STERLING BANCORP
Form 11-K
June 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 11-K

(Mark One)

ANNUAL REPORT

x **PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
for the fiscal year ended December 31, 2009
or

TRANSITION REPORT
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________to__________

Commission File Number 1-5273-1

STERLING BANCORP/STERLING NATIONAL BANK 401(k) PLAN

(Full title of the plan)

Sterling Bancorp
650 Fifth Avenue
New York, NY 10019

(Name of issuer of the Securities held pursuant to the plan
and address of its principal executive office)

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FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

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401(k) PLAN

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AMPER, POLITZINER & MATTIA, LLP

Report of Independent Registered Public Accounting Firm

To the 401(k) Administrative Committee of
Sterling Bancorp/Sterling National Bank 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of Sterling Bancorp/Sterling National Bank 401(k) Plan (the "Plan") as of December 31, 2009 and 2008, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2009 and 2008 and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2009 and the supplemental schedule of delinquent participant contributions for the year ended December 31, 2009 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 25, 2010
New York, New York

STERLING BANCORP/STERLING NATIONAL BANK
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Statements of Net Assets Available for Benefits

December 31,

	2009	2008
Investments at Fair Value:		
Sterling Bancorp Common Stock	$ 2,827,276	$ 5,130,162
Guaranteed Interest Accounts	838,645	720,081
Pooled Separate Accounts	12,839,121	10,833,866
Mutual Funds	3,526,721	1,697,466
Participant Loans	704,454	442,056
	20,736,217	18,823,631
Cash	7,554	7,047
Contributions Receivable:		
Participant	80,929	—
Employer	15,510	671,000
	96,439	671,000
Net Assets Available for Benefits	$ 20,840,210	$ 19,501,678

See accompanying notes to financial statements.

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Statements of Changes in Net Assets Available for Benefits

For the Years Ended December 31,

	2009	2008
Additions to/Deductions from Net Assets Attributable to:		
Investment Income (Loss):		
Interest and Dividends	$ 298,874	$ 358,280
Net Depreciation in Fair Value of Investments	(202,026)	(4,896,925)
	96,848	(4,538,645)
Contributions:		
Participant	2,544,720	2,457,379
Rollovers	238,111	333,633
Employer	265,009	899,485
	3,047,840	3,690,497
Benefits Paid to Participants	(1,792,042)	(2,787,487)
Administrative Expenses	(14,114)	(1,984)
	(1,806,156)	(2,789,471)
Net Increase (Decrease) Prior to Transfer	1,338,532	(3,637,619)
Transfer from Related Plan	—	6,552,985
Net Increase in Net Assets Available for Benefits	1,338,532	2,915,366
Net Assets Available for Benefits at:		
Beginning of Year	19,501,678	16,586,312
End of Year	$ 20,840,210	$ 19,501,678

See accompanying notes to financial statements.

STERLING BANCORP/STERLING NATIONAL BANK
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Notes to Financial Statements
December 31, 2009 and 2008

(1) Description of the Plan

The following brief description of the Sterling Bancorp/Sterling National Bank 401(k) Plan (the Plan) is presented for information purposes only and is not intended as a summary plan description for participants. Participants should refer to the Plan document for more complete information.

(a) General

The Plan is a defined contribution plan covering all employees of Sterling Bancorp and subsidiaries (the Company or Plan Sponsor), to help supplement participants' retirement income. The Plan was established effective January 1, 1990, amended and restated effective September 1, 2007.

Effective January 1, 2008, the Sterling National Bank Subsidiaries 401(k) Plan merged into the Sterling Bancorp/Sterling National Bank 401(k) Plan.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The Plan is administered by a committee and such committee acts as the Plan's administrator. Sterling Bancorp is a bank holding company and its common shares are listed on the New York Stock Exchange. Sterling National Bank (the Bank) is a wholly owned subsidiary of Sterling Bancorp.

(b) Contributions

Employees are eligible to join the Plan as an active participant for purposes of contributions other than matching contributions on the first day of the month following their date of employment. Participants may contribute a minimum of 1% of salary to the maximum allowable under the Internal Revenue Code regulations, which is $16,500 and $15,500 for the 2009 and 2008 plan year, respectively.

Employees who have attained the age of 50 years may make catch-up contributions of $5,500 and $5,000 for 2009 and 2008, respectively, which increases the maximum allowable contribution to $22,000 and $20,500 in 2009 and 2008, respectively.

Employees hired on or after January 2, 2006 are eligible for matching contributions on the first day of the month after one year of service in which the employee has worked 1,000 or more hours except for employees who are also participants in the Sterling Bancorp/Sterling National Bank Employees' Retirement Plan.

Participants may elect to change their contributions effective as of the first day of each calendar month. Participants may discontinue their contributions at any time.

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(c) Vesting

Participants are fully vested in their own contributions and earnings. Company's contributions are vested based on the following schedule:

Years of vesting service	Percent vested
Less than 1 year	—
1 year	33
2 years	66
3 or more years	100

(d) Forfeited Accounts

Forfeited balances of terminated participants' nonvested accounts are used to reduce the Plan's administrative expenses or future company contributions as further defined by the Plan. The amounts of forfeitures used to reduce Company contributions and pay administrative expenses were approximately $18,400 for the year ended December 31, 2009. In 2008, approximately $24,300 of forfeitures were used to reduce Company contributions. The forfeitures account balance as of December 31, 2009 and 2008 was approximately $330 and $6,700, respectively.

(e) Participant Accounts

Each participant's account is credited with the participant's contributions and its share of the Company's contribution, if any, and investment earnings, and charged with withdrawals and an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. Each participant is entitled only to the benefits that can be provided from that participant's vested account.

(f) Participant Loans

Under the Plan, a participant may borrow up to the lesser of 50% of his or her vested account balance or $50,000, subject to a minimum amount of $1,000. Interest is charged to participants at rates that provide a return commensurate with the prevailing rate of interest that would be charged by independent lenders for similar loans. The period of repayment of any loan shall not exceed five years unless the loan is to be used in conjunction with the purchase of the principal residence of the participant, in which case the loan term may not exceed 30 years. A participant may not have more than one loan outstanding at a time.

(g) Payments of benefits

A participant may withdraw his or her vested account balance on their retirement date, or make withdrawals based on hardship, death, disability, loans, and termination of employment, as defined in the Plan agreement.

When participation in the Plan terminates for any reason other than death, the participant's vested account balance, as defined in the Plan agreement, shall be distributed to such participant. When participation in the Plan is terminated by reason of death, the participant's entire account balance, as defined in the Plan agreement, shall be distributable to his or her designated beneficiary or executor. Distributions may be elected to be made in a lump sum, fixed period annuity, fixed period installment, or fixed payment installment option. The portion of a participant's vested account that is held in the Employer Securities Fund may be distributed in kind.

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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(c) Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162", ("FASB Codification") which is effective for reporting periods ending after September 15, 2009. The FASB Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF") and related accounting literature. The FASB Codification reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. The adoption of the FASB Codification did not impact the Plan's financial position or results of operations.

(d) Investment Valuation and Income Recognition

The Plan's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Net depreciation includes the plan's gains and losses on investments bought and sold as well as held during the year.

As required by the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification, fair value is to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market, in an orderly transaction between market participants. Such is a market-based measurement, not an entity-specific measurement.

This Topic establishes a three-level valuation hierarchy based upon observable and non-observable inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Plan's market assumptions. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

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Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation methodologies used for assets measured at fair value.

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value of shares held by the Plan at year end.

Participant loans: Valued at estimated fair value using amortized cost which management believes is an accurate reflection of fair value.

Pooled separate accounts (PSA): Valued at net asset value as reported by the investment manager of the fund.

Guaranteed interest accounts (GIA): Fair value represents the value the Plan would receive if the contract was terminated, which is book value less an early withdrawal charge.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Effective September 2008, the U.S. Property Separate Account is subject to withdrawal limitations due to economic conditions adversely effecting the commercial real estate market in which this separate account invests. As a result, death, disability, retirement and hardship withdrawals are being paid out while requests to transfer out of the separate account, take a loan, or termination distributions are subject to limitations. The related annuity contract allows withdrawal limitation to be applied for up to three years.

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The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2009 and 2008:

Over the past five years, on a continuing business basis we have increased sales at a compound annual rate of 14% at constant currencies and operating profit from £6m in 2003 to £27m in 2007. Over that period, we significantly re-oriented our professional publishing businesses towards long-term growth markets and built our professional testing unit into a profitable industry leader. We see good growth prospects for these businesses, which will benefit from growing 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

Registration volumes for the Graduate Management Admissions Council test rise 12% worldwide in the first half of 2008, including a 24% increase outside the US.

New business wins include contracts to provide test delivery for the American Board of Anesthesiology s certification exams and to deliver nursing exams for the UK s Royal College of Veterinary Surgeons.

Pearson VUE announces 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, German and Italian.

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

Professional Publishing

Three titles from Pearson Technology Group s Addison-Wesley Professional were winners of the 18th annual Jolt Product Excellence and Productivity Awards, including top prize in the Technical Books category for *Continuous Integration: Improving Software Quality and Reducing Risk* by Paul Duvall with Steve Matyas and Andrew Glover.

Two titles from Wharton School Publishing were selected for Amazon.com s Top Ten Editors Picks: Business for 2007: *We Are Smarter Than Me: How To Unleash The Power of Crowds in Your Business*, by Barry Libert and Jon Spector; and *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose,* by Rajendra S. Sisodia, David B. Wolfe, and Jagdish N. Sheth.

Scott Kelby, an author with Pearson s Peachpit imprint, is recognized as the top-selling computer book author for the fourth consecutive year, according to Nielsen BookScan data. His books include *The iPod Book: Doing Cool Stuff with the iPod and the iTunes Music Store, Fourth Edition*, and *The Adobe Photoshop Lightroom Book for Digital Photographers*.

FINANCIAL TIMES GROUP

£ millions	Half year 2008	Half year 2007	CER growth	Underlying growth	Full year 2007
Sales					
FT Publishing	**188**	164	13%	8%	344
Interactive Data	**186**	168	8%	7%	344
Total	***374***	*332*	*11%*	*8%*	*688*
Adjusted operating profit					
FT Publishing	**30**	23	26%	13%	56
Interactive Data	**54**	45	18%	16%	97
Total	***84***	*68*	*21%*	*15%*	*153*

In recent years, the FT Group has significantly shifted its business towards digital and subscription revenues. We have sold largely print and advertising-based national media companies (Recoletos in Spain, Les Echos in France, FT Deutschland in Germany); acquired digital businesses with international opportunities (Mergermarket, Exec-Appointments.com, Money-Media); and invested steadily behind our global and digital businesses including the *Financial Times*, FT.com and Interactive Data.

As a result of this strategy, in 2007 digital services accounted for 63% of FT Group revenues, up from 28% in 2000; in 2007 advertising accounted for 30% of FT Group revenues, down from 52% in 2000. On a continuing business basis, FT Group sales have increased from £506m in 2003 to £688m in 2007, and profits from £39m to £153m.

Looking ahead, we believe that the FT s premium and global position, combined with our digital and subscription businesses, put us in a good position to increase profits at the FT Group in 2008, even in tough macroeconomic conditions.

FT Publishing

FT Publishing revenues up 13%, and operating profit up 26% to £30m (£23m in 2007).

FT Publishing advertising revenues increase by 2% as good growth in industrial, consumer and luxury categories, including the *How to Spend It* magazine, offset weakness in technology, corporate finance and recruitment ads at the FT newspaper, and personal finance and mortgage-related advertising at FT Business.

Financial Times maintains worldwide newspaper circulation at approximately 450,000 (449,260 average for the January-June ABC period) and wins many awards including Newspaper of the Year at the 2008 British Press Awards.

FT.com benefits from launch of innovative new access model involving registration for access to more than five articles per month. Subscribers maintained at around 100,000, while registered users increase more than three-fold from almost 150,000 at the end of 2007 to 500,000 at the end of July 2008.

The *Financial Times* continues to invest in international expansion and fast-growing markets. It launches a new edition for the Middle East, reflecting the Gulf region s growth as an international finance and business centre; and *Rui*, a lifestyle and wealth-management magazine for China s fast-growing business elite.

Strong performance from Mergermarket with contract renewal rates of almost 90% and new product launches including Debtwire ABS and Debtwire Re-structuring Database.

FT acquires Money-Media, which provides online news and commentary for the fund-management industry. Money-Media rolls out Ignites Europe, an online news service for people working with the European cross-border fund industry.

The Economist, in which Pearson owns a 50% stake, increases weekly circulation by 9% to 1.3 m (for the July-December ABC period). Operating profit at The Economist Group increases 23% to £44m, and sales increase 8% to £266m for the year ended 31 March 2008.

Interactive Data

Interactive Data revenues up 8% and operating profit up 18% to £54m (£45m in 2007) driven by strong sales and approximately 95% renewal rates within its Institutional Services segment.

Raises full year guidance to revenue growth in the 8-10% range and operating profit growth within the 11-13% range (headline growth under US GAAP) against previous guidance of revenue growth in the 7-9% range and operating profit growth within the 9-11% range.

Pricing and Reference Data continues to generate good growth in North America and Europe. Growth is primarily organic, by providing additional services to customers, but also through bolt-on acquisitions, most recently the announced purchase of Kler s Financial Data Service, a leading provider of reference data to the Italian financial industry.

Real-Time Services sees strong growth in its datafeeds business and continued expansion of its Managed Solutions business in the United States. On 1 July 2008, Interactive Data Real-Time Services launched its new generation, high speed data distribution network, designed to manage the anticipated continued rapid growth of data volumes.

Continued investment in expanding the breadth and depth of the data covered and products offered, including a new OTC complex derivatives valuation tool to be launched later in 2008; and in the capacity of its real-time infrastructure to allow for the anticipated growth in real-time market data volumes.

Interactive Data continues to benefit from growth trends including: heightened scrutiny around the valuation of securities; increased regulation; increasing adoption of low latency data for algorithmic trading; and continuing need to differentiate wealth management offerings with bespoke client interface solutions.

PENGUIN

£ millions	Half year 2008	Half year 2007	CER growth	Underlying growth	Full year 2007
Sales	**408**	367	9%	9%	846
Adjusted operating profit	**26**	18	22%	28%	74

Penguin is one of the most famous brands in book publishing, known around the world for the quality of its publishing and its consistent record of innovation.

We set out a plan several years ago to grow Penguin s profits significantly and consistently. That plan has four major parts:

1. Continued and disciplined investment in author and product development;

2. Developing Penguin as a globally coordinated publishing organisation, benefiting from its worldwide scale and rapid rates of growth in literacy, education and demand for books in emerging markets;

3. Innovating with digital technologies to provide new reading experiences, new ways to market and sell books, and more efficient means of production, storage and distribution of content;

4. Becoming a more efficient organisation, focusing on margin progression, working capital discipline and cash generation.

Penguin s recent progress and its excellent start to 2008 confirm that this plan is working, placing it in a strong position to sustain its publishing and commercial success and achieve its target of double digit margins in 2008.

Penguin s first-half highlights include:

Strong publishing in all markets; top awards in the US, Australia, Canada and India

In the US, Penguin leads the industry for #1 New York Times bestsellers in the first half. Penguin s 17 #1 bestsellers include Eckhart Tolle s *A New Earth* (5.8 million copies shipped), Greg Mortenson s *Three Cups of Tea*, Michael Pollan s *In Defense of Food* and Harlan Coben s *Hold Tight*. Junot Díaz wins The Pulitzer Prize for Fiction and the National Book Critics Circle Award for Fiction for *The Brief Wondrous Life of Oscar Wao*.

In the UK, #1 bestseller *Devil May Care,* the new James Bond novel by Sebastian Faulks, is the fastest-selling hardback fiction title in Penguin UK s history, with almost 300,000 copies shipped to date. Other bestselling authors included Marian Keyes, Jane Green and Jamie Oliver.

In Australia, Penguin is named Publisher of the Year at the Australian Book Industry Awards (and wins four of the seven awards for individual books), growing ahead of its market with bestsellers from Australian authors Tom Winton and Monica McInerney alongside international authors Marian Keyes and Eckhart Tolle.

In Canada, Penguin is named Publisher of the Year by the Canadian Booksellers Association. Bestsellers include Ken Follett, Khaled Hosseini, Kim Edwards, Elizabeth Gilbert and Eckhart Tolle.

In India, Penguin is the largest trade publisher, is growing rapidly with authors such as Shobhaa De and Amitav Ghosh, and wins the major English language prizes in India s national book awards.

Wolf Totem by Jiang Rong, which won the first Man Asian Literary Prize, is published globally by Penguin Group in English including in China. Penguin Classics are launched in both Chinese and Korean.

In the second half, Penguin will publish major new books in the US, including titles by Patricia Cornwell, Kathleen Norris, Daniel Silva, Barton Gellman, Clive Cussler and Mary-Kate and Ashley Olsen, while Penguin UK has new works by Zoë Heller, Michael Moore, Jamie Oliver and Twiggy.

Leading in digital innovation

Significant expansion of eBook publishing and sales. In the US, Penguin will have 6,500 titles in eBook format by early 2009 and intends to publish new frontlist titles as eBooks. In the UK Penguin intends to publish new titles simultaneously in print and eBook formats and begins a programme to publish its 5,000-title backlist as eBooks.

In the US, Penguin publishes Jane Austen s *Pride and Prejudice* as its first title in a new Enhanced eBook format and debuts in the top 10 on the Amazon Kindle bestseller list. It includes the original book reviews, a chronology of her life, instruction on period etiquette, dancing and recipes and a literary tour of famous Austen sites.

Penguin partners with Mobifusion in India to deliver content to consumers via mobile phones.

Rapid growth in traffic and sales at Penguin s websites. Unique visitors up to 4m across Penguin s US and UK sites, an increase of around 20%.

Penguin wins at the New Media Age Effectiveness Awards for www.blogapenguinclassic.com, an online forum where readers blog about many of the best books ever written. Penguin also launches www.penguin.co.uk/tasters, which allows readers to download and sample the first chapters of all Penguin s latest novels for free.

ENDS

Except for the historical information contained herein, the matters discussed in this press release include forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. These risks and uncertainties include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in the company s publicly-filed documents, including the company s Annual Report. The company undertakes no obligation to update publicly any forward looking statement, whether as a result of new information, future events or otherwise.

FINANCIAL REVIEW

Operating result

On a headline basis, sales for the six months to 30 June 2008 increased by £271m or 16% from £1,694m in 2007 to £1,965m in 2008 and total adjusted operating profit increased by £31m or 33% from £93m in 2007 to £124m in 2008.

On an underlying basis sales grew by 6% and adjusted operating profit by 20%. Our underlying measures exclude the effects of exchange and portfolio changes. In the first half of 2008, currency movements increased sales by £37m and adjusted operating profit by £5m while portfolio changes increased sales by £137m and adjusted operating profit by £9m.

Adjusted operating profit excludes amortisation of acquired intangibles and includes the adjusted profits from discontinued operations (excluding gains and losses on disposal). Statutory operating profit (from continuing operations) increased by £25m or 36% from £70m in 2007 to £95m in 2008. Statutory operating profit includes an increased charge for intangible amortisation but does not include the contribution from discontinued operations.

Net finance costs

Net finance costs reported in our adjusted earnings comprise net interest payable and net finance income relating to employee benefit plans. Net interest payable for the first six months of 2008 was £45m up from £44m for the first six months of 2007. This rise is mainly due to higher average net debt, offset by a reduction in interest rates on our floating US dollar debt. Finance income relating to post-retirement plans was £5m in 2008, remaining at the same level as the prior period.

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 the period to June 2008, there was no net effect from these items although foreign exchange and other gains and losses in the six months to 30 June 2007 amounted to an income of £4m.

Taxation

The reported tax rate for the six months to 30 June 2008 was 29%. This is broadly consistent with the expected UK corporation tax rate for the full year of 28.5%. Although our overseas profits, which arise mainly in the US, are subject to tax rates that are generally higher than the UK rate, the US profit is not as significant at the half year as it is at the full year. The effective tax rate on our adjusted earnings for the six months to 30 June 2008 was 28%; this rate is lower than the statutory rate as it includes the benefit of tax deductions attributable to amortisation of goodwill and intangibles. This benefit more accurately aligns the adjusted tax charge with the expected medium-term rate of cash tax payment.

Discontinued operations

Discontinued operations in 2008 relates to the Data Management (Scanners) 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).

We received cash proceeds of $221m on the sale of the Scanners business and realised a loss before tax of £51m mainly due to exchange. Tax on the sale is expected to be a charge of £37m.

Minority interests

Our minority interests comprise mainly the 39% minority share of Interactive Data.

Dividends

The dividend accounted for in the six months to June 2008 is the final dividend in respect of 2007 of 20.5p. An interim dividend of 11.8p was approved by the Board in July 2008 and will be accounted for in the second half of 2008.

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 have some smaller defined benefit sections in the US and Canada but, outside the UK, most of our companies operate defined contribution plans.

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £36m in the first six months of 2008 compared to £29m in the first six months of 2007. Of the charge, £41m (2007 half year: £34m) is reported as a charge in operating profit and £5m (2007 half year: £5m) is reported as income in net finance costs. The overall surplus on the UK Group plan decreased from £62m at the end of 2007 to £36m at 30 June 2008.

Principal risks and uncertainties

We conduct regular reviews to identify risk factors which may affect our business or financial performance. Our internal audit function reviews these risks with each of the Group s businesses and agrees measures to mitigate these risks wherever possible. The principal risks and uncertainties have not changed from those detailed in the 2007 Annual Report.

Recent uncertainty in the global economy may affect market confidence and the ability of some companies to raise finance and thereby lead to increased counterparty risk. The group is not exposed to sub-prime or collateralised debt obligations and has sufficient resources to continue to finance working capital and investment needs through existing borrowings and undrawn facilities. In May 2008, we successfully raised $900m in the US capital market.

The effect that a global economic slow down may have on our customers, suppliers and levels of funding for our products and services is difficult to predict but weaker economic conditions may lead to some slowdown in demand for some of our products.

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months to 30 June 2008

all figures in £ millions	note	2008 half year	2007 half year	2007 full year
Continuing operations				
Sales	2	**1,965**	1,694	4,162
Cost of goods sold		**(934)**	(811)	(1,910)
Gross profit		**1,031**	883	2,252
Operating expenses		**(950)**	(824)	(1,701)
Share of results of joint ventures and associates		**14**	11	23
Operating profit	2	**95**	70	574
Finance costs	3	**(57)**	(57)	(150)
Finance income	3	**17**	22	44
Profit before tax	4	**55**	35	468
Income tax	5	**(16)**	(9)	(131)
Profit for the period from continuing operations		**39**	26	337
Discontinued operations				
Loss for the period from discontinued operations	8	**(88)**	(119)	(27)
(Loss) / profit for the period		**(49)**	(93)	310
Attributable to:				
Equity holders of the Company		**(62)**	(104)	284
Minority interest		**13**	11	26
(Loss) / earnings per share from continuing and discontinued operations (in pence per share)				
Basic	6	**(7.8)p**	(13.0)p	35.6p
Diluted	6	**(7.8)p**	(13.0)p	35.6p
Earnings per share from continuing operations (in pence per share)				
Basic	6	**3.3p**	1.9p	39.0p
Diluted	6	**3.3p**	1.9p	39.0p

The accompanying notes to the condensed consolidated financial statements form an integral part of the interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the six months to 30 June 2008

all figures in £ millions	**note**	**2008 half year**	**2007 half year**	**2007 full year**
Net exchange differences on translation of foreign operations		23	(39)	25
Actuarial (losses) / gains on retirement benefit obligations		**(39)**	134	80
Taxation on items charged to equity		**14**	8	29
Net (expense) / income recognised directly in equity		**(2)**	103	134
(Loss) / profit for the period		**(49)**	(93)	310
Total recognised income and expense for the period		**(51)**	10	444
Attributable to:				
Equity holders of the Company	**11**	**(64)**	(1)	418
Minority interest		**13**	11	26

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 June 2008

all figures in £ millions	note	**2008 half year**	**2007 half year**	**2007 full year**
Property, plant and equipment		**349**	342	355
Intangible assets	13	**4,118**	3,641	3,814
Investments in joint ventures and associates		**18**	26	20
Deferred income tax assets		**319**	353	328
Financial assets - Derivative financial instruments		**21**	16	23
Retirement benefit assets		**36**	40	62
Other financial assets		**47**	52	52
Other receivables		**147**	126	129
Non-current assets		**5,055**	4,596	4,783
Intangible assets Pre-publication		**527**	437	450
Inventories		**486**	437	368
Trade and other receivables		**1,032**	984	946
Financial assets Derivative financial instruments		**2**	19	28
Financial assets Marketable securities		**19**	28	40
Cash and cash equivalents (excluding overdrafts)		**448**	383	560
Current assets		**2,514**	2,288	2,392
Non-current assets classified as held for sale			45	117
Total assets		**7,569**	6,929	7,292
Financial liabilities Borrowings		**(1,897)**	(1,471)	(1,049)
Financial liabilities Derivative financial instruments		**(21)**	(28)	(16)
Deferred income tax liabilities		**(283)**	(252)	(287)
Retirement benefit obligations		**(94)**	(81)	(95)
Provisions for other liabilities and charges		**(58)**	(37)	(44)
Other liabilities		**(173)**	(116)	(190)
Non-current liabilities		**(2,526)**	(1,985)	(1,681)
Trade and other liabilities		**(968)**	(891)	(1,050)
Financial liabilities Borrowings		**(251)**	(392)	(559)
Financial liabilities Derivative financial instruments		**(3)**		
Current income tax liabilities		**(88)**	(61)	(96)
Provisions for other liabilities and charges		**(33)**	(14)	(23)
Current liabilities		**(1,343)**	(1,358)	(1,728)
Liabilities directly associated with non-current assets held for sale			(46)	(9)
Total liabilities		**(3,869)**	(3,389)	(3,418)
Net assets		**3,700**	3,540	3,874
Share capital		**202**	202	202
Share premium		**2,500**	2,494	2,499

Treasury shares		**(241)**	(224)	(216)
Reserves		**1,048**	892	1,210
Total equity attributable to equity holders of the Company		**3,509**	3,364	3,695
Minority interest		**191**	176	179
Total equity	11	**3,700**	3,540	3,874

The condensed consolidated financial statements were approved by the Board on 27 July 2008.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months to 30 June 2008

all figures in £ millions	note	2008 half year	2007 half year	2007 full year
Cash flows from operating activities				
Net cash (used in) / generated from operations	17	**(147)**	(188)	659
Interest paid		**(42)**	(50)	(109)
Tax paid		**(48)**	(48)	(87)
Net cash (used in) / generated from operating activities		**(237)**	(286)	463
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		**(355)**	(167)	(472)
Acquisition of joint ventures and associates		**(1)**	(2)	(4)
Purchase of property, plant and equipment (PPE)		**(32)**	(30)	(86)
Proceeds from sale of PPE		**1**		14
Purchase of intangible assets		**(14)**	(14)	(33)
Disposal of subsidiaries, net of cash disposed		**106**	289	469
Disposal of investments		**4**		
Interest received		**8**	5	19
Dividends received from joint ventures and associates		**2**	3	32
Net cash (used in) / generated from investing activities		**(281)**	84	(61)
Cash flows from financing activities				
Proceeds from issue of ordinary shares		**2**	7	12
Purchase of treasury shares		**(20)**	(51)	(72)
Proceeds from borrowings		**663**	597	272
Liquid resources disposed / (acquired)		**20**	(4)	(15)
Repayment of borrowings		**(100)**	(391)	(391)
Finance lease principal payments		**(1)**	(1)	(2)
Dividends paid to Company s shareholders		**(163)**	(150)	(238)
Dividends paid to minority interests		**(15)**	(4)	(10)
Net cash generated from / (used in) financing activities		**386**	3	(444)
Effects of exchange rate changes on cash and cash equivalents		**15**	7	3
Net decrease in cash and cash equivalents		**(117)**	(192)	(39)
Cash and cash equivalents at beginning of period		**492**	531	531
Cash and cash equivalents at end of period		**375**	339	492

For the purposes of the cash flow statement, cash and cash equivalents are presented net of overdrafts repayable on demand. These overdrafts are excluded from cash and cash equivalents disclosed on the balance sheet.

Included in the figures above are net cash generated from / used in amounts relating to discontinued operations as follows: operating activities £nil (2007 half year: £(2)m, 2007 full year: £7m); investing activities £nil (2007 half year: £nil, 2007 full year: £3m); financing activities £nil (2007 half year: £(5)m, 2007 full year: £(21)m).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months to 30 June 2008

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 Interim Financial Reporting as adopted by the European Union (EU). The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007 which have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU). In respect of accounting standards applicable to the Group there is no difference between EU-adopted IFRS and International Accounting Standards Board (IASB)-issued IFRS.

The condensed consolidated financial statements have also been prepared in accordance with the accounting policies set out in the 2007 Annual Report and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value. On 1 January 2008, the Group early adopted IFRS 8 Operating Segments which, in conjunction with organisational changes, has led to a change in segments within the Education business. IFRS 8 requires that segments are reported on a management basis and these results are reported under the new organisational structure in a manner consistent with internal reporting to the Board and senior management of Pearson (see note 2). The 2007 Annual Report also refers to other new standards effective from 1 January 2008. Apart from IFRS 8, none of these standards have had a material impact in these financial statements.

The preparation of condensed consolidated financial statements requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the Group s accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements have been set out in the 2007 Annual Report.

The financial information for the year ended 31 December 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditors report on the full financial statements for the year ended 31 December 2007 was unqualified and did not contain statements under section 237 (2) of the Companies Act 1985 (regarding the adequacy of accounting records and returns), or under section 237 (3) (regarding provision of necessary information and explanations).

In accordance with IFRS, the comparatives for the six months to 30 June 2007 have been re-presented to reflect the Data Management (Scanners) business as a discontinued business (see note 8). Government Solutions, Les Echos and Datamark were previously presented as discontinued in the financial information for 2007.

The figures for the six months to 30 June 2008 and 30 June 2007 have not been audited or reviewed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

2. Segment information

Following the adoption of IFRS 8 Operating Segments and changes in the organisational structure in the Education business, the Group has revised its reporting segments. The Group is now organised into six primary business segments: North American Education, International Education, Professional, Financial Times Publishing, Interactive Data and Penguin.

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Sales			
North American Education	**713**	599	1,667
International Education	**365**	292	735
Professional	**105**	104	226
Pearson Education	**1,183**	995	2,628
FT Publishing	**188**	164	344
Interactive Data	**186**	168	344
FT Group	**374**	332	688
Penguin	**408**	367	846
Total sales continuing operations	**1,965**	1,694	4,162
Adjusted operating profit			
North American Education	**(16)**	(14)	273
International Education	**20**	3	92
Professional	**10**	11	27
Pearson Education	**14**		392
FT Publishing	**30**	23	56
Interactive Data	**54**	45	97
FT Group	**84**	68	153
Penguin	**26**	18	74
Adjusted operating profit continuing operations	**124**	86	619
Adjusted operating profit discontinued operations		7	15
Total adjusted operating profit	**124**	93	634

Discontinued operations relate to the Group s interest in Government Solutions, Les Echos and the Data Management (Scanners) business (see note 8). Government Solutions and the Scanners business were previously reported (before the adoption of IFRS 8) within the Professional group of businesses and Les Echos within the FT Publishing segment.

Adjusted operating profit is one of Pearson s key business performance measures; it includes the operating profit from the total business including the results of discontinued operations. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are excluded from adjusted operating profit as they distort the performance of the Group. In 2007 and 2008 these other net gains and losses all related to discontinued operations.

In our adjusted operating profit, we have also excluded amortisation of acquired intangibles as this is not considered to be fully reflective of the underlying performance of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

2. Segment information *continued*

The following table reconciles adjusted operating profit from continuing operations to operating profit for each segment.

all figures in £ millions	**North American Education**	**International Education**	**Professional**	**FT Publishing**	**Interactive Data**	**Penguin**	**Total**
			2008 half year				
Adjusted operating profit / (loss)	**(16)**	**20**	**10**	**30**	**54**	**26**	**124**
Amortisation of acquired intangibles	**(12)**	**(8)**		**(4)**	**(4)**	**(1)**	**(29)**
Operating profit / (loss)	**(28)**	**12**	**10**	**26**	**50**	**25**	**95**
			2007 half year				
Adjusted operating profit / (loss)	(14)	3	11	23	45	18	86
Amortisation of acquired intangibles	(8)	(2)		(2)	(4)		(16)
Operating profit / (loss)	(22)	1	11	21	41	18	70
			2007 full year				
Adjusted operating profit	273	92	27	56	97	74	619
Amortisation of acquired intangibles	(20)	(10)	(1)	(6)	(7)	(1)	(45)
Operating profit	253	82	26	50	90	73	574

Corporate costs are allocated to business segments on an appropriate basis depending on the nature of the cost and therefore the total segment result is equal to the Group operating profit.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

3. Net finance costs

all figures in £ millions	2008 half year	2007 half year	2007 full year
Net interest payable	**(45)**	(44)	(95)
Finance income in respect of employee benefits	**5**	5	10
Net foreign exchange gains / (losses)		6	(17)
Other gains / (losses) on financial instruments in a hedging relationship:			
- fair value hedges	**(1)**		(1)
- net investment hedges	**1**	(1)	(1)
Other gains / (losses) on financial instruments not in a hedging relationship:			
- amortisation of transitional adjustment on bonds	**1**	1	1
- derivatives	**(1)**	(2)	(3)
Net finance costs	**(40)**	(35)	(106)
Analysed as:			
Finance costs	**(57)**	(57)	(150)
Finance income	**17**	22	44
Net finance costs	**(40)**	(35)	(106)
Analysed as:			
Net interest payable	**(45)**	(44)	(95)
Finance income in respect of employee benefits	**5**	5	10
Net finance costs reflected in adjusted earnings	**(40)**	(39)	(85)
Other net finance income / (costs)		4	(21)
Net finance costs	**(40)**	(35)	(106)

Fair value gains and losses on financial instruments are analysed between three elements: net interest payable, foreign exchange and other gains and losses. For the purposes of adjusted earnings we have excluded foreign exchange and other gains and losses 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.

Other net finance costs of £21m for the full year 2007, mainly relate to exchange losses on legacy euro denominated debt held to hedge the receipt of the euro denominated proceeds from the Les Echos sale. A corresponding gain was included in the sale proceeds recorded on this sale.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

4. Profit before tax

all figures in £ millions	note	2008 half year	2007 half year	2007 full year
Profit before tax continuing operations		**55**	35	468
Add back: amortisation of acquired intangibles	2	**29**	16	45
Add back: other net finance costs / (income)	3		(4)	21
Adjusted profit before tax - continuing operations		**84**	47	534
Adjusted profit before tax - discontinued operations			7	15
Total adjusted profit before tax		**84**	54	549

5. Income tax

all figures in £ millions	2008 half year	2007 half year	2007 full year
Income tax charge continuing operations	**(16)**	(9)	(131)
Add back: tax benefit on amortisation of acquired intangibles	**(10)**	(6)	(19)
Add back: tax benefit on other net gains and losses			(9)
Add back: tax (benefit) / charge on other finance income		1	(6)
Tax amortisation benefit on goodwill and intangibles	**2**	1	25
Adjusted income tax charge - continuing operations	**(24)**	(13)	(140)
Adjusted income tax charge - discontinued operations		(3)	(5)
Total adjusted income tax charge	**(24)**	(16)	(145)
Tax rate reflected in adjusted earnings	**28.0%**	29.0%	26.4%

Our adjusted income tax charge excludes the tax benefit on other gains and losses as this benefit relates to profits or losses on the sale of subsidiaries, joint ventures or associates and other financial assets that have previously been excluded from the adjusted profit before tax.

Also, in our adjusted income tax charge we have included the tax benefit from tax deductible goodwill and intangibles as this benefit more accurately aligns the adjusted tax charge with the expected medium-term rate of cash tax payments. The benefit has been applied in the first half results, reflecting the seasonality of the business, to achieve the anticipated full year effective tax rate for adjusted earnings.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders of the Company (earnings) by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to take account of all dilutive potential ordinary shares and adjusting the profit attributable, if applicable, to account for any tax consequences that might arise from conversion of those shares.

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Profit for the period from continuing operations	**39**	26	337
Minority interest	**(13)**	(11)	(26)
Earnings from continuing operations	**26**	15	311
Loss for the period from discontinued operations	**(88)**	(119)	(27)
(Loss) / earnings	**(62)**	(104)	284
Weighted average number of shares (millions)	**796.6**	797.3	796.8
Effect of dilutive share options (millions)	**1.1**	1.6	1.3
Weighted average number of shares (millions) for diluted earnings	**797.7**	798.9	798.1
(Loss) / earnings per share from continuing and discontinued operations			
Basic	**(7.8)p**	(13.0)p	35.6p
Diluted	**(7.8)p**	(13.0)p	35.6p
Earnings per share from continuing operations			
Basic	**3.3p**	1.9p	39.0p
Diluted	**3.3p**	1.9p	39.0p

7. Adjusted earnings reconciliation

In order to show results from operating activities on a consistent basis, an adjusted earnings per share is presented which excludes certain items as set out below.

The adjusted earnings per share includes both continuing and discontinued businesses on an undiluted basis. The Company s definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

7. Adjusted earnings reconciliation *continued*

all figures in £ millions	Statutory income statement	Re-analyse discontinued operations	Other net gains and losses	Amortisation/ adjustment of acquired intangibles	Other net finance costs / income	Tax amortisation benefit	Adjusted income statement
				2008 half year			
Operating profit (note 2)	**95**			29			**124**
Net finance costs (note 3)	**(40)**						**(40)**
Profit before tax (note 4)	**55**			29			**84**
Income tax (note 5)	**(16)**			(10)		2	**(24)**
Profit for the period continuing	**39**			19		2	**60**
Profit for the period discontinued (note 8)	**(88)**		88				
Profit for the period	**(49)**		88	19		2	**60**
Minorities	**(13)**			(2)			**(15)**
Earnings	**(62)**		88	17		2	**45**
Weighted average number of shares (millions)							**796.6**
Adjusted earnings per share							**5.6p**
				2007 half year			
Operating profit (note 2)	70	7		16			93
Net finance costs (note 3)	(35)				(4)		(39)
Profit before tax (note 4)	35	7		16	(4)		54
Income tax (note 5)	(9)	(3)		(6)	1	1	(16)
Profit for the period continuing	26	4		10	(3)	1	38
Profit for the period discontinued (note 8)	(119)	(4)	123				
Profit for the period	(93)		123	10	(3)	1	38
Minorities	(11)			(2)			(13)
Earnings	(104)		123	8	(3)	1	25
Weighted average number of shares							797.3

(millions)	
Adjusted earnings per share	3.1p

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

7. Adjusted earnings reconciliation *continued*

all figures in £ millions	Statutory Income statement	Re-analyse discontinued operations	Other net gains and losses	Amortisation/ adjustment of acquired intangibles	Other net finance costs / income	Tax amortisation benefit	Adjusted income statement
				2007 full year			
Operating profit (note 2)	574	15		45			634
Net finance costs (note 3)	(106)				21		(85)
Profit before tax (note 4)	468	15		45	21		549
Income tax (note 5)	(131)	(5)	(9)	(19)	(6)	25	(145)
Profit for the period continuing	337	10	(9)	26	15	25	404
Profit for the period discontinued (note 8)	(27)	(10)	37				
Profit for the period	310		28	26	15	25	404
Minorities	(26)			(4)		(2)	(32)
Earnings	284		28	22	15	23	372
Weighted average number of shares (millions)							796.8
Adjusted earnings per share							46.7p

8. Discontinued operations

Discontinued operations relate to the Group s interest in Government Solutions (sold on 15 February 2007), Datamark (acquired with eCollege and immediately sold on 31 July 2007), Les Echos (sold on 24 December 2007) and the Data Management (Scanners) business (sold on 22 February 2008).

The results of Government Solutions and Les Echos have been included in discontinued operations in 2007 and consolidated up to the date of sale. Datamark was sold immediately following its acquisition as part of the eCollege transaction and consequently none of the results for this business have been consolidated. The Scanners business was sold on 22 February 2008 and has been included in discontinued operations for the full year in 2007 and up to the date of sale in 2008. The assets and liabilities of the Scanners business were reported as held for sale in the 31 December 2007 balance sheet. At 30 June 2007 the held for sale assets and liabilities relate to Les Echos.

Sales by discontinued operations are shown in the table below:

all figures in £ millions	2008 half year	2007 half year	2007 full year

Total sales by discontinued operations	**7**	97	167

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

8. Discontinued operations *continued*

The loss for the period on discontinued operations is analysed below. The amounts for the six months to 30 June 2008 relate entirely to the Scanners business.

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Operating profit		7	15
Goodwill impairment (re Scanners disposal)			(97)
Profit / (loss) before tax before sale of discontinued operations		7	(82)
Attributable tax expense		(3)	(5)
(Loss) / profit on sale of discontinued operations	**(51)**	(24)	146
Attributable tax expense	**(37)**	(99)	(86)
Loss for the period from discontinued operations	**(88)**	(119)	(27)
(Loss) / profit before tax	**(51)**	(17)	64
Attributable tax expense	**(37)**	(102)	(91)
Loss for the period from discontinued operations	**(88)**	(119)	(27)
Operating profit included in adjusted earnings		7	15
Attributable tax expense		(3)	(5)
Profit for the period included in adjusted earnings		4	10
Goodwill impairment (re Scanners disposal)			(97)
(Loss) / profit on sale of discontinued operations	**(51)**	(24)	146
Attributable tax expense	**(37)**	(99)	(86)
Loss for the period from discontinued operations	**(88)**	(119)	(27)

The loss / profit on sale of discontinued businesses is analysed below:

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Net assets disposed	**(109)**	(278)	(296)
Proceeds received	**111**	321	515
Costs	**(4)**	(13)	(20)
(Loss) / profit on sale before cumulative translation adjustment	**(2)**	30	199
Cumulative translation adjustment	**(49)**	(54)	(53)
(Loss) / profit on sale before tax	**(51)**	(24)	146
Attributable tax charge	**(37)**	(99)	(86)

(Loss) / profit on sale after tax	**(88)**	(123)	60

The loss in 2008 relates entirely to the Scanners business**.**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

9. Dividends

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Amounts recognised as distributions to equity shareholders in the period	**163**	150	238

The directors are proposing an interim dividend of 11.8p per equity share, payable on 19 September 2008 to shareholders on the register at the close of business on 22 August 2008. This interim dividend, which will absorb an estimated £94m of shareholders funds, has not been included as a liability as at 30 June 2008.

10. Exchange rates

Pearson earns a significant proportion of its sales and profits in overseas currencies, the most important being the US dollar. The relevant rates are as follows:

	2008 half year	**2007 half year**	**2007 full year**
Average rate for profits	**1.97**	1.98	2.00
Period end rate	**1.99**	2.01	1.99

11. Statement of changes in equity

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Attributable to equity holders of the Company			
Total recognised income and expense for the period	**(64)**	(1)	418
Equity settled transactions	**16**	13	30
Issue of ordinary shares share option schemes	**2**	7	12
Cumulative translation adjustment on disposals	**49**	54	53
Purchase of treasury shares	**(26)**	(35)	(56)
Dividends paid to equity holders of the Company	**(163)**	(150)	(238)
Net movement for the period	**(186)**	(112)	219
Attributable to equity holders of the Company at the beginning of the period	**3,695**	3,476	3,476
Attributable to equity holders of the Company at the end of the period	**3,509**	3,364	3,695
Minority interest	**191**	176	179
Total equity	**3,700**	3,540	3,874

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

12. Business combinations

On 2 January 2008 the Group acquired Money-Media, a US-based company offering online news and commentary for the money management industry. On 30 January 2008 the Group completed its acquisition of Harcourt Assessment from Reed Elsevier, after receiving clearance from the US Department of Justice.

Provisional values for the assets and liabilities arising from the acquisitions completed in the six months to 30 June 2008 and adjustments to prior year acquisitions are set out below. For acquisitions completed in the six months to 30 June 2008, we expect to complete fair value and intangible asset reviews in the second half of the year.

all figures in £ millions	Harcourt Assessment	Money-Media	Other	Total
Property, plant and equipment	6			**6**
Intangible assets	6	10	6	**22**
Intangible assets Pre-publication	36		(2)	**34**
Inventories	9			**9**
Trade and other receivables	49	1		**50**
Cash and cash equivalents	5	2		**7**
Trade and other liabilities	(38)	(4)	4	**(38)**
Current income tax			(1)	**(1)**
Net deferred income tax liabilities		(4)		**(4)**
Provisions for other liabilities and charges	(18)		(6)	**(24)**
Net assets acquired at fair value	55	5	1	**61**
Goodwill	271	28	3	**302**
Total	326	33	4	**363**
Satisfied by:				
Cash				**(361)**
Deferred consideration				**(1)**
Net prior year adjustments				**(1)**
Total consideration				**(363)**
Net cash outflow on acquisition:				
Cash current period acquisitions				**(361)**
Deferred payments for prior year acquisitions and other items				**(1)**
Cash and cash equivalents acquired				**7**
Cash outflow on acquisitions				**(355)**

In total, acquisitions completed in the six months to 30 June 2008 contributed an additional £79m of sales and £7m of operating profit.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

13. Intangible assets

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Goodwill	**3,652**	3,341	3,343
Other intangibles	**466**	300	471
Total intangibles	**4,118**	3,641	3,814

14. Net debt

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Non-current assets			
Derivative financial instruments	**21**	16	23
Current assets			
Derivative financial instruments	**2**	19	28
Marketable securities	**19**	28	40
Cash and cash equivalents (excluding overdrafts)	**448**	383	560
Non-current liabilities			
Borrowings	**(1,897)**	(1,471)	(1,049)
Derivative financial instruments	**(21)**	(28)	(16)
Current liabilities			
Borrowings	**(251)**	(392)	(559)
Derivative financial instruments	**(3)**		
Net debt continuing operations	**(1,682)**	(1,445)	(973)
Net cash classified as held for sale		13	
Total net debt	**(1,682)**	(1,432)	(973)

In May 2008, Pearson issued $350m 5.5% Guaranteed Senior Notes 2013 and $550m 6.25% Guaranteed Senior Notes 2018. The proceeds were used to repay outstanding indebtedness under our existing revolving credit facility agreement.

15. Related parties

There were no material related party transactions and no guarantees have been provided to related parties in the period.

16. Events after the balance sheet date

There were no significant post balance sheet events.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*

for the six months to 30 June 2008

17. Cash flows

all figures in £ millions	**2008 half year**	**2007 half year**	**2007 full year**
Reconciliation of profit / loss for the period to net cash generated from / used in operations			
(Loss) / profit for the period	**(49)**	(93)	310
Income tax	**53**	111	222
Depreciation and amortisation charges	**83**	62	138
Investment in pre-publication assets	**(128)**	(103)	(230)
Amortisation of pre-publication assets	**87**	74	192
Loss on sale of property, plant and equipment		1	1
Net finance costs	**40**	35	106
Share of results of joint ventures and associates	**(14)**	(11)	(23)
Profit / (loss) on sale of subsidiaries and associates	**51**	24	(146)
Goodwill impairment of discontinued operations			97
Net foreign exchange (losses) / gains from transactions	**(2)**	(1)	11
Share-based payment costs	**16**	13	30
Inventories	**(105)**	(75)	(1)
Trade and other receivables	**(49)**	(48)	(5)
Trade and other liabilities	**(121)**	(110)	80
Retirement benefit obligations	**(9)**	(67)	(126)
Provisions			3
Net cash (used in) / generated from operations	**(147)**	(188)	659
Dividends from joint ventures and associates	**2**	2	32
Net purchase of PPE including finance lease principal payments	**(32)**	(31)	(74)
Purchase of intangible assets	**(14)**	(14)	(33)
Add back: Special pension contribution		50	100
Operating cash flow	**(191)**	(181)	684
Operating tax paid	**(48)**	(39)	(61)
Net operating finance costs paid	**(35)**	(45)	(90)
Operating free cash flow	**(274)**	(265)	533
Non-operating tax paid		(9)	(26)
Special pension contribution		(50)	(100)
Total free cash flow	**(274)**	(324)	407
Dividends paid (including to minorities)	**(179)**	(154)	(248)
Net movement of funds from operations	**(453)**	(478)	159

Included in net cash used in / generated from operations is an amount of £nil (2007 half year: £(4)m, 2007 full year: £7m) relating to discontinued operations.

Operating cash flow, operating free cash flow and total free cash flow have been disclosed as they are part of Pearson s corporate and operating measures. Following the completion of the latest actuarial valuation of the UK Group pension plan as at January 2006, the Group agreed that during 2007 it would make additional payments to the plan amounting to £100m. The Group has excluded this £100m from its definition of operating cash flow and operating free cash flow as it distorts the underlying operating performance for that year.

STATEMENT OF DIRECTORS RESPONSIBILITIES

The directors confirm that the condensed consolidated financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by sections 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the Financial Services Authority.

The directors of Pearson plc are listed in the 2007 Annual Report. There have been the following appointments to the Board since the publication of the Annual Report:

CK Prahalad	appointed 1 May 2008
Will Ethridge	appointed 1 May 2008

By order of the Board

Marjorie Scardino

Chief Executive

27 July 2008

Robin Freestone

Chief Financial Officer

27 July 2008