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.
The headlines

• 2016 eps and operating profit expected to be approximately 57p and £630m, in line with guidance

• Full year revenues down approximately 8% in underlying terms

• Restructuring delivered in full

• 2017 guidance for eps of 48.5p to 55.5p and operating profit of £570m to £630m

• Weakness in North American higher education courseware means our 2018 goal is no longer achievable and we will rebase our dividend from 2017 onward

• Announcing new actions to accelerate our digital transition and reshape our portfolio
2016 provisional bridge

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Adjusted operating profit</td>
<td>£723m</td>
</tr>
<tr>
<td>Disposals</td>
<td>(£90m)</td>
</tr>
<tr>
<td>Market conditions - HE</td>
<td>(£180m)</td>
</tr>
<tr>
<td>Market conditions - Other</td>
<td>(£58m)</td>
</tr>
<tr>
<td>Other operational factors</td>
<td>(£115m)</td>
</tr>
<tr>
<td>FX Impact</td>
<td>£75m</td>
</tr>
<tr>
<td>Incentive compensation</td>
<td>(£55m)</td>
</tr>
<tr>
<td>Restructuring Cost savings</td>
<td>£275m</td>
</tr>
<tr>
<td>Discretionary cost savings</td>
<td>£55m</td>
</tr>
<tr>
<td>2016 Adjusted operating profit</td>
<td>£630m</td>
</tr>
</tbody>
</table>
How 2016 compared

- June 2016 assumptions
- 2016 outcome
Enrolment

Student enrolment vs population growth

Ages 18-34 population growth 0.87% CAGR
Ages 18-24 population growth 0.63% CAGR

Unemployment rate %

US higher education courseware

Impact of rental

- Share of usage in new and secondary is around 35%
- But share of value is much lower due to the secondary market
- Rental has been growing, impacting used and new print market and is driving the gap between share of usage and share of value
Channel sales and inventory

Cumulative gross sales
$m

Cumulative returns
$m

Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

Monthly sales change % YoY

2.0% 17.0% -9.1% -3.8% -13.2% -5.0% -26.1% -8.6% 18.1% -17.8% -18.6% -32.2%

Source: Management Practice Inc.
US higher education courseware
What we are doing

A. Accelerate digital transformation

- Accelerate investment in user experience and rapid deployment across our global learning platform, and in better service and support for customers
- Offer greater incentives for institution-wide direct digital access deals - ensuring greater take-up and digital features available to students and faculty-wider

B. Maximise value of print

- Reduce digital rental prices across the board, to drive affordability and usage of Pearson digital text
- Create print rental partner model, ensuring Pearson receives greater value from the rental usage of our print products

<table>
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<tr>
<th>c50%</th>
<th>c50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson 2016 HE courseware revenue</td>
<td>Pearson 2016 HE courseware revenue</td>
</tr>
</tbody>
</table>
Global product technology platform

- Faster product innovation
- A product roadmap accelerated by two years
- Faster adoption of Digital Direct Access

The User Experience

Pearson products and services

Pearson Content

Technology & Product Platforms

- Learning Application & Service Platforms
- Enterprise and Enabling Platforms
- Cloud & Infrastructure Platforms

Security

- High level of change & innovation
- Increased investment
- Shift investment from ‘plumbing’
- Lower level of change
- Stable, reliable and repeatable

Shift investment from ‘plumbing’
Digital direct access
How it works

**Institutions**
- A good deal for students
- Student success and higher retention
- Better data analytics

**Students**
- Attractively priced high quality courseware on Day 1 of their course
- Students with the courseware they need get better grades and are more likely to succeed

**Pearson**
- Drives digital adoption at faculty level
- Matches value to usage, leverages our scale and effective content
- Creates deeper service relationships with faculty and administration

**Services, Support and Global Technology Platform**
Increase participation in rental eBook rental

More competitive digital eBook rental pricing to make digital eBook rental the best option for price-conscious students

**Illustrative Example:** An economics textbook in year two of the edition cycle

<table>
<thead>
<tr>
<th></th>
<th>Now</th>
<th>Next Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard List Price</td>
<td>$260</td>
<td>$260</td>
</tr>
<tr>
<td>Actual Price New</td>
<td>$227</td>
<td>$227</td>
</tr>
<tr>
<td>Print Rental Price</td>
<td>$89</td>
<td>$89</td>
</tr>
<tr>
<td>eBook Rental Price</td>
<td>$126</td>
<td>$89</td>
</tr>
</tbody>
</table>
Increase participation in rental
Print rental pilot

- Our own Partner Print Rental program, piloting with a group of 50 titles

- Eliminates attrition to used from year 2 onwards
- Matches value to usage
- Makes it easier to remove counterfeit print product from the market
- Increases control of inventory
Financial strategy and capital structure

• The right time to exit PRH

• Proceeds will be used to maintain a strong balance sheet; invest in our business; and return excess capital to shareholders whilst retaining an investment grade credit rating

• Rebasing dividend to reflect the absence of PRH contribution; challenging market conditions; and accelerated digital investment

• Continue to reduce exposure to less scalable direct delivery models and focus on online, blended and partnership models
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
2017 bridge

2016 Adjusted operating profit: £630m

- Disposals: (£10m)
- Market conditions: 0 to (£60m)
- Other operational factors: (£60m)
- Inflation: (£55m)
- Incentive compensation: (£55m)
- Restructuring cost savings: £135m
- FX impact: £45m

Guidance range: £570m to £630m

2017 Adjusted operating profit: £630m
Building a more sustainable, digital company

- Continued focus on tight cost management
- Fewer bigger opportunities
- Delivering better outcomes for learners
- A stronger more sustainable, more digital business
Q&A
Higher Education courseware ARPE analysis

Weighted gross revenue per enrolment
Weighted net revenue per enrolment

2012 100 100
2013 100 101
2014 104 107
2015 104 103
2016 93 87

Source: Management Practice Inc.
ALWAYS LEARNING