2016 results presentation
Friday 24 February 2017
Forward-looking statements

Except for the historical information contained herein, the matters discussed in this statement include forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated costs savings and synergies and the execution of Pearson's strategy, are forward-looking statements. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in future. They are based on numerous assumptions regarding Pearson's present and future business strategies and the environment in which it will operate in the future.

There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including a number of factors outside Pearson's control. These include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in Pearson's publicly-filed documents and you are advised to read, in particular, the risk factors set out in Pearson's latest annual report and accounts, which can be found on its website (www.pearson.com/investors).

Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based. Readers are cautioned not to place undue reliance on such forward-looking statements.
## Financial summary

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th><strong>Headline growth</strong></th>
<th><strong>CER growth</strong></th>
<th><strong>Underlying growth</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales*</td>
<td>4,552</td>
<td>4,468</td>
<td>2%</td>
<td>(9)%</td>
<td>(8)%</td>
</tr>
<tr>
<td>Adjusted operating profit</td>
<td>635</td>
<td>723</td>
<td>(12)%</td>
<td>(27)%</td>
<td>(21)%</td>
</tr>
<tr>
<td>Adjusted EPS</td>
<td>58.8p</td>
<td>70.3p</td>
<td>(16)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred revenue*</td>
<td>883</td>
<td>766</td>
<td>15%</td>
<td>(1)%</td>
<td>1%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>663</td>
<td>435</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>(1,092)</td>
<td>(654)</td>
<td>(67)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend</td>
<td>52p</td>
<td>52p</td>
<td>0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Continuing
The headlines

• Full year revenues down 8% - a challenging year
• 2016 earnings in line with guidance; strong cash conversion
• Goodwill impairment - reflecting lower future profit expectations
• Restructuring delivered in full; competitive performance sustained
• 2017: encouraging start to another challenging year
• A more focused, digital company with scale and synergies
• Beyond 2017: building a stronger, more profitable – and more reliable – company
Structural trends in education

• The economic value of an education is greater than ever; yet the cost of an education is increasing, and public funding is under pressure.

• The process of getting an education remains inefficient; translating education into employment is uneven and highly variable.

• Technology is revolutionising education, creating opportunities to make learning more affordable, accessible, flexible, personal and effective.

• The education market is continuously evolving; with increasing focus on improving access and outcomes.
Structural changes in our markets

**Opportunities**
- Improve outcomes
- Expand addressable markets
- Discipline share growth
- Institutional selling
- Shift to subscription selling

**Risks**
- New entrants (OER, MOOCs, edtech etc)
- Regulatory and policy challenges

**Transitions**
- Print decline
- Rental models
- Physical retail
- Lower ASPs in digital
- Investment in technology platforms, product and services
Our strategy

Content + Assessment = More effective teaching and personalized learning at scale

Powered by services and technology
2017 priorities

- Simplify our portfolio
- Control costs and increase efficiency
- Focus on our biggest opportunities
  - Digital courseware
  - Next generation assessment
  - Virtual learning and managed services
Financial Review and Outlook
## Sales

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>CER growth</th>
<th>Underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2,981</td>
<td>2,940*</td>
<td>(12)%</td>
<td>(10)%</td>
</tr>
<tr>
<td>Core</td>
<td>803</td>
<td>815</td>
<td>(7)%</td>
<td>(4)%</td>
</tr>
<tr>
<td>Growth</td>
<td>768</td>
<td>713</td>
<td>0%</td>
<td>(1)%</td>
</tr>
<tr>
<td><strong>Continuing sales</strong></td>
<td>4,552</td>
<td>4,468</td>
<td>(9)%</td>
<td>(8)%</td>
</tr>
<tr>
<td>FT Group</td>
<td>--</td>
<td>312</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total sales</strong></td>
<td>4,552</td>
<td>4,780</td>
<td>(15)%</td>
<td>(8)%</td>
</tr>
</tbody>
</table>

* Includes £38m from PowerSchool
Deferred revenue* ($m)

*Continuing operations
How 2016 compared in North American higher education courseware

<table>
<thead>
<tr>
<th>Category</th>
<th>June 2016 Investor Day cross cycle assumptions</th>
<th>2016 outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrolment</td>
<td>-18%</td>
<td>-16%</td>
</tr>
<tr>
<td>OER</td>
<td>-16%</td>
<td>-14%</td>
</tr>
<tr>
<td>Selling model</td>
<td>-14%</td>
<td>-12%</td>
</tr>
<tr>
<td>Digital</td>
<td>-12%</td>
<td>-10%</td>
</tr>
<tr>
<td>Rental / used</td>
<td>-10%</td>
<td>-8%</td>
</tr>
<tr>
<td>Inventory Correction</td>
<td>-8%</td>
<td>-6%</td>
</tr>
<tr>
<td>Total market</td>
<td>-6%</td>
<td>-4%</td>
</tr>
<tr>
<td></td>
<td>-4%</td>
<td>-2%</td>
</tr>
<tr>
<td></td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>
## Operating profit

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>CER growth</th>
<th>Underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>420</td>
<td>480*</td>
<td>(28)%</td>
<td>(28)%</td>
</tr>
<tr>
<td>Core</td>
<td>57</td>
<td>105</td>
<td>(51)%</td>
<td>(51)%</td>
</tr>
<tr>
<td>Growth</td>
<td>29</td>
<td>(3)</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Penguin / PRH</td>
<td>129</td>
<td>90</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td><em>Continuing operations</em></td>
<td>635</td>
<td>672</td>
<td>(21)%</td>
<td>(21)%</td>
</tr>
<tr>
<td>FT Group</td>
<td>--</td>
<td>51</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>635</strong></td>
<td><strong>723</strong></td>
<td><strong>(27)%</strong></td>
<td><strong>(21)%</strong></td>
</tr>
</tbody>
</table>

* Includes £9m from PowerSchool
2016 bridge

2015 Adjusted operating profit: £723m

Disposals: (£90m)
Market conditions - HE: (£180m)
Market conditions - Other: (£58m)
Other operational factors: (£115m)
FX Impact: £80m
Incentive compensation: (£55m)
Restructuring Cost savings: £275m
Discretionary cost savings: £55m
2016 Adjusted operating profit: £635m
2016 restructuring program - delivered in full

- Single product organisation created
- Integration of North America assessment complete
- Reduced exposure to direct delivery
- Driving enabling function efficiency: Technology, Finance, HR
- Further rationalisation of property and procurement savings
- £425m of annualised cost savings, £25m more than planned at CER
- 4600 employees left Pearson
# Adjusted EPS

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>Headline growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td></td>
<td>635</td>
<td>723</td>
<td>(12)%</td>
</tr>
<tr>
<td>Interest</td>
<td>(59)</td>
<td>(46)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>(95)</td>
<td>(105)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax rate</td>
<td></td>
<td>16.5%</td>
<td>15.5%</td>
<td></td>
</tr>
<tr>
<td>Profit after tax</td>
<td></td>
<td>481</td>
<td>572</td>
<td>(16)%</td>
</tr>
<tr>
<td>Non controlling interest</td>
<td>(2)</td>
<td></td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td></td>
<td>479</td>
<td>572</td>
<td></td>
</tr>
<tr>
<td>Shares in issue</td>
<td></td>
<td>814.8</td>
<td>813.3</td>
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<tr>
<td><strong>Adjusted EPS</strong></td>
<td></td>
<td><strong>58.8p</strong></td>
<td><strong>70.3p</strong></td>
<td>(16)%</td>
</tr>
</tbody>
</table>
## Statutory P&L

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Operating Profit</td>
<td>635</td>
<td>723</td>
</tr>
<tr>
<td>Operating Profit - discontinued operations</td>
<td>-</td>
<td>(51)</td>
</tr>
<tr>
<td>Operating Profit – continuing operations</td>
<td>635</td>
<td>672</td>
</tr>
<tr>
<td>Amortisation of intangibles</td>
<td>(221)</td>
<td>(240)</td>
</tr>
<tr>
<td>Other net gains and losses</td>
<td>(25)</td>
<td>13</td>
</tr>
<tr>
<td>Restructuring cost</td>
<td>(338)</td>
<td>-</td>
</tr>
<tr>
<td>Impairment</td>
<td>(2,548)</td>
<td>(849)</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(2,497)</td>
<td>(404)</td>
</tr>
<tr>
<td>Interest</td>
<td>(59)</td>
<td>(46)</td>
</tr>
<tr>
<td>Other finance costs</td>
<td>(1)</td>
<td>17</td>
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<tr>
<td>Loss before tax</td>
<td>(2,557)</td>
<td>(433)</td>
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<tr>
<td>Taxation</td>
<td>222</td>
<td>81</td>
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<tr>
<td>Loss after tax</td>
<td>(2,335)</td>
<td>(352)</td>
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<tr>
<td>Discontinued operations</td>
<td>-</td>
<td>1,175</td>
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<tr>
<td>Loss / Profit for the year</td>
<td>(2,335)</td>
<td>823</td>
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<tr>
<td>Basic EPS (total)</td>
<td>(286.8)p</td>
<td>101.2p</td>
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</table>
## Operating cash flow

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Operating profit</td>
<td>635</td>
<td>723</td>
<td>(88)</td>
</tr>
<tr>
<td>Working capital</td>
<td>82</td>
<td>(226)</td>
<td>308</td>
</tr>
<tr>
<td>- of which pre-publication expenditure</td>
<td>(44)</td>
<td>(57)</td>
<td>13</td>
</tr>
<tr>
<td>- of which other working capital</td>
<td>126</td>
<td>(169)</td>
<td>295</td>
</tr>
<tr>
<td>Net capital expenditure</td>
<td>(247)</td>
<td>(241)</td>
<td>(6)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>150</td>
<td>149</td>
<td>1</td>
</tr>
<tr>
<td>Share of operating results of associates</td>
<td>(142)</td>
<td>(110)</td>
<td>(32)</td>
</tr>
<tr>
<td>Dividends from associates and JVs</td>
<td>131</td>
<td>162</td>
<td>(31)</td>
</tr>
<tr>
<td>Exchange</td>
<td>43</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Other movements</td>
<td>11</td>
<td>(44)</td>
<td>55</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td><strong>663</strong></td>
<td><strong>435</strong></td>
<td><strong>228</strong></td>
</tr>
<tr>
<td><strong>Cash conversion %</strong></td>
<td><strong>104%</strong></td>
<td><strong>60%</strong></td>
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</table>
## Free cash flow

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>var</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating cash flow</strong></td>
<td></td>
<td>663</td>
<td>435</td>
<td>228</td>
</tr>
<tr>
<td><strong>Net interest paid</strong></td>
<td></td>
<td>(51)</td>
<td>(51)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Operating tax paid</strong></td>
<td></td>
<td>(63)</td>
<td>(129)</td>
<td>66</td>
</tr>
<tr>
<td><strong>Operating free cash flow</strong></td>
<td></td>
<td>549</td>
<td>255</td>
<td>294</td>
</tr>
<tr>
<td><strong>Special pension contribution (net of tax)</strong></td>
<td></td>
<td>(72)</td>
<td>-</td>
<td>(72)</td>
</tr>
<tr>
<td><strong>Restructuring costs paid</strong></td>
<td></td>
<td>(167)</td>
<td>-</td>
<td>(167)</td>
</tr>
<tr>
<td><strong>Non operating tax paid</strong></td>
<td></td>
<td>-</td>
<td>(103)</td>
<td>103</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td></td>
<td>310</td>
<td>152</td>
<td>158</td>
</tr>
<tr>
<td><strong>Operating free cash flow / share</strong></td>
<td></td>
<td>67.4p</td>
<td>31.4p</td>
<td>36.0p</td>
</tr>
</tbody>
</table>

Total business
## Balance sheet

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill / intangible assets</td>
<td>3,442</td>
<td>5,164</td>
<td>(1,722)</td>
</tr>
<tr>
<td>Tangible fixed assets</td>
<td>343</td>
<td>320</td>
<td>23</td>
</tr>
<tr>
<td>Associates &amp; JVs</td>
<td>1,247</td>
<td>1,103</td>
<td>144</td>
</tr>
<tr>
<td>Pre-publication</td>
<td>1,024</td>
<td>841</td>
<td>183</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(883)</td>
<td>(766)</td>
<td>(117)</td>
</tr>
<tr>
<td>Traditional working capital</td>
<td>561</td>
<td>644</td>
<td>(83)</td>
</tr>
<tr>
<td>Other net liabilities</td>
<td>(192)</td>
<td>(36)</td>
<td>(156)</td>
</tr>
<tr>
<td><strong>Net trading assets</strong></td>
<td><strong>5,542</strong></td>
<td><strong>7,270</strong></td>
<td><strong>(1,728)</strong></td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>4,344</td>
<td>6,414</td>
<td>(2,070)</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>15</td>
<td>284</td>
<td>(269)</td>
</tr>
<tr>
<td>Pensions</td>
<td>(19)</td>
<td>(198)</td>
<td>179</td>
</tr>
<tr>
<td>Other provisions</td>
<td>106</td>
<td>112</td>
<td>(6)</td>
</tr>
<tr>
<td>Minorities</td>
<td>4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,092</td>
<td>654</td>
<td>438</td>
</tr>
<tr>
<td><strong>Capital employed</strong></td>
<td><strong>5,542</strong></td>
<td><strong>7,270</strong></td>
<td><strong>(1,728)</strong></td>
</tr>
<tr>
<td><strong>Year end $/£</strong></td>
<td><strong>1.23</strong></td>
<td><strong>1.47</strong></td>
<td><strong>(1.24)</strong></td>
</tr>
</tbody>
</table>
2017 bridge

2016 Adjusted operating profit: £635m
Disposals: (£10m)
Market conditions: (£60m)
Other operational factors: (£55m)
Inflation: (£55m)
Incentive compensation: £135m
Restructuring cost savings: £40m
FX impact: £570m to £630m
2017 Adjusted operating profit: £570m to £630m

Guidance range

Other factors include:
- Incentive compensation
- Restructuring cost savings
- FX impact

Disposals and other factors:
- Adjusted operating profit
- Market conditions
- Other operational factors
- Inflation

Incentive compensation and restructuring cost savings:
- £135m
- £40m

FX impact:
- £570m to £630m

Inflation:
- (£55m)

Other factors:
- (£10m)
- (£60m)
- (£60m)
- (£55m)

2016 Adjusted operating profit:
- £635m
2017 higher education assumptions

- Enrolment
- OER
- Rental/used
- Selling Model
- Digital
- Inventory Correction
- Initiatives, Edition Cycle and Other

Pearson Net Revenues [+1% to -7%]
Other segments

Key assumptions

• UK Qualifications – stabilisation
• US Student Assessment – further top line pressures
• US K12 Courseware - ongoing pressures on participation rate due to CA
• Connections, OPM and Professional Certification - continue to grow
• China and Brazil - growth from new products and improvement in economy
• South Africa - some recovery
Cost control into 2017

- Continue to build scale and capability within our shared service centers that have over 900 employees across HR, Finance and Technology
- Simplify the organisation and technology estate through a further decommissioning of over 300 systems as single core platforms are implemented globally
- Contract with a smaller number of strategic global vendors to deliver higher performance and quality with lower prices and reduced risk
- Deliver ongoing process transformations including global procurement, supply chain and property portfolio
- Continually review through internal and external benchmarking the cost base and take additional corrective action if required
PRH update

- Integration of Penguin Random House complete
- Greater industry-wide stability on digital terms
- Issued an exit notice regarding our 47% stake in Penguin Random House to our JV partner Bertelsmann in the contractual window
- We will sell our stake or recapitalise the business and extract a dividend
- Proceeds used to maintain a strong balance sheet; invest in our business; and return excess capital to shareholders whilst retaining a solid investment grade credit rating. Currently BBB/Baa2 negative watch
## Capital allocation

<table>
<thead>
<tr>
<th><strong>Organic investment</strong></th>
<th><strong>M&amp;A</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sustain c. £700m - £750m organic investment p.a.</td>
<td>• Very limited acquisition activity short term</td>
</tr>
<tr>
<td>• Investments aligned to strategy</td>
<td>• Disposals and actions to focus portfolio</td>
</tr>
</tbody>
</table>

### Benchmark against other returns of capital

### Focus on ROIC before and after disposal profits

### Dividend

- 2016 final dividend in line with 2015
- 2017 to be rebased and communicated later in year

### Credit rating

- Maintain solid investment grade credit rating
- Source of Internal financial discipline
Our priorities
2017 priorities

• Simplify our portfolio
• Control costs and increase efficiency
• Focus on our biggest opportunities
  • Digital courseware
  • Next generation assessment
  • Virtual learning and managed services
Digital courseware: US higher education

- 68 million course enrolments, we have 35% share of usage but 20% share of value
- In 2016 HE Courseware revenue 50% digital; 50% print
- Accelerate digital and direct to consumer and institution

**Grow direct to consumer**

In 2016 18% of sales were direct to consumer

**Direct to consumer gross sales $m**

- 11 million registrations for digital products, our share of digital greater than competitors
- Integrated digital to grow share in new disciplines
- Adding adaptive personalized features across the portfolio
- 148 Digital Direct Access deals signed

**Accelerate digital**

**Maximise value of text**

- Reduce digital rental prices
- Create print rental partner model
Grow digital—our product/feature pipeline

A product pipeline that promotes learning

- Institutional Learning Analytics
- MyLab | Mastering
- Enhanced UX
- Enhanced e-commerce
- Pilot
- Cognitive Tutor in Revel
- | MyLab | Mastering
- Enhanced Early Alerts & Adaptive Practice
- Major new products in:
  - Developmental Math
  - Accounting
  - Engineering
- Enhanced UX
- Mastering
- Adaptive Pathways
- Enhanced Institutional Learning Analytics
- Scale
- Adaptive Pathways
- Global Learning Platform
- IBM Watson
- Cognitive Tutor
- Enhanced Authentic Assessment
- Launch
- Global Learning Platform
- Launch
- Developmental Math Accounting Engineering
- Scale
- IBM Watson
- Cognitive Tutor

More effective teaching and personalized learning at scale
Assessment: a smaller, more digital, higher margin business

Fewer, better, smarter tests
OPM

Leveraging our global scale and domain knowledge
How we’ll measure our progress

Financial
• Delivering our guidance for 2017
• Overall improvement in operating profit, EPS & ROIC

Operational
• Progress on cost reduction
• Delivery of key simplification programmes and global platforms

Competitive performance
• Market share performance in key businesses
• Increase share of value: expand addressable market

Talent and retention
• Retain key talent
• Drive a high performance culture

Purpose and impact
• Delivery of efficacy goals
• Improved brand awareness and favourability
Building a more sustainable, digital company

- Fewer bigger opportunities
- Continued focus on tight cost management
- A simpler business
- Delivering better outcomes for learners
- A stronger, more sustainable, more digital business
Q&A
Appendices
2016 revenue split by geography

- Higher Education Courseware: 25.2%
- School Courseware: 9.2%
- Professional Certification & English: 10.1%
- Student Assessment: 8.3%
- Clinical Assessment: 3.1%
- Virtual and Blended schools: 5.7%
- Higher Education Online and English Services: 5.9%
- Higher Education: 2.7%
- Professional Certification & English: 4.3%
- School: 4.4%
- Student Assessment: 6.8%
- School Courseware: 3.9%
- Professional & English: 8.1%
- Professional & English: 2.3%
2016 revenue split by product line
## North America – Sales detail

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>2016</th>
<th>2015</th>
<th>Underlying growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>K12 Courseware</strong></td>
<td></td>
<td>418</td>
<td>406</td>
<td>(10)%</td>
</tr>
<tr>
<td><strong>HE &amp; English Courseware</strong></td>
<td></td>
<td>1,168</td>
<td>1,229</td>
<td>(17)%</td>
</tr>
<tr>
<td><strong>Courseware</strong></td>
<td></td>
<td>1,586</td>
<td>1,635</td>
<td>(16)%</td>
</tr>
<tr>
<td><strong>School Assessment</strong></td>
<td></td>
<td>378</td>
<td>420</td>
<td>(22)%</td>
</tr>
<tr>
<td><strong>Clinical</strong></td>
<td></td>
<td>143</td>
<td>126</td>
<td>(1)%</td>
</tr>
<tr>
<td><strong>Professional Certification</strong></td>
<td></td>
<td>333</td>
<td>269</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Assessment</strong></td>
<td></td>
<td>854</td>
<td>815</td>
<td>(9)%</td>
</tr>
<tr>
<td><strong>School Services</strong></td>
<td></td>
<td>259</td>
<td>209</td>
<td>8%</td>
</tr>
<tr>
<td><strong>HE Services</strong></td>
<td></td>
<td>269</td>
<td>223</td>
<td>5%</td>
</tr>
<tr>
<td><strong>English Services</strong></td>
<td></td>
<td>13</td>
<td>18</td>
<td>(8)%</td>
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<tr>
<td><strong>Powerschool</strong></td>
<td></td>
<td>0</td>
<td>40</td>
<td>na</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td></td>
<td>541</td>
<td>490</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>2,981</td>
<td>2,940</td>
<td>(10)%</td>
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## Core – Sales detail

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<tr>
<td>School Courseware</td>
<td>173</td>
<td>178</td>
<td></td>
<td>(5)%</td>
</tr>
<tr>
<td>HE Courseware</td>
<td>92</td>
<td>94</td>
<td></td>
<td>(10)%</td>
</tr>
<tr>
<td>English Courseware</td>
<td>65</td>
<td>65</td>
<td></td>
<td>(9)%</td>
</tr>
<tr>
<td><strong>Courseware</strong></td>
<td>330</td>
<td>337</td>
<td></td>
<td>(7)%</td>
</tr>
<tr>
<td>School &amp; HE Assessment</td>
<td>268</td>
<td>296</td>
<td></td>
<td>(10)%</td>
</tr>
<tr>
<td>Clinical</td>
<td>40</td>
<td>32</td>
<td></td>
<td>9%</td>
</tr>
<tr>
<td>Pearson Test of English</td>
<td>22</td>
<td>8</td>
<td></td>
<td>138%</td>
</tr>
<tr>
<td>Professional Certification</td>
<td>90</td>
<td>87</td>
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<td>423</td>
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<td>(4)%</td>
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<tr>
<td>School Services</td>
<td>6</td>
<td>1</td>
<td></td>
<td>▲</td>
</tr>
<tr>
<td>HE Services</td>
<td>29</td>
<td>26</td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>English Services</td>
<td>18</td>
<td>28</td>
<td></td>
<td>7%</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>53</td>
<td>55</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>803</td>
<td>815</td>
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<td>(4)%</td>
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</table>
## Growth – Sales detail

<table>
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</thead>
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<tr>
<td>School Courseware</td>
<td>127</td>
<td>112</td>
<td>9%</td>
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<tr>
<td>HE Courseware</td>
<td>60</td>
<td>57</td>
<td>0%</td>
</tr>
<tr>
<td>English Courseware</td>
<td>97</td>
<td>84</td>
<td>11%</td>
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<tr>
<td><strong>Courseware</strong></td>
<td>284</td>
<td>253</td>
<td>8%</td>
</tr>
<tr>
<td>School &amp; HE Assessment</td>
<td>21</td>
<td>20</td>
<td>0%</td>
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<tr>
<td>Pearson Test of English</td>
<td>11</td>
<td>6</td>
<td>50%</td>
</tr>
<tr>
<td>Professional Certification</td>
<td>38</td>
<td>31</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Assessment</strong></td>
<td>70</td>
<td>57</td>
<td>9%</td>
</tr>
<tr>
<td>School Services</td>
<td>54</td>
<td>47</td>
<td>2%</td>
</tr>
<tr>
<td>HE Services</td>
<td>46</td>
<td>70</td>
<td>(37)%</td>
</tr>
<tr>
<td>English Services</td>
<td>314</td>
<td>286</td>
<td>(2)%</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>414</td>
<td>403</td>
<td>(8)%</td>
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<tr>
<td><strong>Total</strong></td>
<td>768</td>
<td>713</td>
<td>(1)%</td>
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</table>
The economic value of an education has never been higher

Present discounted value of college relative to high school degree net of tuition, 1965 – 2008

College / high school median annual earnings gap 1979 – 2012

Source: adapted from Skills, education, and the rise of earnings inequality among the “other 99 percent” David H. Autor
How an inventory correction might work

**Year 1**
- Starting Inventory: 35
- Ending Inventory: 35
- Net Sales: 100
- Gross Sales: 130
- Returns: 30
- Returns rate: 23%
- End Demand: 100

**Year 2**
- Starting Inventory: 35
- Ending Inventory: 25
- Net Sales: 85 (down 15%)
- Gross Sales: 122
- Returns: 37
- Returns rate: 30%
- End Demand: 95 (down 5%)

**Year 3**
- Starting Inventory: 25
- Ending Inventory: 24
- Net Sales: 89 (up 5%)
- Gross Sales: 116
- Returns: 27
- Returns rate: 23%
- End Demand: 90 (down 5%)

In line with end demand
Enrolment

Student enrolment vs population growth

Ages 18-24 population growth 0.63% CAGR

Ages 18-34 population growth 0.87% CAGR

Unemployment rate %

Higher education courseware ARPE analysis

Source: Management Practice Inc.
Pearson’s digital & services revenues

% of sales

Excludes Penguin and Mergermarket
Pearson’s emerging markets revenues

$\text{m}

- **Middle East**
- **Central / Latin America**
- **Africa**
- **India**
- **China / Hong Kong**

<table>
<thead>
<tr>
<th>Year</th>
<th>Middle East</th>
<th>Central / Latin America</th>
<th>Africa</th>
<th>India</th>
<th>China / Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>471</td>
<td>168</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>2008</td>
<td>513</td>
<td>183</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>2009</td>
<td>648</td>
<td>276</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>2010</td>
<td>834</td>
<td>364</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>2011</td>
<td>1,036</td>
<td>450</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>2012</td>
<td>1,241</td>
<td>584</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>2013</td>
<td>1,282</td>
<td>620</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>2014</td>
<td>1,311</td>
<td>648</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>2015</td>
<td>1,248</td>
<td>620</td>
<td>15.8%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>2016</td>
<td>1,032</td>
<td>620</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.0%</td>
</tr>
</tbody>
</table>

% of Pearson revenues:
- 2007: 5.4%
- 2008: 5.8%
- 2009: 7.4%
- 2010: 9.1%
- 2011: 11.0%
- 2012: 12.8%
- 2013: 14.4%
- 2014: 16.3%
- 2015: 15.8%
- 2016: 17.0%
Focus products - key performance indicators
Assessment, registration and student volume growth

<table>
<thead>
<tr>
<th>School</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuplacer</td>
<td>8,545,000</td>
<td>8,100,000</td>
</tr>
<tr>
<td>BTEC (calendar year registrations)</td>
<td>1,012,000</td>
<td>1,197,000</td>
</tr>
<tr>
<td>Connections Education (Full Time Equivalent students)</td>
<td>73,000</td>
<td>68,700</td>
</tr>
<tr>
<td>Edexcel GCSE/A level (papers marked)</td>
<td>5,429,000</td>
<td>5,467,000</td>
</tr>
<tr>
<td>Pearson sistemas (students)</td>
<td>407,000</td>
<td>449,000</td>
</tr>
<tr>
<td>Q-Interactive (sub-tests administered)</td>
<td>2,400,000</td>
<td>1,316,000</td>
</tr>
<tr>
<td>State and National Paper (papers marked)</td>
<td>21,922,000</td>
<td>32,700,000</td>
</tr>
<tr>
<td>State and National TestNav (tests administered)</td>
<td>23,638,000</td>
<td>26,400,000</td>
</tr>
<tr>
<td>UK National Curriculum Test (papers marked)</td>
<td>3,437,000</td>
<td>3,989,000</td>
</tr>
<tr>
<td><strong>Higher education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CTI/MGI (students)</td>
<td>8,500</td>
<td>11,300</td>
</tr>
<tr>
<td>MyLab/Mastering (user registrations)</td>
<td>13,200,000</td>
<td>13,000,000</td>
</tr>
<tr>
<td>Pearson Online Services (registrations)</td>
<td>315,000</td>
<td>265,000</td>
</tr>
<tr>
<td>UTEL Mexico (students)</td>
<td>14,500</td>
<td>12,600</td>
</tr>
<tr>
<td><strong>English &amp; Professional Certification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Education (new student registrations)</td>
<td>64,000</td>
<td>85,000</td>
</tr>
<tr>
<td>MyEnglishLab and other ELT courseware (registrations)</td>
<td>861,000</td>
<td>739,000</td>
</tr>
<tr>
<td>Vue (tests administered)</td>
<td>14,910,000</td>
<td>14,200,000</td>
</tr>
<tr>
<td>Wall Street English (students)*</td>
<td>182,800</td>
<td>181,700</td>
</tr>
</tbody>
</table>

* Excluding disposals
## Return on Invested Capital

<table>
<thead>
<tr>
<th></th>
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<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted Operating Profit</strong></td>
<td>635</td>
<td>723</td>
</tr>
<tr>
<td>Less: operating tax paid</td>
<td>(63)</td>
<td>(129)</td>
</tr>
<tr>
<td><strong>Return</strong></td>
<td>572</td>
<td>594</td>
</tr>
<tr>
<td><strong>Total Invested Capital</strong></td>
<td>11,464</td>
<td>10,317</td>
</tr>
<tr>
<td><strong>ROIC</strong></td>
<td>5.0%</td>
<td>5.8%</td>
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</table>
### Debt level: credit rating agency view

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<tr>
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<th>2015</th>
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</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>1.1</td>
<td>0.7</td>
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<tr>
<td>Lease liabilities</td>
<td>1.2</td>
<td>1.2</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>2.3</strong></td>
<td><strong>1.9</strong></td>
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</table>
Reconciliation: statutory to adjusted earnings
2016

<table>
<thead>
<tr>
<th>£m</th>
<th>Statutory</th>
<th>Restructuring</th>
<th>Acquisition costs</th>
<th>Other net gains and losses</th>
<th>Intangible charges</th>
<th>Other net finance costs</th>
<th>Tax amortisation benefit</th>
<th>Adjusted earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating profit</strong></td>
<td>(2,497)</td>
<td>338</td>
<td>-</td>
<td>25</td>
<td>2,769</td>
<td>-</td>
<td>-</td>
<td>635</td>
</tr>
<tr>
<td><strong>Net finance costs</strong></td>
<td>(60)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>(2,557)</td>
<td>338</td>
<td>-</td>
<td>25</td>
<td>2,769</td>
<td>1</td>
<td>-</td>
<td>576</td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td>222</td>
<td>(84)</td>
<td>-</td>
<td>(14)</td>
<td>(255)</td>
<td>-</td>
<td>36</td>
<td>(95)</td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td>(2,335)</td>
<td>254</td>
<td>-</td>
<td>11</td>
<td>2,514</td>
<td>1</td>
<td>36</td>
<td>481</td>
</tr>
<tr>
<td><strong>Discontinued operations</strong></td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>(2,335)</td>
<td>254</td>
<td>-</td>
<td>11</td>
<td>2,514</td>
<td>1</td>
<td>36</td>
<td>481</td>
</tr>
<tr>
<td><strong>Minority interest</strong></td>
<td>(2)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Earnings</strong></td>
<td>(2,337)</td>
<td>254</td>
<td>-</td>
<td>11</td>
<td>2,514</td>
<td>1</td>
<td>36</td>
<td>479</td>
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</table>
## Reconciliation: statutory to adjusted earnings 2015

<table>
<thead>
<tr>
<th>£m</th>
<th>Statutory</th>
<th>Discontinued operations</th>
<th>Acquisition costs</th>
<th>Other net gains and losses</th>
<th>Intangible charges</th>
<th>Other net finance costs</th>
<th>Tax amortisation benefit</th>
<th>Adjusted earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating profit</strong></td>
<td>(404)</td>
<td>51</td>
<td>-</td>
<td>(13)</td>
<td>1,089</td>
<td>-</td>
<td>-</td>
<td>723</td>
</tr>
<tr>
<td><strong>Net finance costs</strong></td>
<td>(29)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(17)</td>
<td>-</td>
<td>(46)</td>
</tr>
<tr>
<td><strong>Profit before tax</strong></td>
<td>(433)</td>
<td>51</td>
<td>-</td>
<td>(13)</td>
<td>1,089</td>
<td>(17)</td>
<td>-</td>
<td>677</td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td>81</td>
<td>(9)</td>
<td>-</td>
<td>40</td>
<td>(257)</td>
<td>7</td>
<td>33</td>
<td>(105)</td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td>(352)</td>
<td>42</td>
<td>-</td>
<td>27</td>
<td>832</td>
<td>(10)</td>
<td>33</td>
<td>572</td>
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<tr>
<td><strong>Discontinued operations</strong></td>
<td>1,175</td>
<td>(42)</td>
<td>-</td>
<td>(1,135)</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>823</td>
<td>-</td>
<td>-</td>
<td>(1,108)</td>
<td>834</td>
<td>(10)</td>
<td>33</td>
<td>572</td>
</tr>
<tr>
<td><strong>Minority interest</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Earnings</strong></td>
<td>823</td>
<td>-</td>
<td>-</td>
<td>(1,108)</td>
<td>834</td>
<td>(10)</td>
<td>33</td>
<td>572</td>
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</tbody>
</table>
# Reconciliation: pre-publication costs

<table>
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<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>841</td>
<td>820</td>
</tr>
<tr>
<td>Exchange</td>
<td>130</td>
<td>19</td>
</tr>
<tr>
<td>New spend capitalised</td>
<td>395</td>
<td>347</td>
</tr>
<tr>
<td>Acquisitions/disposals/transfer (net)</td>
<td>8</td>
<td>(64)</td>
</tr>
<tr>
<td>Amortisation</td>
<td>(325)</td>
<td>(281)</td>
</tr>
<tr>
<td>Restructuring charge</td>
<td>(25 )</td>
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<tr>
<td>Closing balance</td>
<td>1,024</td>
<td>841</td>
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</table>
Reconciliation: year end net debt

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>171</td>
<td>78</td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Derivative financial instruments</td>
<td>-</td>
<td>32</td>
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<tr>
<td>Marketable securities</td>
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<tr>
<td>Cash and cash equivalents</td>
<td>1,459</td>
<td>1,703</td>
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<tr>
<td><strong>Non current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>(2,424)</td>
<td>(2,048)</td>
<td></td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>(264)</td>
<td>(136)</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>(44)</td>
<td>(282)</td>
<td></td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>-</td>
<td>(29)</td>
<td></td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td>(1,092)</td>
<td>(654)</td>
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## Retirement benefit obligations

<table>
<thead>
<tr>
<th>£m</th>
<th>2016</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td><strong>Income statement</strong></td>
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<tr>
<td>Operating charge</td>
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<tr>
<td>Defined benefit schemes</td>
<td>16</td>
<td>24</td>
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<tr>
<td>Defined contribution schemes</td>
<td>67</td>
<td>74</td>
</tr>
<tr>
<td>Post retirement medical benefit schemes</td>
<td>(2)</td>
<td>-</td>
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<tr>
<td>Total</td>
<td>81</td>
<td>98</td>
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<tr>
<td>Interest</td>
<td>(11)</td>
<td>(4)</td>
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<tr>
<td>Total</td>
<td>70</td>
<td>94</td>
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<tr>
<td><strong>Balance sheet</strong></td>
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<tr>
<td>UK pension scheme asset</td>
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<td>337</td>
</tr>
<tr>
<td>Other pension scheme liabilities</td>
<td>(47)</td>
<td>(40)</td>
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<tr>
<td>Post retirement medical benefit liability</td>
<td>(77)</td>
<td>(76)</td>
</tr>
<tr>
<td>Other pension accruals</td>
<td>(15)</td>
<td>(23)</td>
</tr>
<tr>
<td>Total</td>
<td>19</td>
<td>198</td>
</tr>
</tbody>
</table>
ALWAYS LEARNING