

Chairman's Statement



Dear shareholder,

Last year, in my first letter to shareholders, I said that my personal focus as chairman of Pearson would be to help build long-term shareholder value. That focus continues, as does our belief that the key to long-term value is growth in earnings and returns on your capital.

Pearson delivered that growth again in 2006. Our earnings per share increased 18%, and our return on invested capital improved to 8% (above our weighted average cost of capital for the first time in many years).

This growth has produced a good year for Pearson shareholders. The value of your Pearson shares increased by 12% in 2006, a bit better than the UK market as a whole (the FTSE 100 was up 11%) and well ahead of the media sector (the FTSE Media index was up 4%). With growing dividends, our total return to shareholders over the year was 16%.

It is always difficult to identify the reasons for short-term share price movements, but I have little doubt that Pearson's improved performance has led to our share price trading in a higher range over the past year or so. I also believe that long-term growth will continue to be the driver to increased value in your Pearson shares.

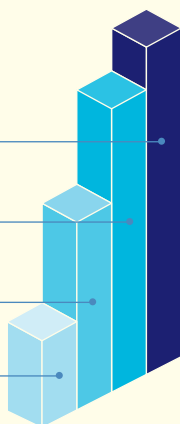
Share price
% change
01.01.06 – 31.12.06

Pearson
+12.2%

FTSE 100
+10.7%

DJ Stoxx Media
+7.5%

FTSE Media
+4.2%



These financial results reflect our success in serving our customers. Pearson's businesses are dedicated to improving peoples' lives through education, information and insight. We work to provide high quality, innovative products and services, using our scale and technology to reach a growing universe of customers.

2006 was another good year for Pearson's businesses, as Marjorie describes later in this report. Once again, our businesses grew ahead of their industries – the surest sign of their competitive advantage. Once again, they improved their profitability, with our margins improving by one percentage point to 13.4%. And once again, our cash generation was strong, at £575m or 97% of operating profit.

These are excellent results, and everyone in Pearson deserves credit for them. On all of those measures, we see a lot more potential ahead.

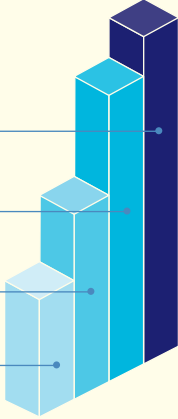
Total shareholder return
% change
01.01.06 – 31.12.06

Pearson
+16.3%

FTSE 100
+14.4%

DJ Stoxx Media
+9.9%

FTSE Media
+6.9%



We've also made some important strategic moves in the past 12 months. We've talked a lot about strategic flexibility; about the need for Pearson to anticipate changes in its markets and constantly to adapt to them.

Over the course of 2006, we acquired 12 new companies. Each one was relatively small, but each one brings us new opportunities for growth in sales, profitability and value. They all either build on our existing skills or take us into new market segments – teacher certification, school software, Italian education publishing, business intelligence.

The returns on those kind of acquisitions are strong. Between 2002 and 2006, we've made more than 20 of these smaller acquisitions at a total cost of \$1.4bn. That investment is today generating a return on invested capital of 12%, including all the costs of integrating the businesses. This is an excellent way for Pearson to deploy its capital to increase shareholder value.

The cost of these acquisitions in 2006 was £363m. At the same time, we raised more than £300m from the sale of our Government Solutions business in February 2007. A fine business in its own right, it had grown away from Pearson's focus on education and information. We wish its employees and its new owners every success.

Learn more online...



For details of the companies we acquired in 2006, and the Government Solutions sale, visit www.pearson.com

This kind of strategic flexibility will remain important to us. The media industry continues to change at a breathtaking pace, as technology changes customer expectations of how content should be delivered and paid for. The board believes Pearson is well positioned, with its leading market positions, strong brands, unique content and increasingly successful new digital product models.

In my first year here, I've learnt that Pearson is a company that can inspire a special commitment and loyalty from its people, from its customers and from its shareholders.

Thank you for that. We intend to repay that loyalty with continued focus on building shareholder value.

Glen Moreno, *Chairman*