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.

2017
Half Year Results Presentation

4th August 2017

Agenda

- Half year financials
- Transformation and strategic priorities
- Q&A

H1 financial highlights

Revenue growth	Adj. operating profit	Operating cash flow
£2,047m	£107m	£(72)m
+1% underlying	+310% underlying	H1 2016: £(210)m

Adjusted EPS	Interim dividend	Net debt
5.6p	5p	£1,633m
H1 2016: (1.3)p	H1 2016: 18p	H1 2016: £1,426m

Our priorities

- Simplify the portfolio
- Maximise the value of text
- Next phase of transformation

Our strategy

The demand for accessible and effective education is greater than ever before. Our customers are struggling to address these issues.

We are accelerating our ***shift to digital*** to meet these challenges

Powered by services and technology

Our actions

Simplification	Shift to digital
• Simplifying the business and focusing on our biggest opportunities • Streamline HR and Finance through shared service centres • Leaner organisation and agile decision making • Centralisation of procurement • Reduction of office locations	• Reduced number of applications and systems • Standardisation of processes • Enhancing user experience • Digital customer leadership • Faster digital product development

Talent

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Our opportunity

	Courseware	Assessment	Services
Market Position	US Higher Ed • Leader with c.50% of revenues from digital • c.11m digital subscribers • C.100 DDA deals signed in H1 +34% YoY	US School Assessments • Over 50% of volume from digital testing • TestNav 8 industry leading digital platform	OPM • 100% digital • Global leader with 40 global partners and over 250 programs
Business Model	• 3rd party channel moving to direct to student and institution • Close the gap between usage and value	• Multi-year contract based • Improved margins in digital	• Multi-year contract based • Bigger share of value chain

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H1 Financial Review

H1 financial review - agenda

- Sales performance – underlying +1%
- Profit performance – showing benefit of 2016 restructuring
- Guidance unchanged – H1 performance in line with expectations
- Capital allocation - balance sheet, Penguin Random House, dividend
- Cost actions – £300m of 2020 cost savings

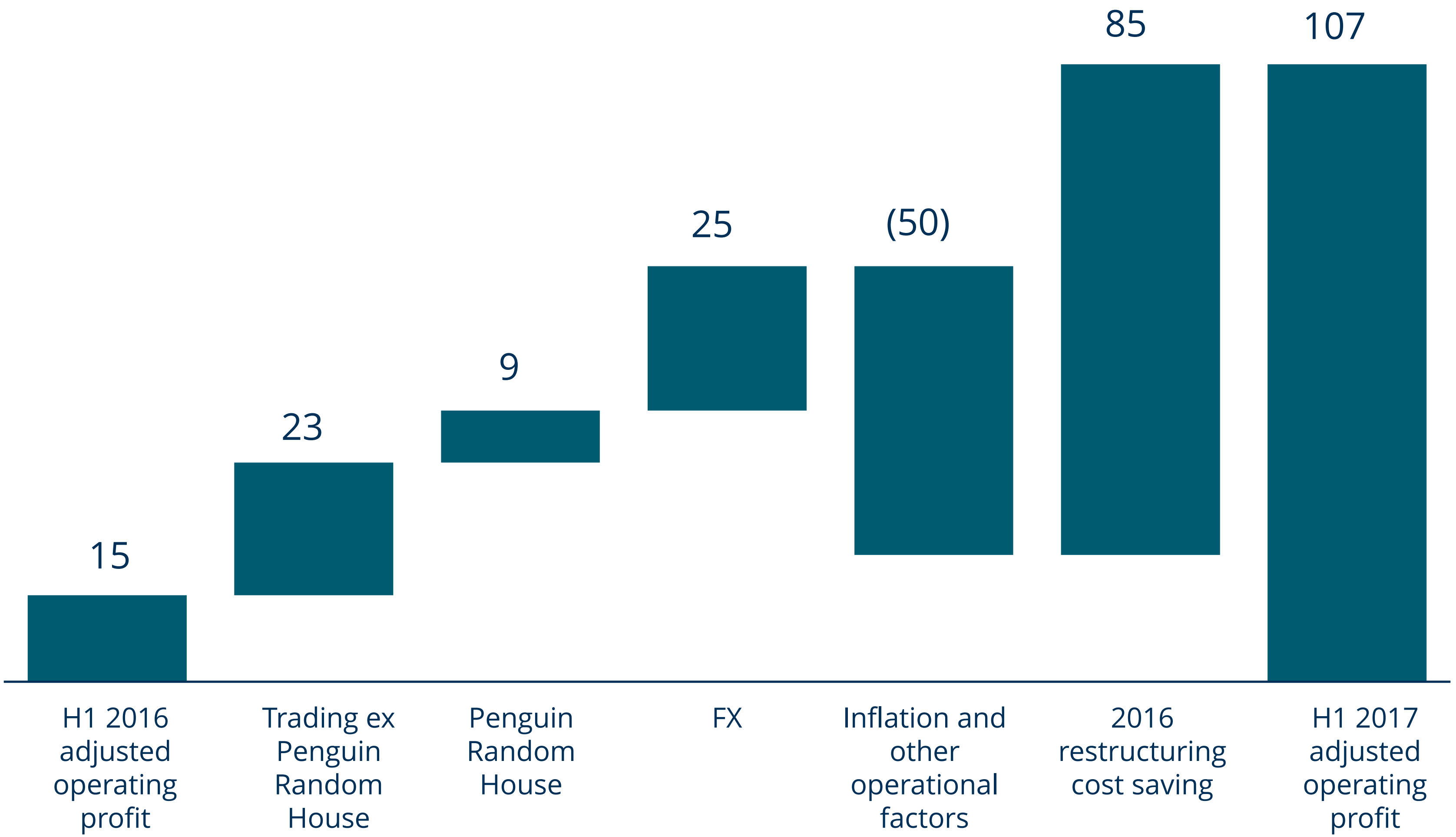
Sales

£m	H1 2017	H1 2016	*CER growth*	*Underlying growth*
North America	1,285	1,164	*(1)%*	*0%*
Core	384	370	*(1)%*	*1%*
Growth	378	332	*2%*	*1%*
Total sales	2,047	1,866	*0%*	*1%*

Operating profit

£m	H1 2017	H1 2016	*CER growth*	*Underlying growth*
North America	43	2	*n/a*	*n/a*
Core	10	(7)	*n/a*	*n/a*
Growth	8	(12)	*n/a*	*n/a*
Penguin Random House	46	32	*28%*	*28%*
Total	107	15	*447%*	*310%*

Profit movements £m



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Guidance unchanged

2017

- Operating profit £546m-£606m* and adjusted earnings per share of 45.5p to 52.5p*
- Adjusted for the expected dilution of £24m and 3p of the Penguin Random House transaction
- £300m buyback - limited impact on 2017
- As usual, our large H2 remains critical
- Exchange rate sensitivity: A 5c movement in the US Dollar has a c.2p impact on EPS

* Based on 31st December 2016 exchange rates

Operating and free cash flow

£m	H1 2017	H1 2016	*var*
Operating profit	107	15	*92*
Working capital (excl. restructuring)	(174)	(169)	*(5)*
- of which pre-publication expenditure	*(8)*	*(36)*	*28*
- of which other working capital	*(166)*	*(133)*	*(33)*
Net capital expenditure	(111)	(113)	*2*
Depreciation	79	67	*12*
Share of operating results of associates	(58)	(40)	*(18)*
Dividends from associates and JVs	60	24	*36*
Exchange	(6)	2	*(8)*
Other movements	31	4	*27*
Operating cash flow	(72)	(210)	*138*
Tax paid	(33)	(53)	*20*
Finance charges	(39)	(18)	*(21)*
Restructuring expenditure	(24)	(55)	*31*
Special pension contribution net of tax	(174)	(72)	*(102)*
Free cash flow	(342)	(408)	*66*

Balance sheet

£m	H1 2017	H1 2016
Goodwill & intangible assets	3,266	5,616
Tangible fixed assets	315	339
Investment in Joint Ventures and Associates	1,214	1,192
Operating working capital	872	890
Other net liabilities	(120)	(84)
Net assets	5,547	7,953
Shareholders' funds	3,957	6,457
Pensions	(181)	(302)
Other provisions	94	103
Non-controlling interest	5	3
Deferred tax	39	266
Net debt	1,633	1,426
Capital employed	5,547	7,953

Total business before transfer to held for sale

Capital Allocation

Capital allocation priorities

Priority	Approach
• Maintain a strong balance sheet and solid investment grade credit ratings	• <1.5x net debt/EBITDA
• Continue to invest in the business to drive sustainable growth	• c.£700m-£750m investment
Shareholder returns • Sustainable and progressive dividend policy • Surplus capital returned via buyback or special dividend	• Declaring 5p interim • £300m share buy back announced from disposal proceeds

Our balance sheet

- Strong funding position
- Committed bank facility $1,750m to 2021
- Gross debt c.$2,600 m in 5 bonds 2018-2025
  - $550m 2018 bond acquired Q1 2017
  - Calling $300m bond due 2018
  - Launching market tender for $500m 2022 and $500m 2023 bonds
- Well funded pension scheme - worldwide accounting surplus £181m at 30th June 2017

Interim dividend

Dividend policy

A sustainable dividend comfortably covered by the earnings of our business excluding Penguin Random House…

…that can grow progressively in line with the cash generation of the business.

The Board will set a 5p Interim dividend for 2017

Our final dividend will be set in February 2018 with reference to both our dividend policy and performance of the business in the second half of 2017

Dividend dates

Ex Dividend	17^{th} August 2017
Record	18^{th} August 2017
Payment	15^{th} September 2017

2017 – 2019
Restructure Plan

Making Pearson a simpler and more agile business

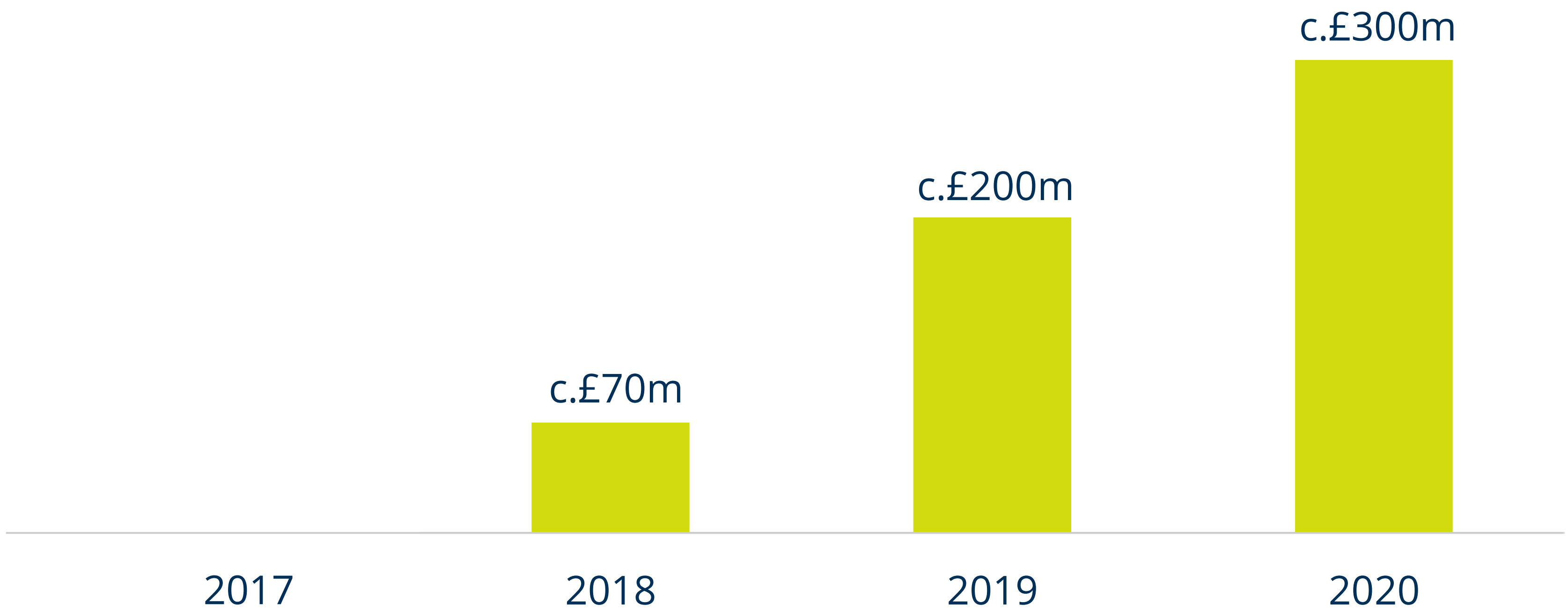
c.£300m of annualised savings exiting 2019

Simplification	Shift to digital
• Build on shared service centres for Finance, HR and Technology and further outsourcing of transactional activities • Further centralise procurement and consolidate key suppliers • Significant reduction in office locations and greater use of serviced offices • Reduce headcount by c. 3,000 FTEs* with a focus on managerial positions	• Reduction in application stack and decommission legacy applications • Creation of offshore Content Services Centre to optimise product development • Move from fragmented and manual processes to standardised processes

* Full time equivalent

Phasing of savings

Annual cumulative savings



Restructuring costs:

c.£70m	c.£90m	c.£140m

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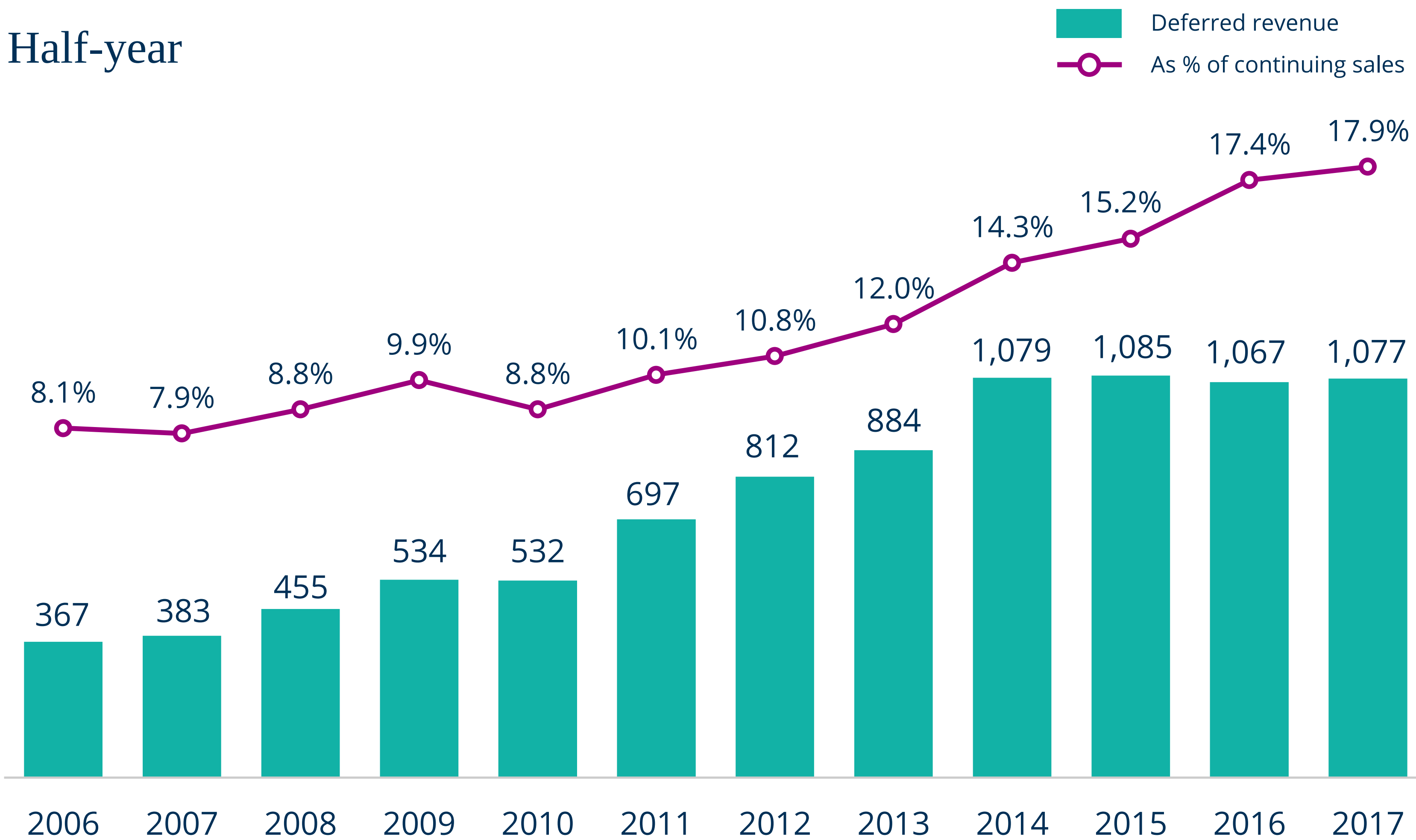
Q&A

Appendices

Deferred revenue $m

Half-year



Continuing operations including held for sale

Adjusted EPS

£m	H1 2017	H1 2016	*Headline growth*
Operating profit	107	15	92
Interest	(47)	(27)	(20)
Taxation	(13)	2	(15)
Tax rate	21%	19%	
Profit after tax	47	(10)	57
Minorities	(1)	(1)	-
Adjusted earnings	46	(11)	57
Shares in issue (millions)	815.0	815.0	
Adjusted EPS	5.6p	(1.3)p	6.9p

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There's so much more to learn

Find out more about us at

pearson.com

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