

Chairman’s introduction

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Sidney Taurel
Chairman

Dear shareholders,

This has been an important year in the company’s transformation and significant progress has been made in 2017. On an operational level, the company has stabilised and, for the first time in several years, Pearson has met both internal and external expectations. We are still in the midst of a transformation and the environment in our largest business, US higher education courseware, remains challenging. However, we continue to take action and have a good handle on these challenges, as well as on the growth opportunities in other parts of our business, leaving us well placed to meet our long-term aspiration to be the leader in digital learning.

From a Board perspective, management is faithfully executing on our strategy, as seen through the actions taken to simplify the company, focus our portfolio, invest in our digital capabilities and invest in growth opportunities that will drive the future of Pearson. 2017 performance provides a solid foundation from which to build, with Pearson aiming to return to underlying profit growth in 2018.

Overseeing our strategic progress

The Pearson strategy must meet the evolving demands of learners while delivering sustainable returns to shareholders. Pearson meets those demands by combining world-class content and assessment, powered by services and technology, to support more effective teaching and personalised learning at scale. To deliver on the strategy, Pearson is focused on three priorities:

1. Grow share through the digital transformation of our courseware and assessment businesses
2. Invest in the biggest structural growth markets
3. Simplify the company, becoming more efficient and delivering better customer experiences.

A key tenet of the strategy is investment in content and technology to ensure Pearson has the skills and platforms to keep its products relevant, to become more agile in its digital capabilities, and to provide a robust infrastructure to deliver efficiencies. In turn, these will help Pearson win market share with products that deliver better outcomes, provide better customer experiences and deliver sustainable long-term growth, driving greater value for shareholders. You can read more about these priorities on p13–21.

Our simplification journey

Pearson enters 2018 in a strong financial position because of tight management of costs, actions to simplify the portfolio and a sharper focus on the biggest opportunities – areas that are consistent with our previously announced simplification strategy. In July 2017, the Board sanctioned the sale of a 22% stake in the Penguin Random House venture to Pearson’s joint venture partner Bertelsmann, and the recapitalisation of its remaining 25% stake in the business.

In the latter part of the year, Pearson also agreed the sale of two of its direct delivery businesses – GEDU and Wall Street English. Pearson has raised £2.4bn from strategic disposals since 2015, which has helped Pearson greatly strengthen its balance sheet, reinvest back into the business and return excess capital to shareholders. In October 2017, Pearson commenced a share buyback programme, completed on 16 February 2018, repurchasing a total of 42.8m shares at an average price of 700p.

Shareholder returns

It is my job to ensure that capital is allocated appropriately on behalf of our shareholders. I know that shareholders are disappointed about the reduction of the dividend in 2017. This was not a decision the Board took lightly and it reflects a continued focus on maintaining a strong balance sheet, investing in Pearson’s digital transformation and sustaining a solid investment-grade credit rating.

Governance at Pearson

Leadership and effectiveness

Board members challenge and debate strategy, performance, responsibility and accountability to ensure that the decisions we make are robust. Board activity and performance are assessed annually.

Accountability

Detailed risk assessment and management information shapes all strategic and operational decisions, with clearly defined Board and management responsibilities and processes.

Engagement

Building strong relationships with our diverse stakeholders is crucial to our sustainable success. We aim to engage through many forums, and channels, to build trust.

See our Governance report on p61–110 →

Remuneration

Our remuneration policy aligns with strategy and adapts to market conditions and performance.

See our Remuneration report on p90–105 →

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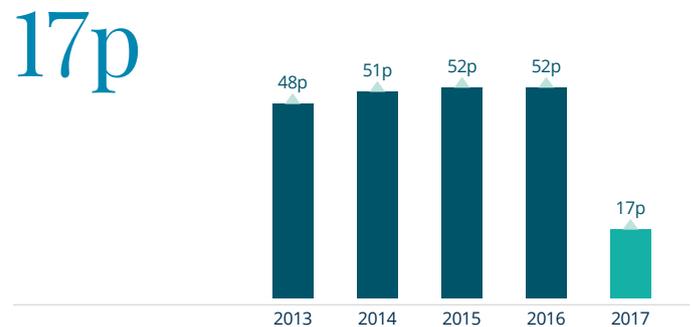
Key performance indicators *Deliver sustainable returns*

Total shareholder return (Five years % change)



Five-year TSR in 2017 was -20.9% which compares with a 57.2% return on the FTSE 100 Index of large UK listed companies. Our recent share price performance has been disappointing but we are confident that the plans and strategy laid out in this report will continue to make Pearson a simpler, stronger company, and that they set the company up for a sustained period of growth and value creation.

Dividend per share in fiscal year (pence)



We cut our dividend in 2017 to reflect portfolio changes, increased product investment and challenging market conditions in our largest business. Our intention is to pay a sustainable and progressive dividend that is comfortably covered by the earnings of our ongoing business, excluding any contribution from our stake in Penguin Random House.

Our stated objective in the long term is to rebuild our payment to shareholders, reflecting the Board's long-standing confidence in the strong future cash generation of Pearson. At this stage, we are focused on striking the right balance between short-term shareholder reward and investing in the long-term success of the business. As a result, the proposed final dividend payment for 2017 is 12p per share, taking the full year dividend to 17p per share.

Board engagement with our investors and company stakeholders

The 2017 financial year has been one of significant engagement with our shareholders. I have enjoyed spending time throughout the year with many of you to ensure that we maintain an open, transparent dialogue, keep you updated on our strategy and receive your inputs.

Since May 2017, Elizabeth Corley, who chairs the Pearson Remuneration Committee, has led our work to engage with investors in connection with Pearson's remuneration policy and to listen to your concerns. It is clear that shareholders and other stakeholders would like our approach to remuneration to be simple and transparent, closely linked to our strategy and the company's performance.

We have worked hard to develop an approach that the majority of our shareholders can support. Elizabeth explains our approach in more detail in

the remuneration section of this report on p90-105, and I would like to thank those who helped us refine our proposals.

More broadly, our Board members have been engaging with educators, learners, community and thought leaders, and other stakeholders in a variety of ways. This remains an ongoing area of focus for us – you can read more about our engagement in the governance section on p61-110.

Investing in world-class talent

A company that is moving to a digital-first model needs to have the best and brightest talent to help guide it through the transition. I am pleased that in 2017 we made a number of significant hires – at Board and Executive level, as well as across the entire company.

Over the last few years we have further strengthened the composition of our Board through the addition of more technology knowledge, more international experience and greater depth regarding transformation. For example, Michael Lynton joined us as an Independent Non-Executive Director on 1 February 2018. Michael was formerly Chairman and CEO of Sony Entertainment, and CEO of Sony Pictures Entertainment before that. He is currently Chairman of Snap Inc., the owner of messaging start-up Snapchat, and brings a wealth of experience and expertise.

I believe we have a strong and experienced Board, fully engaged with the business and focused on helping guide Pearson back to growth. All across Pearson, there is a focus on developing necessary skills and capabilities to ensure Pearson has the right talent, building a market-leading, digital-first business.

Looking ahead

Pearson has an important role to play in supporting customers across the globe to make progress in their lives through learning. This encapsulates our work to build a more digital and sustainable business.

2018 is a pivotal year for Pearson – it is the first in several when Pearson is expected to return to underlying profit growth. The Board is confident management has a good plan to deliver on this guidance and that the strategy is working. Longer term, we are excited about the significant growth opportunities globally and about delivering sustainable long-term growth to drive shareholder value.

Thank you for your ongoing support of Pearson.

Sidney Taurel Chairman