

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).

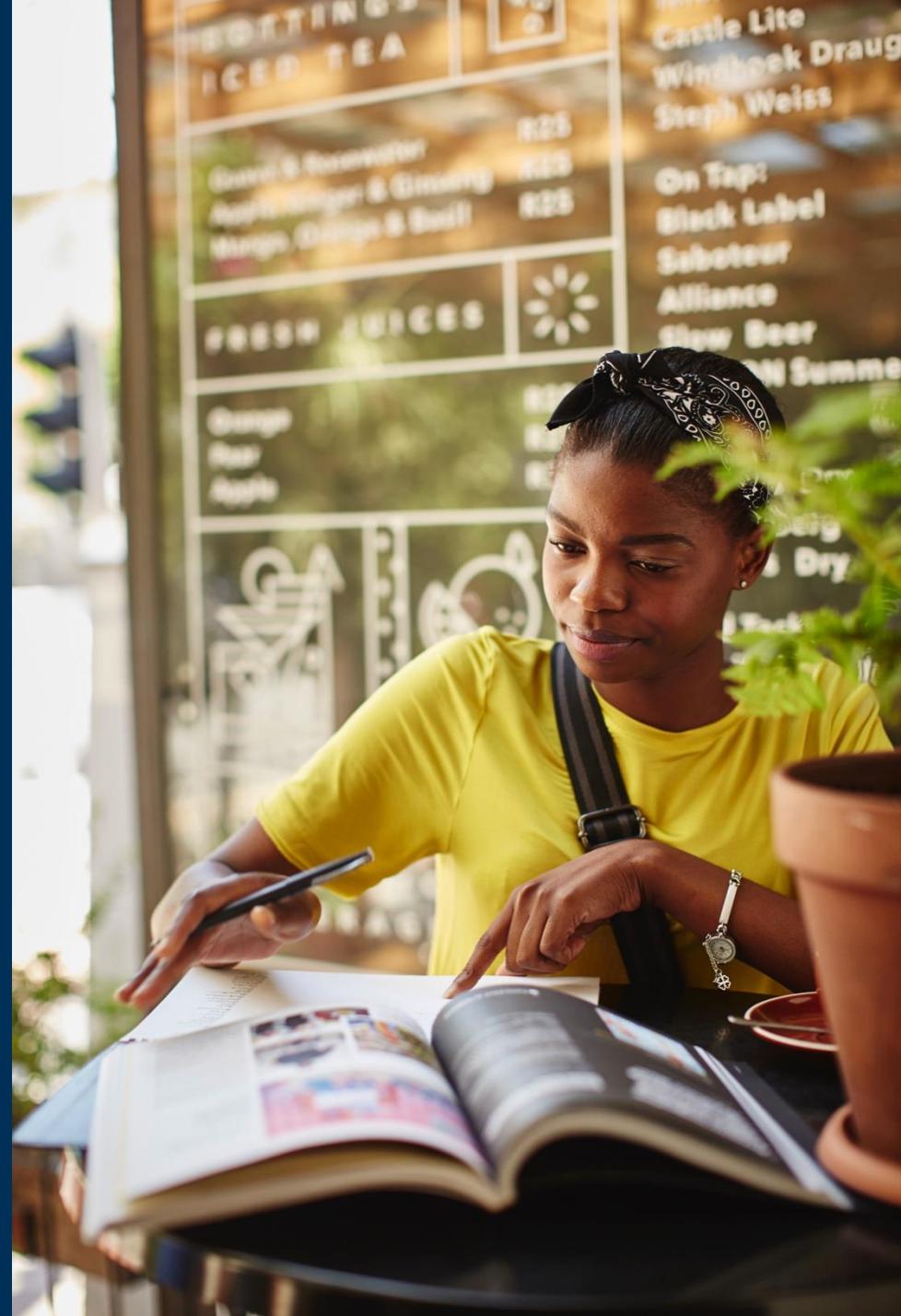
Any forward-looking statements speak only as of the date they are made, and Pearson gives no undertaking to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes to events, conditions or circumstances on which any such statement is based. Readers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



Pearson

2017 Q1 Trading Update

5th May 2017



Three-month headlines

- Underlying revenue up 6%, partly helped by phasing
- Significant incremental cost opportunity identified – £300m exiting 2019
- Strategic review of US K12 courseware publishing
- Digital transformation on track

Guidance for 2017, before announced portfolio and cost actions, unchanged



Q1 trading update

Sales

£m	<i>CER growth</i>	<i>Underlying growth</i>
North America	6%	7%
Core	5%	10%
Growth	1%	0%
Total sales	5%	6%

Balance Sheet

- **Net Debt:** At the end of 2016, Pearson's net debt was £1.1bn. Our net debt at the end of the first quarter was flat, reflecting strong working capital management and favourable exchange rate offset by a pension fund payment related to Penguin
- To ensure efficient use of the cash balances we held at 31 December 2016, we have completed the early repayment option on our \$550m 6.25% Global Dollar bonds 2018

Guidance unchanged

2017

- Operating profit £570m-£630m* and adjusted earnings per share of 48.5p to 55.5p*
- As usual, our large H2 remains critical
- Exchange rate sensitivity: A 5c movement in the US Dollar has a c2p impact on EPS

* Based on 31st December 2016 exchange rates

Cost reduction

- Cost benchmarking across our business
- Identified £300m of additional cost opportunities
- Currently in the process of planning to deliver those cost savings over the course of the next two years
- Expect our cost base exiting 2019 to be £300m lower as a result
- Cost reduction focused on general and administrative expenditure and in North America
- Further details to follow at Interims



**Our digital
transformation**

Our strategy



Powered by **services** and **technology**

US K12 courseware

- Rationale
 - Basal courseware remains a predominantly print based business with a slow pace of digital adoption
 - Business driven by capital intensive, large state adoptions.
 - Pearson has a weaker competitive position – Pearson #2
- We address the biggest opportunities in US K12 courseware via our Virtual School business - Connections Education, US School Assessment and Higher Education content, which is extensively used in High School.

2017 Actions - Update

Maximise value of text

- ebook prices dropped in January and positive initial signs
- Signed Chegg and IndiCo partners for print rental pilot

Accelerate digital:

- Global learning platform and digital roadmap on track to deliver first wave of new digital products
- We have signed 29 new institution-wide DDA deals
- OPM business is growing as expected with new partnerships signed with University of Leeds and Manchester Met in the UK and Duquesne in the US and new programs with key partners including Maryville, Regis College Boston and University of Nevada, Reno

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

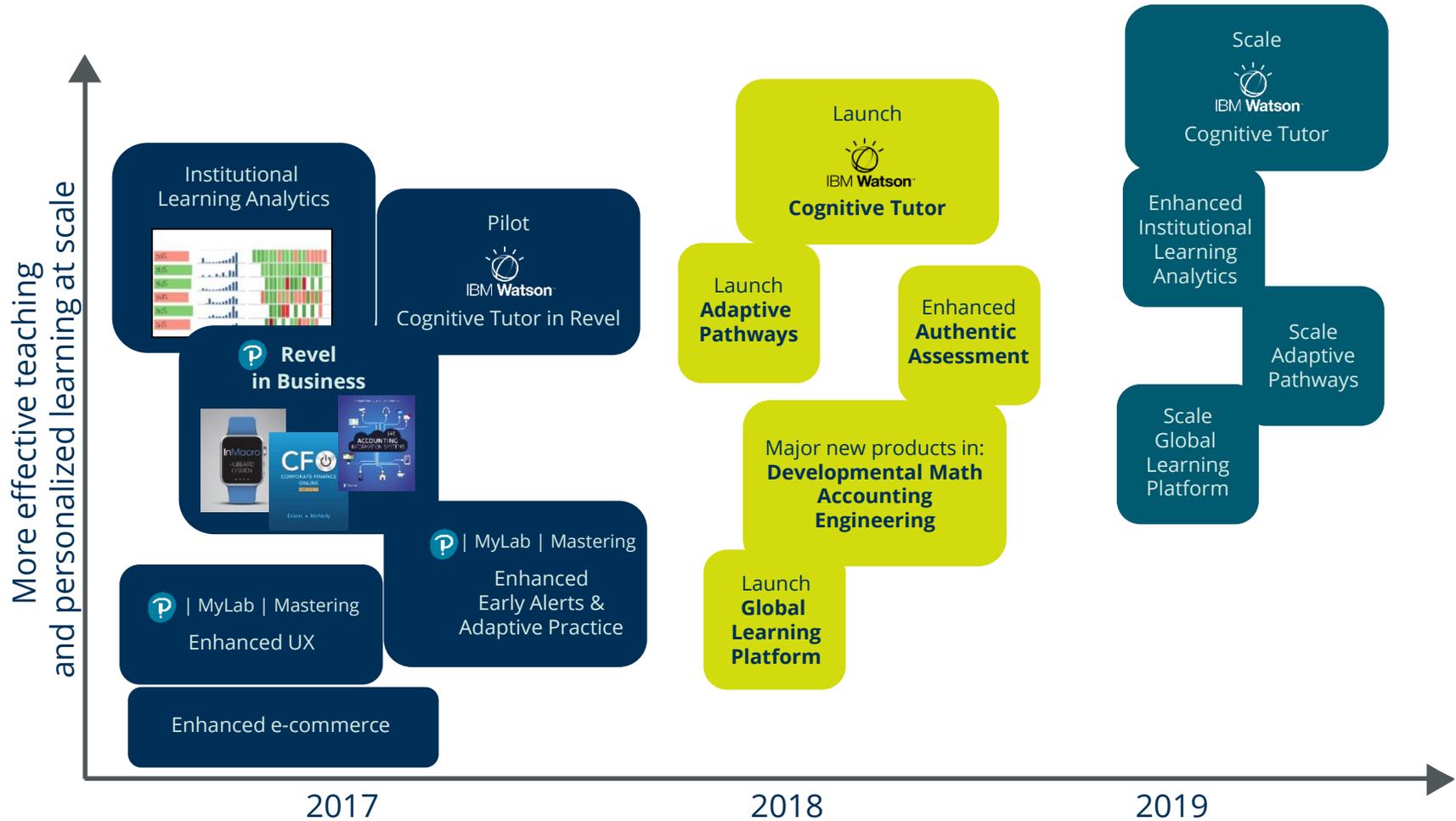
Shift investment from 'plumbing'

Lower level of change

Stable, reliable and repeatable

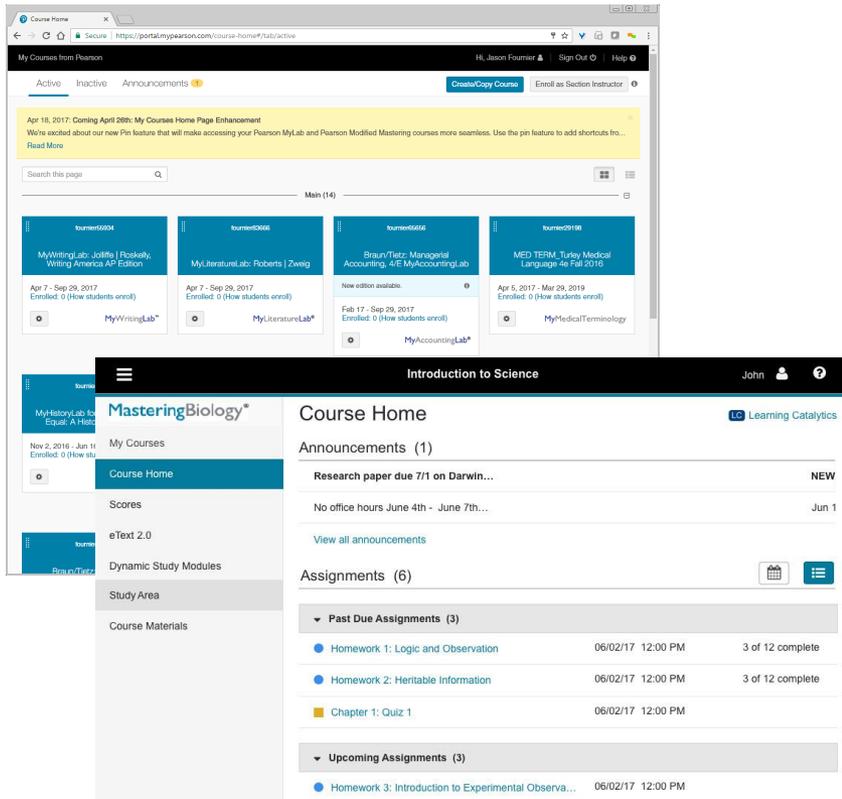
Grow digital – our product/feature pipeline

A product pipeline that promotes learning

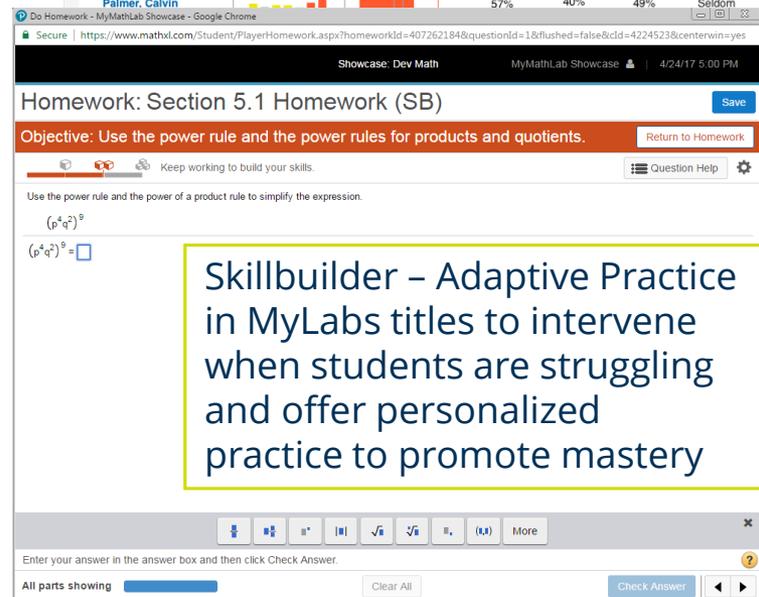
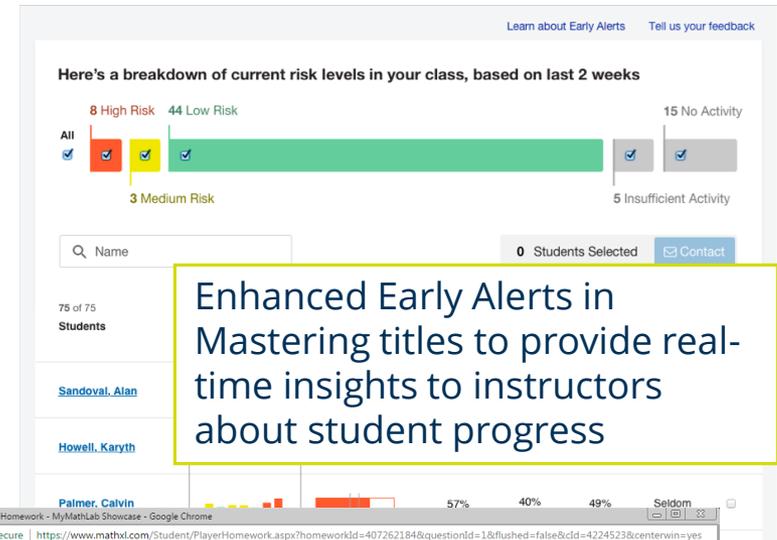


Grow digital – Improving Market Leading Products

MyLabs & Mastering



Modernized UX, improved Accessibility and Mobile Web support



Grow digital – Transforming the Digital Portfolio

Global Learning Platform

PEARSON > ATHENS > ASSIGNMENT > HMWFS

STUDENT

PROBLEM 5

SCORE: 19/20

Box B weighs 30 lb and box D weighs 50 lb, respectively. Assume smooth surfaces.
 a) Draw the free-body diagram of the boxes
 b) Determine the tensions in the ropes and the normal forces exerted on the box by inclined surfaces.

FREE BODY DIAGRAM

FEEDBACK 10/10

- Correct free-body diagram
- Listed all given
- Correct equation for problem
- Solving these four equations yields to the final equation

GIVEN 3/3

Weight B: 30 lb Angle 1: 70°
 Weight D: 50 lb Angle 2: 25°

EQUATIONS 3/3

$$\sum F_x : (40 \text{ N}) \sin 70^\circ + T_C \cos 25^\circ - T_A = 0$$

$$\sum F_y : N_B - (40 \text{ N}) \cos 70^\circ + T_C \sin 25^\circ = 0$$

$$\sum F_x : (40 \text{ N}) \sin 70^\circ + T_C \cos 25^\circ - T_A = 0$$

$$\sum F_y : N_D - (40 \text{ N}) \cos 70^\circ + T_C \sin 25^\circ = 0$$

SOLUTION 3/3

$T_A = 51.2 \text{ N}$, $T_C = 15.1 \text{ N}$, $N_B = 7.30 \text{ N}$, $N_D = 31.2 \text{ N}$

Stepwise scoring and partial credits make assessments part of the learning model

Students choose preferred method to learn lessons

Volumetric Formulas

In this lesson, we give a table of volume formulas and surface area formulas used to calculate the volume and surface area of three-dimensional geometrical shapes: cube, cuboid, prism, solid cylinder, hollow cylinder, cone, pyramid, sphere and hemisphere.

STUDENT

HOW YOU WOULD LIKE TO LEARN THIS LESSON?

Question 3
Feedback

1 Conduct an analysis of both companies
Analyze the financial statements provided and calculate an Acid-Test Ratio.

$$30,500 + 52,220 + 35,000 + 66,000 / 401,500$$

Incorrect Sheet

You used data from the income statement spreadsheet which is incorrect lorem ipsum dolor sit amet.

Unnecessary Data Point Input

$$\frac{X + Y + Z}{a} = \text{quick ratio}$$

66,000

You included an extra account balance in the numerator of your formula. Think about the acid-test ratio and make sure you are using the correct data in your calculation.

Personalized remediation and targeted, detailed feedback explains where students are making errors

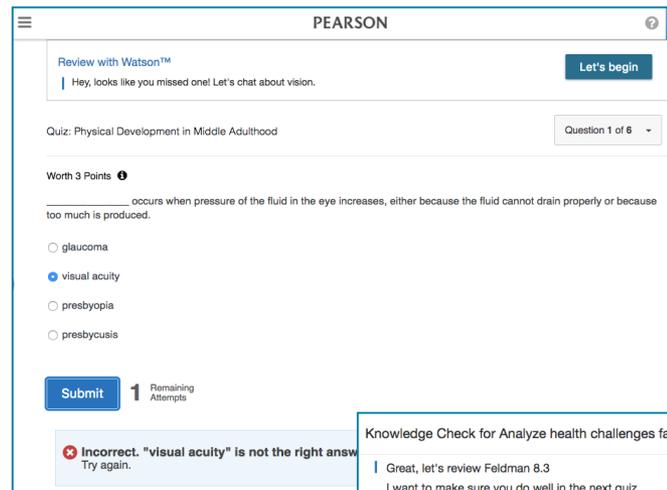
Grow digital – Transforming the Digital Portfolio

Revel & IBM Watson Partnership – Innovations and Research Pipeline

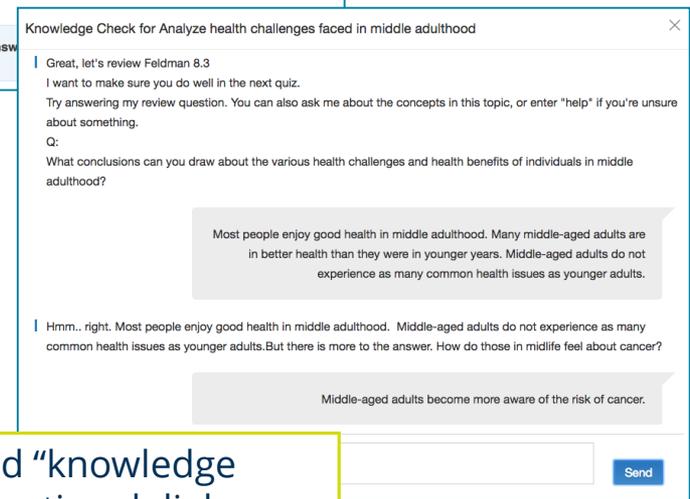
Revel for Business



IBM Watson



IBM Watson powered just-in-time prompts respond to student errors in quizzes and help remediate



IBM Watson powered "knowledge checks" offer conversational dialogue to promote student mastery

Closing the gap between value and usage in US higher education courseware

Volume	68m course enrolments
Market	\$7bn = \$100+ per addressable enrolment
Usage	Pearson share of usage: 35%
Value	Pearson share of value: 20%
Digital	Increase share of value and expand usage

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

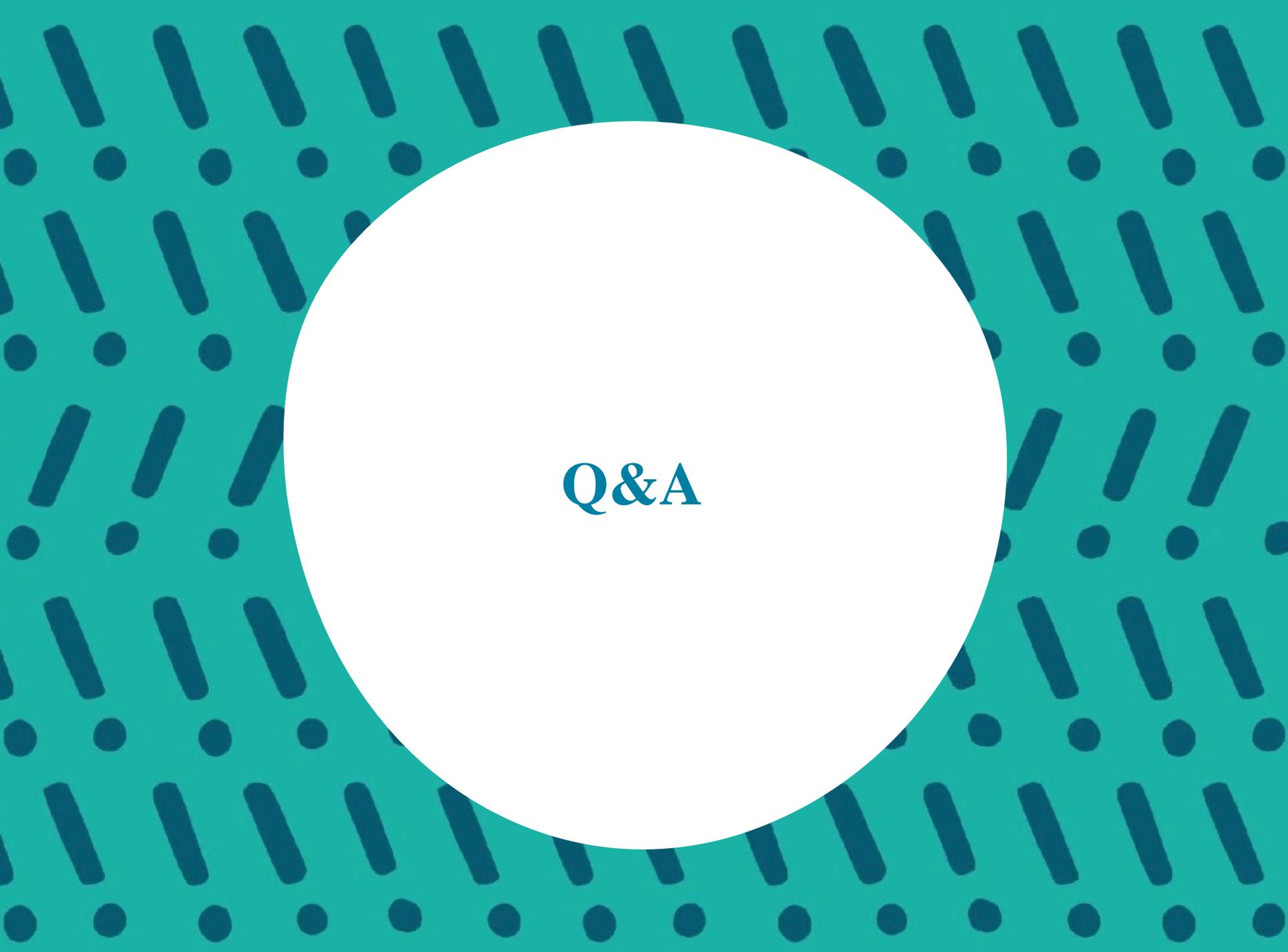
- Retain key talent
- Drive a high performance culture

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