

CHAIRMAN'S STATEMENT



Dear fellow shareholder,

I write this letter after we have announced that I will be standing down as chairman during 2005. I do this with great sadness because it has always been a privilege to be associated with this very special company. However, after nearly 20 years on the board, eight as chairman, and now anticipating good growth over the next few years, it seems the right time to hand on to someone else.

This is perhaps a good moment to share with all my fellow shareholders the 'big picture' of how I see our business. Eight years ago we set out on one of the more radical business transformations in recent times, turning Pearson into a content-led business with leading positions in publishing and financial information.

With cruel timing the technology and media bubble burst, to be followed by the deepest ever recession in business to business advertising and a relentless slide in the value of the US dollar – the currency in which we make about 70% of our profits. The Pearson management team has worked tirelessly to reduce costs and make our operations more efficient – without ever compromising on the quality of the products nor their potential to create value for shareholders in the long term. Over those eight years, our total return to shareholders has been 21%, compared with 6.5% for the UK media sector, mostly the result of our strong dividend policy.

Our largest business by far, education, has shown continuous financial progress and looks forward to an environment which is particularly encouraging over the next few years. Business to business advertising although beginning to rise is not exactly racing away; but the *Financial Times* has reduced its cost base by one-third over the years and the FT Group is achieving a substantial profit recovery. We are taking vigorous actions to ensure

that Penguin tackles some tough market conditions and we anticipate substantial profit gains for Pearson as a whole.

I think it is fair to say that the rather dramatic surgery forced on us by horrible conditions will stand us in good stead as the recovery gathers momentum. The share price has moved stubbornly sideways for the past three years but we are now in the position of having world leading brands and businesses in markets with extremely good prospects. The management team, led by Marjorie, deserve all our thanks.

Early in 2005, we accepted with great regret the resignation for health reasons of Peter Jovanovich from the board and from his duties as chief executive of Pearson Education. Peter spearheaded our rapid growth in education and I am sure all shareholders will want to join me in thanking him for his service to the company and wishing him a very healthy future.

As one distinguished educationalist left our board, another one joined. Professor Susan Fuhrman has spent her entire career in education, and she now leads one of the world's most respected teacher education institutions – the Penn Graduate School of Education at the University of Pennsylvania. She joined our board in the summer of 2004 and is already making a terrific contribution to Pearson.

On a personal note, I would like to thank my colleagues on the board, past and present. Pearson has always had a relatively small board enabling relationships to be forged that allow strong internal debate while retaining the right collective spirit.

As always, the board wishes to pay tribute to the efforts of Pearson's 33,000 people who work in 60 countries around the world. This business is unusually dependent on their skills and imagination. The cultural transformation of Pearson has never received the same attention as our portfolio transformation. But I am absolutely clear that the company's commitment to product quality, editorial integrity, freedom of speech and education is shared across all our businesses and is critical to our long-term value.

Along with the rest of the board, I am very confident that your company is in excellent shape to build that value over the coming years. I look forward to that, since I have every intention of retaining a large shareholding in Pearson long after I stand down, to enjoy the fruits of all the good work that has taken place.



Dennis Stevenson, *Chairman*