a wholly owned subsidiary of Pearson plc and the cash flows of the company are included in the consolidated group cash flow statement of Pearson plc. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

3 Auditors' remuneration

Auditors' remuneration is borne by a fellow group company.

4 Directors' emoluments and employee costs

The directors are employed by another group company and are remunerated by that company in respect of their services as group employees. They receive no emoluments from the company. No one was employed by the company at any time during the year.

5 Taxation

	<u>2006</u>	<u>2005</u>
Current Tax:	£000	£000
UK corporation tax on profits of the period	(400)	(401)
Adjustments in respect of previous periods	<u>-</u>	<u>(285)</u>
Total current tax	<u>(400)</u>	<u>(686)</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK (30%). In the prior year, the tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	<u>2006</u>	<u>2005</u>
	£000	£000
Profit on ordinary activities before tax	<u>1,316</u>	<u>1,845</u>
Profit on ordinary activities multiplied by standard rate in the UK 30% (2005 - 30%)	(395)	(554)
Effects of		
Non taxable provision write off	-	153
Disallowable expense	(5)	-
Prior year adjustments	<u>-</u>	<u>(285)</u>
Current tax charge for the period	<u>(400)</u>	<u>(686)</u>

PEARSON INVESTMENT SERVICES LIMITED

Notes to the financial statements (continued)

6 Fixed asset investments

	<u>2006</u>	<u>2005</u>
	<u>£000</u>	<u>£000</u>
Subsidiary undertaking -		
At 1 January 2006 and 31 December 2006	<u>34,148</u>	<u>34,148</u>

Details of the company's subsidiary undertaking are shown below

	<u>Country of Incorporation</u>	<u>Beneficial Percentage Held</u>
Pearson Services Limited	UK	100%

Group accounts have not been prepared as Pearson Investment Services Limited is a wholly owned subsidiary of Pearson plc, which is registered in England and Wales. In the opinion of the directors the value of the investment in its subsidiary is not less than the amount at which it is stated in the balance sheet.

7 Amounts due from ultimate parent

Amounts owed by the ultimate parent are unsecured. Interest is currently charged at LIBOR plus 0.25 points and the balance is repayable on demand.

8 Provisions for Liabilities and Charges

	<u>2006</u>	<u>Guarantees of former subsidiary undertaking</u>
	<u>£000</u>	<u>2005</u>
		<u>£000</u>
At 1 January	-	510
Written off during the year	-	(510)
At 31 December	<u>-</u>	<u>-</u>

9 Share Capital

	<u>2006</u>	<u>2005</u>
	<u>£000</u>	<u>£000</u>
Authorised		
240,000,000 ordinary shares of 25p each	<u>60,000</u>	<u>60,000</u>
Called up, allotted and fully paid		
212,367,046 ordinary shares of 25p each	<u>53,092</u>	<u>53,092</u>

PEARSON INVESTMENT SERVICES LIMITED

Notes to the financial statements (continued)

10 Reserves

	<u>Share Premium</u> £000	<u>Profit & Loss Account</u> £000
At 1 January 2006	19,873	(13,006)
Retained profit for the financial year	-	916
At 31 December 2006	<u>19,873</u>	<u>(12,090)</u>

11 Reconciliation of movement in shareholders' funds

	<u>2006</u> £000	<u>2005</u> £000
Opening shareholders' funds	59,959	58,800
Profit for the year	916	1,159
Closing shareholders' funds	<u>60,875</u>	<u>59,959</u>

12 Contingent liabilities

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 41 of its subsidiaries, "the guarantors", are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement is joint and severally liable for the guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. The net overdraft position under this arrangement at 31 December 2006 was £2,259,464 credit.

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000. At 31 December 2006 this was the company's potential liability.

As at 31 December 2006 the potential liability arising from these guarantee arrangements amounted to £50,000,000 for the parent undertaking and fellow subsidiary undertakings.

13 Transactions with directors

No director had a material interest in any contract or arrangement with the company during the year.

14 Other related party transactions

The company is a wholly owned subsidiary of Pearson plc and utilises the exemption contained in FRS 8 Related Party Disclosures not to disclose any transactions with entities that are part of the Pearson group. The address at which Pearson plc consolidated financial statements are publicly available is shown in note 15.

15 Ultimate parent undertaking

The immediate and ultimate parent company is Pearson plc, which is registered in England and Wales. Copies of the consolidated financial statements of Pearson plc may be obtained from The Secretary, Pearson plc, 80 Strand, London WC2R 0RL.

PEARSON INVESTMENT SERVICES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PEARSON INVESTMENT SERVICES LIMITED

We have audited the financial statements of Pearson Investment Services Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 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 report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

15th April 2007