

Chairman's statement

Our transformation is beginning to pay off

Dear fellow shareholder,

It is now a little over seven years since we set off on our journey to transform Pearson from a wide-ranging conglomerate into a world-leading content company. At that time, like many of you, I invested in the shares, convinced that Pearson had the assets and plans to prosper in the long term.

So I shared your excitement when the exuberance of the late 1990s propelled them over £20, and your concern as the gloom of the early 21st Century brought them back down.

Progress

Today I am more convinced than ever that this business is in good shape. In those seven years we've turned three companies in education, business information and consumer publishing into world leaders. We've put ourselves in pole position to benefit from a fundamental change in all our lives: the premium on skills and knowledge in a brain-powered world.

The past couple of years have been tough for many businesses, and some of ours have felt the chill. But the board is proud of what the company has achieved – and the way it has behaved – throughout this period. We have made no compromises in maintaining and improving the quality of our products, and Marjorie and the management team have continued to execute our well-defined long-term strategy.

Their determination to stick to that strategy while, at the same time, relentlessly taking the tough decisions to enable it to succeed is paying off. As Marjorie describes, we made progress on our financial and operating goals in 2003, despite the trading challenges. We think we'll make more progress in 2004, even though our markets still look tough.



Dennis Stevenson Chairman

And we are now at the point where we can look ahead and see many possibilities for rapid growth in 2005 and beyond. The trading conditions that made life tough for us in the past three years are beginning – *just* beginning – to move back in our favour.

Governance

We have put in a great deal of effort this year to implement the new Combined Code a year earlier than required. We summarise our approach to governance in the Directors' report. It has not changed a great deal since we are already fulfilling the vast majority of the Code provisions. Any shareholder who would like to see a full account of how we comply or explain can find it on our website (www.pearson.com/investor/corpgov.htm) or by ringing our Company Secretarial department on +44 20 7010 2257 or 2253.

We along, I hope, with the majority of companies have taken a great deal of trouble to comply with the new Code and, in the few cases where we judge compliance to be against the shareholders' interest, to explain in a full way. While a supporter of the new Code, I have one lingering worry: a 'box-ticking' approach to compliance with the new Code on the part of a sufficient number of institutional investors would run the risk of undermining the entire effort.

If any shareholder has any questions or concerns about any aspect of our governance or compliance, please contact me directly on my personal e-mail address, dennis68pm@aol.com.

People

As always, every step of our progress has come about through the efforts of more than 30,000 talented people all around Pearson. We thank them for their commitment to the company and we'd like you to read about some of the extraordinary things they have achieved on pages 16 to 19.

The vast majority of our people are shareholders in the company and I am as sure as I can be that they, like you, will have every reason to feel confident about their investment in Pearson over the coming years.



Dennis Stevenson, Chairman