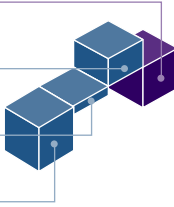


# Chairman's Statement

## Share price performance – 1 year

% change  
01.01.07 – 31.12.07

Pearson -5.1%  
FTSE 100 +3.8%  
FTSE All-Share Media -1.2%  
DJ Stoxx Media -5.8%



## Share price performance – 3 year

% change  
01.01.05 – 31.12.07

Pearson +16.5%  
FTSE 100 +34.1%  
FTSE All-Share Media +8.5%  
DJ Stoxx Media +13.7%



Dear shareholder,

Our goal at Pearson is to increase the value of your company for the long term.

So we look back on 2007 with somewhat mixed feelings: pride in our financial and operational performance, tempered by disappointment that we did not sustain the steady share price increases of recent years.

The results we describe in this report include record operating profits, record earnings per share and record operating cash flow. Our return on invested capital – the ultimate test of whether we are generating a return on all the capital invested in the company – moved up to 8.2%, even as we made some significant acquisitions to extend the breadth and worldwide leadership of our education company.

I'd like to thank and congratulate everyone who works at Pearson for their dedication and success in 2007. These are remarkable results – and all the more so because they were achieved against the headwind of a 9% decline in the value of the US dollar, our principal trading currency, against the pound.

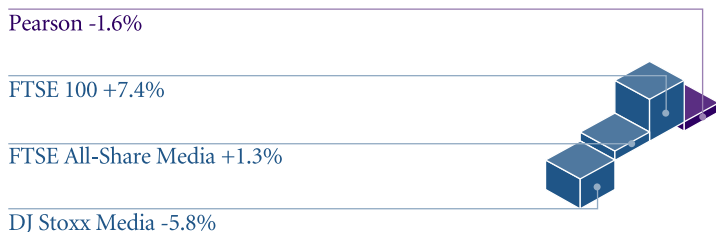
But that performance brought little immediate reward in share price terms. Amid more turbulent market conditions than we have seen for some years, the value of our shares declined by 5%. That compares with a 4% increase in the FTSE100 and a 1% decline in the FTSE Media Index. Including our dividend, our total return to shareholders was marginally negative at -2%. So, while we were producing those record results, shareholder value was affected by a series of external factors – the dramatic downturn in credit markets; the reaction of equity markets; the further weakening of the US dollar; the perceived cyclical nature of the media sector in more uncertain macroeconomic conditions.

History tells us that bear markets can bring a silver lining for long-term investors – the chance to acquire quality companies at historically attractive multiples and yields. We continue to believe that, in the long term, sustained growth in earnings, cash and returns will be the most reliable way for Pearson to increase shareholder value. So let me highlight some of the indicators I find encouraging.

1. First of all, our excellent results in 2007 were not a one-off; they build on a trend of consistently strong growth. Over the past five years, our operating profit growth has averaged 15% each year (at constant exchange rates), our adjusted earnings per share growth has averaged 14%, and our operating cash flow has more than doubled to £684m.

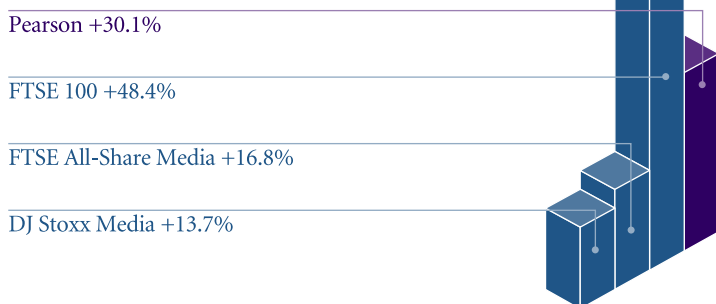
### Total shareholder return – 1 year

% change  
01.01.07 – 31.12.07



### Total shareholder return – 3 year

% change  
01.01.05 – 31.12.07



2. Second, that track record is the result of an effective organic growth strategy. That is to invest behind our world-leading market positions, building on the content, technology and international growth opportunities of each one of our companies, at the same time as we make the business more efficient.

3. Third, we can see that strategy paying off in every part of Pearson. It is particularly pleasing to see substantial profit growth at Penguin (up 20%) and FT Publishing (up 85%) adding to the consistent upward trends at Pearson Education (up 9%) and Interactive Data (up 13%).

4. Fourth, we are steadily shifting capital towards our most attractive growth opportunities. We began the year by selling our Government Solutions business and continued with a series of disposals of companies that we viewed as no longer central to our long-term strategy. They included Les Echos in France and, early in 2008, FT Deutschland and our US Data Management (Scanners) business. Meanwhile, we acquired new companies that bring us hugely valuable content, international reach and technology – the Harcourt international education and educational testing companies and eCollege, a pioneer in online distance learning.

5. Fifth, and at the heart of everything we do, we made significant advances in the value we bring to our customers through our content, technology and services. There are many examples all around Pearson – from the FT’s outstanding and indispensable coverage of the turmoil in global credit markets; to Penguin’s uncannily timely publication of Alan Greenspan’s memoirs; to our education company’s pioneering use of technology to advance student success.

Examples like those remind us that Pearson plays a unique and valuable role in society. Thank you for making that possible.

We begin 2008 with a good strategy, strong businesses and healthy trading momentum. We are certainly living through a more uncertain economic environment and more nervous stock markets. Our focus will be on serving our customers, building our business and producing consistent financial progress, in the belief that those, over the long term, are the surest path to value creation.

As always, I look forward to seeing as many of you as possible at our annual shareholders’ meeting.

Glen Moreno, *Chairman*