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AT PEARSON'S ANNUAL GENERAL MEETING
26 APRIL 2002

Thank you very much Dennis. Actually my children have started calling me Dame Edna, which I don't give you permission to do.

Thank you all for taking the trouble to be here. I know not everybody attends AGMs these days so we appreciate you making the effort to be here. Every year, we are glad to have this opportunity to show you how your company is doing.

As Dennis said, when you look at our results for last year, advertising – or rather the lack of it – was the black cloud over our year. But the one thing we know about advertising is that it always comes back.

In the meantime, and in spite of a tough trading environment, we are more confident than ever that Pearson is in great shape to grow this year and in the years to come.

Our confidence is based on three things:

First, the real test of strong companies is how they perform in tough times. Each of our businesses – including the ones dependent on advertising - performed better than their competitors last year. And each one has made a good start in 2002.

Secondly, we have all the ingredients for a significant earnings recovery this year, even if the world's economies don't rebound.

And thirdly, because of all the changes and investments we have been making, Pearson today is the stronger, more cohesive company we have been working to build for the past five years and I am very proud of it.

Let me begin by talking a little about how we did last year in these three areas.

First, our competitiveness in each business. Our aim is to out-do our competitors - consistently. Each of our businesses did that in spades last year, and has a good chance of doing it again in 2002.

For five years now we've been building up our strength, not only as the world's biggest, but also the world's best, education company.

We were attracted to this market by the growing public and private investment in it and by the chance to do something important, which is a motivation most of the people in Pearson share.

And we had a good year of progress in 2001.

Our US School business, the largest single part of Pearson Education, had a stellar year. We became the number one secondary publisher in the United States. One in three students in America now learns English or Math from one of our programs.

Our on-line learning business now has about $250 million of annual revenues, which is more than twice that of its nearest rival. And our early childhood development business is not only stronger than the competition, but also blazing new trails in how to prepare very young children for school.

Our US College business, which is the powerhouse in the education world delivered its fourth consecutive year of growth, and it published some of the leading textbooks in just about every discipline.

Our testing business grew 19% and signed major contracts with important customers including the big states of Florida, California and Texas.

Outside the US, we had a mixed bag of challenges and successes. Latin America was very hard, but our Asia businesses, particularly those that teach English, had a banner year. Our European ELT businesses also grew, as did our UK schools business for the first time in a while and we are very excited about that.

We teach more people English than any company in the world, and this is a world yearning to learn English. So it gives us a world of opportunities. In China for instance, where I spent last week with some of our people, we're working with the Chinese television network CCTV to teach English to China's 350 million television-watching households before the 2008 Olympics in Beijing.

So, we had many commercial successes in our education business, but we had challenges too.

The largest was, of course, September 11. Our main concern on that terrible day was that all our people, including employees in the World Trade Center and the Pentagon, were safe, which they thankfully were in the end.

We also had the challenge only an education publisher could: How would we help American schoolchildren to learn about the causes and consequences of September 11, when we had history textbooks about to go to the printers within days of the attack?

We found a way, and here's how CNN reported on our efforts . . .

[video clip]

So here's the product of all that work, our history textbook *American Nation*, and it's now being used in classrooms across the US. We're very proud of that achievement.

September 11 also tested the Financial Times and all our newspapers, and we're pretty proud of the way they passed that test. It was a story that had to be covered thoroughly, and with insight and sensitivity, and I think our journalists succeeded in doing that well, as they also succeeded in covering the other great story of the year – the economy – very well.

From a commercial perspective, in 2001 the Financial Times continued its onward march in spite of the climate, increasing readers in print and online, expanding its reach around the world and building its reputation.

We've been moving steadily ahead for the past five years, taking the FT's circulation from 300,000 to more than half a million and our online audience from zero to 2.7 million. But, keeping moving ahead at a time when we are reducing costs is a terrific achievement.

Our best tool is our journalism itself – our breaking stories and our unique point of view on the world of business and politics or on the local markets of our national papers like Les Echos and Expansion. Here are a few examples of the stories the FT broke last year – stories like Marconi and Railtrack in the UK and Kirch in Germany - and here's the attention they attracted in the world's media.

[video clip]

Penguin, the most famous brand in the book publishing business, showed what a consistent high performer it has become too.

Over the last five years, we've doubled our number of hit titles, for instance. Last year, 180 Penguin books hit the bestseller charts all over the world– an increase of 25% on the previous year, and a continuation of four years of success.

Here you can see some of our bestselling authors – and many of those are committed to Penguin for their next books, too and this gives us a very stable revenue base.

One of the bestsellers that was most important to us last year was *Animal*, a new title from Dorling Kindersley. Since we bought DK we've been investing in what it does best: beautiful, informative books about the way the world is.

We think that this book marks DK's return to form, so here's a short clip about it.

[video clip]

We've now sold more than 500,000 copies of Animal in 21 countries. That's a great achievement for a book that sells for £35 and which we expect to have a shelf life of 10 years. So we're just getting started. We'd like to have given each of you a copy, but we didn't think that you'd like the impact on the P&L.

So, all of our businesses are making good progress and that makes us confident that Pearson will perform in 2002 and resume its pattern of good growth and good returns.

But giving us extra confidence is that this year we will begin to benefit from the building blocks that we've put in place in the last few years to strengthen Pearson. These are the basis for our confidence that our profits will recover sharply this year – whatever happens to the economy.

What were these building blocks?

1. First, getting our costs in line. At the first sign of the advertising downturn – shortly after the AGM last year – we moved quickly to cut our costs.

The FT Group, for example, has begun the year with its cost base some 20% lower than it began 2000. So, even though advertising revenues in the year to date so far are, as we expected, disappointing, our profits will be better.

2. Lower interest costs. Most of you will know, towards the end of the year, we sold our stake in the European broadcasting company RTL, which was created partly with Pearson Television. That sale has reduced our debt by some £1 billion and our annual interest charge was reduced quite substantially. That has certainly helped our balance sheet.

3. New acquisitions. We have fully integrated the two newest members of the Pearson family – NCS and Dorling Kindersley. Both are benefiting from the lower costs of being part of Pearson and more clout in their markets. And both are allowing us to make more exciting products around the company than we would have been able to think of doing without them.

4. Lower internet investment. We've also been aggressively integrating our internet businesses into their print counterparts. These businesses are now well established, and the investment we had to make to get them going will fall away sharply this year, boosting our profits by at least £70 million.

In fact, all of our investments – in the internet, in acquisitions, in new products, in authors, in our people - have made each of our businesses stronger, and the whole of Pearson more coherent and more valuable.

That brings me to my third reason for confidence: Pearson is in better shape than ever, and that's going to help us this year and for many years to come.

Today everything we do in Pearson has a common purpose. We're all about educating people, both as children and adults: in books, online, in newspapers. Helping them move ahead, make decisions, even dream.

And this is a better time to have those kind of businesses than ever before. Anywhere you look, people and companies and countries are investing in education and intellectual stimulation and development, of all sorts, and that's what we provide.

But besides being in fundamentally attractive markets; all our businesses are also leaders in their particular fields and they are benefiting from the major investments we've made in them in the last few years.

That's going to pay off.

For instance, Pearson Education is the world's number one education company at a time when, in the US, President Bush plans to increase Federal spending on education from 7% to 10% of GDP and, in fact, when pretty much every government around the world puts education at the top of their political priorities.

And we're not only in traditional education. NCS is helping us to win business that we could never have even have competed for before.

The US Navy wants its sailors to get a college education while they serve onboard ship, and we're providing it.

The US National Transportation Security Agency wants to recruit, test and train tens of thousands of airport security staff – and we're helping them.

And the US Congress has passed a law that every child aged 8 to 13 must take a test to check his proficiency in Reading and Maths every year. That may not be very popular with children in the US, but it's popular with us. We are the leading company in administering those kinds of tests.

Penguin has the same kinds of advantages. It is the most famous, most profitable brand in consumer publishing, a market with steady, cycle-resistant growth.

And adding Dorling Kindersley to the Penguin powerhouse is sparking all sorts of new opportunities.

When we bought DK we knew it needed some attention. Though our progress has been a littler slower that we had hoped, we reduced DK's losses from £21 million in 2000 to £7 million in 2001.

We're going to turn that into a healthy profit this year. DK has made a promising start to this year and is on track to hit its profit target. That's going to add to Penguin's profits. But the fact is DK is also adding a great deal all around Pearson.

The beautiful images you see in our Annual Report and through this presentation are, in fact, part of the vast DK image library.

And DK is adding a great deal to our education business too.

Designers from DK are working with their colleagues in Scott Foresman, our US school publisher, to create a new elementary social studies program that we'll launch next year, and several other programs for subsequent years.

And DK is also collabrorating with Pearson Education on an exciting new international reading programme. Due to launch in 2003, they'll publish 150 books for four of our largest markets: the UK, US, Australia and Canada, something that hasn't been done before.

This slide shows a page from that program of reading for young children.

The Financial Times is the world's most international newspaper and online service. A great position to be in when cross-border investment, the rise of European equity markets and our need to invest for retirement are making us hungry for business and financial news in an international context.

And our investment in FT.com – now the world's most popular business website, is really beginning to pay off. Last year, FT internet revenues were up 20% and costs were down by almost half.

This year, we're about to take another important step forward with FT.com, as we begin to charge our 2.7m users for some new and what we hope they will decide to be valuable services. This is a sneak preview of the new improved site. Most of it will remain free to users – which will help us to retain this very large audience and continue to sell more ads on it.

But, for the first time, we'll be asking customers to pay for the more complicated services and very bespoke news, research and analysis tools.

All this means that we are very confident that FT.com will break even by the end of this year, and go on to make a growing contribution to our profits next year and into the future.

Although we know we're never there and the company is always moving and dynamic, Pearson today is the company that we have been working hard to build.

We're now in three related businesses that share a lot:

1.Each one leads in its field, consistently performs ahead of its peers and has the scale and
skills to keep on doing so.

2.These business share brands, intellectual property, marketing, distribution networks, back office functions. They are stronger because they're in the same family. Stronger together than they are apart.

3.And all these businesses are benefiting from the big moves – acquisitions, investments in the internet or their organic growth – which have held back our profits over the past two years but will contribute strongly this year and for many years to come.

So as we look ahead we feel very confident about the future. As Dennis outlined, five years ago, we set out some pretty challenging performance targets for Pearson. Every year we hit those targets until 2001, when the advertising recession stopped us. But this year we believe we're back on track, and we have a stronger will than ever to take this work on.

There are about 29,000 people in Pearson today. About 28,000 of them are, like you, shareholders in the company. They are exceptionally talented and exceptionally committed to your company, because its their company too.

So thanks to you for sharing our confidence in Pearson, even in our toughest year. And thanks to them, I know that your confidence will pay off in the future.

Thank you.