# Chair's introduction

2018 has been a pivotal year for Pearson as we returned to underlying profit growth and laid a firm foundation for further progress in 2019.

**Sidney Taurel**
Chair

## Dear Shareholders,

2018 has been a pivotal year for Pearson. The pace of our strategic delivery over the past year has been strong, improving both our operational and financial performance as we returned to underlying adjusted operating profit growth for the first time since 2014. This marks an important milestone for us, with the business meeting strategic expectations and hitting its financial targets.

While we are still in the midst of a transformation and the environment in a key business, US Higher Education Courseware, remains challenging, a strong performance in our structural growth opportunities in 2018 largely offset the declines we saw in this market. Furthermore, we continued to make good progress with our digital transformation increasing digital and digitally-enabled sales to 62%[1].

I do not underestimate the scale of the transformation we are undertaking but believe we delivered real and sustainable momentum in 2018. Management continues to faithfully execute on our strategy, further simplifying the company, growing our digital capabilities and investing in structurally growing businesses. Our near-term prospects look increasingly bright and the long-term opportunities remain significant.

## Making progress implementing our short-to-medium-term strategy

As a Board, in 2018 we spent considerable time monitoring our progress on implementation against Pearson's three immediate strategic goals – growing market share through our digital transformation, investing in structural growth markets, and becoming a simpler, more efficient and more sustainable business.

A key tenet of our strategy has been the steady investment in the business to support our digital transformation. This is an area the Board has fully supported and, in 2018, the business made good progress as it lays plans to develop a digital first approach built around artificial intelligence and data analytics – a digitally-enabled offering that will deliver value to customers faster, while at the same time ensuring better outcomes. This will be crucial to our future competitiveness as well as our ability to retain and attract the best and brightest talent to support our transition to a digital led model.

We are continuing to invest in structural growth markets that promote lifelong learning, delivering good growth across each of these four businesses – Professional Certification, Virtual Schools, Online Program Management (OPM) and English language learning and assessment.

Our simplification programme, which we embarked upon in 2017, is performing ahead of plan as we strive to make Pearson an efficient and more focused business. During 2018, we increased and accelerated our cost savings and now expect to deliver total annualised cost savings in excess of £330m by the end of 2019. This is ahead of our original plan of £300m of savings.

We also continued the process of simplifying the portfolio in 2018, to enable us to focus on the biggest opportunities in education. We completed the disposal of Wall Street English and our stake in Mexican joint venture, UTEL, in the first half of the year. The proceeds of these sales helped strengthen our balance sheet further and improve our cash position. We have recently announced the disposal of our US K12 Courseware business, which is a further milestone in our simplification journey.

You can read more about these accomplishments in the Chief Executive's overview that follows.

## Focusing on Pearson's longer-term future

As the Board has become more confident in progress on implementation against Pearson's three immediate strategic goals, it has focused even more on the company's longer-term future, evaluating and planning our long-term strategy, to ensure we continue to evolve and meet our strategic vision of delivering lifelong learning to customers, leading to increased employability and work-related skills, as part of a wider ecosystem of delivery partners and stakeholders.

As we now look ahead, we expect to build on our performance in 2018 and deliver further profit growth in 2019 and for revenue to stabilise. We remain confident about Pearson's longer-term prospects and on building shareholder value through the delivery of profitable growth and strong cash generation, while continuing to invest for the future.

## Focused on shareholder returns

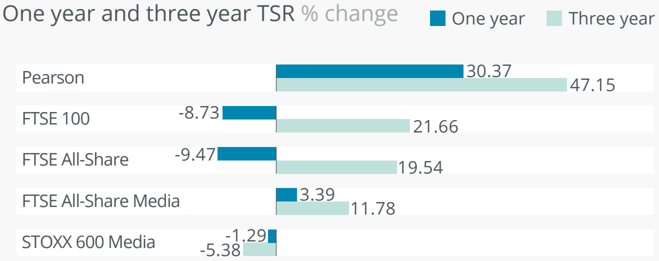
As Chair it is my job to protect and grow shareholder value through the prudent allocation of capital.

Pearson's capital allocation policy remains unchanged: to maintain a strong balance sheet and a solid investment grade rating, to continue to invest in the business, to have a sustainable and progressive dividend policy, and to return surplus cash to our shareholders where appropriate.

In recent years, we have navigated through a period of significant change – both within Pearson and across the industry as a whole. Tight financial and cash management and oversight of the business means that, while there is still much to be done, we are now in a significantly stronger financial position than we have been for several years. This financial strength underpins our business transformation and continuing investment in the company.

1 Excluding WSE and US K12 Courseware.
Underlying growth rates exclude currency movement portfolio changes and accounting changes.

One year and three year TSR % change




Progress over the last three years

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Adjusted earnings per share[1] | 58.8p | 54.1p | 70.3p |
| Dividend per share | 52p | 17p | 18.5p |
| Net debt | £1,092m | £432m | £143m |

In terms of the dividend, when we made the hard decision to cut the dividend in 2017, we said that we would reset it to be sustainable and progressive going forward. We have proposed a final 2018 dividend of 13p, an increase of 8%, equating to a full year dividend of 18.5p per share. This reflects the Board's continued confidence in the future growth of the business.

We also completed a £300m share buyback in February 2018, following our disposal of a 22% stake in Penguin Random House in October 2017.

I am pleased to report that our UK pension Plan is in surplus, with a well-run Plan for the benefit of all its members. In early 2019, the Plan purchased a further insurance buy-in policy with Legal & General, amounting to c.£500m, putting the Plan in an even stronger position and further reducing our future pension funding risk, at no additional cost to Pearson.

The continued stabilisation of the business, combined with disciplined capital management, helped Pearson to become one of the top five FTSE 100 companies in 2018 for shareholder returns.

## Ongoing focus on corporate governance

Corporate governance remains an important area of focus for the Board and I enjoyed spending time throughout the year with many of our shareholders to ensure we maintained an open, transparent dialogue on our strategy and progress. More broadly, our Board members have been engaging with employees, educators, learners, community and thought leaders, and other stakeholders in a variety of ways throughout the year.

During the year my fellow Board members and I visited some of our offices across the Pearson network including in Milan, Italy and Cape Town, South Africa, to meet and engage with employees and other stakeholders, and hold meetings to share learnings around some of the exciting opportunities coming out of our Core and Growth markets – for example fast growing products such as the Pearson Test of English Academic.

This continues to be a focus for us in the year ahead.

## Talent

I would like to thank all colleagues in the business for their efforts in achieving a successful 2018. Our people are key to the future of Pearson and as a Board we are increasingly focused on ensuring we have a corporate culture that is inclusive, innovative and meritocratic.

My fellow Board members and I are delighted to be able to help support our talent pipeline through the introduction of a new mentoring programme. You can read more about our employee engagement and talent initiatives in the Governance section which begins on p77.

## Board composition

Our Board benefits from having a wide range of experience, skills and backgrounds spanning business strategy, innovation, education, digital & technology, sustainability, international, regulatory affairs and more.

We saw two changes to the Board over the course of 2018. In February 2018 Michael Lynton joined us as a Non-Executive Director. Meanwhile we said goodbye to Harish Manwani, a Non-Executive Director of Pearson since 2013, who retired from the Board at the AGM in May. I thank Harish for his commitment and contribution to Pearson.

## Looking ahead

We will continue to transform the business through moving our US Higher Education Courseware business into a more digital and direct to consumer business, and continue to invest in and develop our long-term structural growth opportunities. Through our simplification programme we will emerge a simpler, more efficient and agile company with a cost base that is considered optimal for the size and scale of the business.

Pearson has proved resilient, we have laid solid foundations for growth and the Board is confident that the management team continues to execute faithfully on the strategy as we look to deliver another good performance in the year ahead.

We remain confident about Pearson's longer-term prospects and on building shareholder value through the delivery of profitable growth and strong cash generation, while continuing to invest for the future.

I look forward to seeing you in the coming year and thank you for your ongoing support.

**Sidney Taurel**
Chair

### Governance at Pearson

For more information on corporate governance visit www.pearson.com/governance see p77

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