Chairman's statement

This year, the only place to start my letter to shareholders is by congratulating all my colleagues at Pearson on the 2008 results.

The growth in earnings that we are reporting would be a good achievement in any year. In a year when the global economy tipped into recession and the financial system came close to collapse, this is a remarkable performance.

Before I came to Pearson, I had a long career in banking, finance and investment. The disruption and dislocation that we've seen in the last year or so are as severe as anything I can remember. That is causing considerable distress in many parts of the global economy – across geographies and across industries – and many good solid companies are being damaged by the withdrawal of credit and the crisis of trust.

To my mind, the achievement of these results in the middle of this crisis speaks volumes about Pearson's strategy and our ability to execute it. I'd like to highlight a few points:

All-round growth

The executive team has quietly and determinedly pursued its vision of growing each one of our businesses by investing in their content, digital transformation and international expansion. A relentless focus on efficiency and costs has enabled those investments.

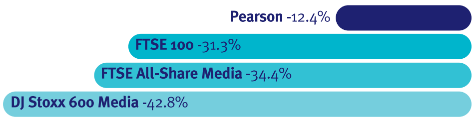
As a result of that strategy, one feature of the 2008 results is that every part of Pearson has once again achieved good earnings growth. This is by no means universal in our industries. I believe that the growth we are reporting and the market share gains we are achieving provide evidence that our bold and dogged investments in digital services and emerging markets are giving us a sustainable competitive advantage. I also believe that we can further strengthen our market positions while the economic conditions place some pressure on our competitors.

The company has consistently built our global education business, steadily shifting capital towards our most attractive growth opportunities. We don't believe that this company is immune from a severe economic downturn – I don't know of any company that doesn't suffer when its customers are under pressure – but we are convinced that the inherent demand for learning is significant, and that the political will to invest in education is widespread and enduring.

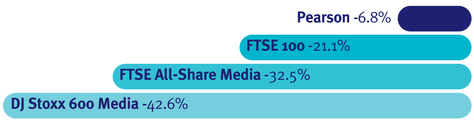
Consistent execution

My own personal belief is that this bear market and economic downturn will reward companies that are focused on the fundamentals of building a business. Those include great products that consumers need, customer service, steady growth built on core skills, clear strategy, sound financial position and strong company culture. It is to Pearson's credit that it has remained totally focused on those fundamentals through an era of mind-bogglingly complex product 'innovation' and financial engineering.

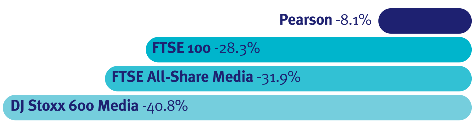
Share price performance 1 year
% change
01.01.08 – 31.12.08



Share price performance 3 year
% change
01.01.06 – 31.12.08



Total shareholder return 1 year
% change
01.01.08 – 31.12.08



Total shareholder return 3 year
% change
01.01.06 – 31.12.08

It is especially pleasing to be able to repeat an observation that I made last year: that this is not just one year of good performance, but another data point along a consistent record of growth.

That track record is no accident, but the result of a clear strategy that we have been steadily pursuing to achieve consistent and reliable growth in shareholder value. On the first element of that value – the share price itself – we ended 2008 12% lower than we started it. We'll never be satisfied with that kind of performance in absolute terms.

But our relative performance gives us some comfort that investors recognise the quality of our business, the strength of our strategy and the consistency of our growth. Because that 12% decline in Pearson's share price compares with much sharper falls elsewhere in a terrible year for equity markets: the FTSE 100 ended the year 31% lower, the FTSE Media Sector was 34% lower and the DJ Stoxx Media was 42% lower.

Total shareholder return

The second element of our return to shareholders – the dividend – increased in real terms once again. For 2008, our total shareholder return (which takes into account the share price and dividends paid) was down 8%. Again, this was significantly ahead of the FTSE 100 (down 28%), the FTSE Media Sector (down 32%) and the DJ Stoxx Media (down 40%).

Your board considers the dividend to be an extremely important part of its strategy for value creation – a good discipline in terms of our cash generation; a signal about our confidence in Pearson's prospects; and a vital, reliable cash distribution to shareholders. In fact, Pearson has increased the dividend faster than the rate of inflation for every one of the past 12 years, returning £2.2bn to shareholders through the dividend over that period. We are proposing a 2008 final dividend of 33.8p.

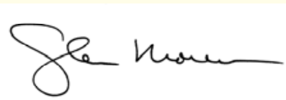
We know that our shareholders, ourselves included, are looking for real growth in value in absolute terms. That is our goal, and while we cannot defy the sharp recent swings in equity markets, we remain clear that the most reliable way to generate that value is by producing consistent and sustainable growth in Pearson's earnings, cash flows and return on capital, year after year.

Strong position in tough markets

While we are very pleased about Pearson's performance in recent years, none of us is under any illusion: the short-term outlook is tough and 2009 will be a difficult year. All kinds of companies, including our own, will be affected.

That said, I do believe that Pearson is in a relatively strong position. We have good cash flows and a strong balance sheet, having resisted the fashion for taking on cheap debt during the credit bubble. We have changed the shape of the company, reducing our exposure to volatile revenue sources like advertising and moving towards more resilient ones like subscriptions and long-term service contracts. And, above all, we have focused the business on the global market for education, where the long-term growth opportunities are very significant.

As a result of all those things, I'm as confident as I can be that Pearson is in good shape to weather these very difficult economic conditions. I look forward to discussing these and any other issues with you at our annual shareholders' meeting.



Glen Moreno Chairman