Financial highlights

In financial terms, Pearson's goal is to achieve sustainable growth on three key financial goals – earnings, cash and return on invested capital, and reliable cash returns to our investors through healthy and growing dividends. Over the past five years we have produced, on average, 15% growth in earnings and 11% in cash flow. And we have sustained our growth even in the face of very tough economic and market conditions in recent years.

	2011 £m	2010 £m	Headline growth	CER growth	Underlying growth
Business performance					
Sales	5,862	5,663	4%	6%	1%
Adjusted operating profit	942	857	10%	12%	7%
Adjusted profit before tax	890	853	4%		
Adjusted earnings per share	86.5p	77.5p	12%		
Operating cash flow	983	1,057	(7)%		
Total free cash flow	772	904	(15)%		
Total free cash flow per share	96.5p	112.8p	(14)%		
Return on invested capital	9.1%	10.3%	(1.2)% pts		
Net debt	(499)	(430)	(16)%		
Statutory results					
Operating profit	1,226	743	65%		
Profit before tax	1,155	670	72%		
Basic earnings per share	119.6p	161.9p	(26)%		
Cash generated from operations	1,093	1,169	(7)%		
Dividend per share	42.0p	38.7p	9%		

Notes

Throughout this document:

a) Growth rates are stated on a constant exchange rate (CER) basis unless otherwise stated. Where quoted, underlying growth rates exclude both currency movements and portfolio changes.

b) Interactive Data was treated as a discontinued business in 2010 and sales and operating profit are stated on a continuing business basis, excluding Interactive Data from 2010. Until its sale on 29 July 2010, Interactive Data contributed 2010 revenues of £296m and 2010 adjusted operating profit of £81m.

c) The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes 2, 8 and 33 to the annual report.

2011 Sales

£5.9bn

+6%

2011 Adjusted operating profit

£942m

+12%

Our five-year record

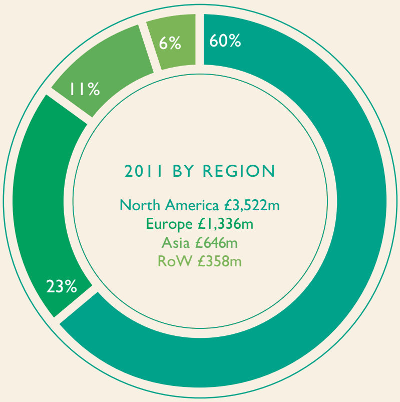
Average annual growth in headline terms, 2006–2011

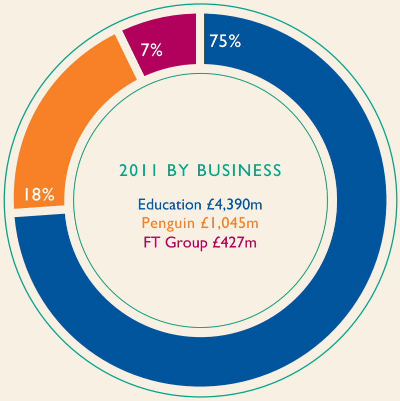
ADJUSTED EARNINGS PER SHARE

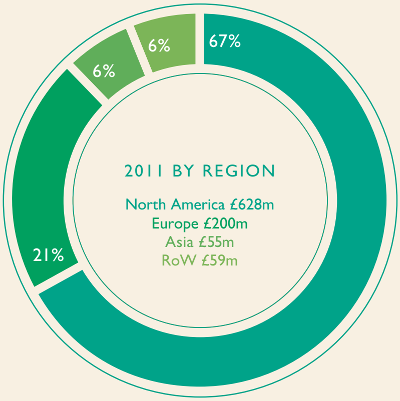
+15%

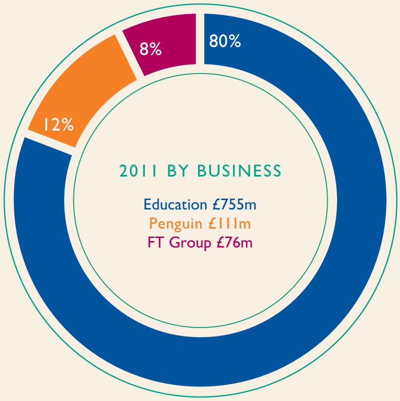
OPERATING CASH FLOW

+11%

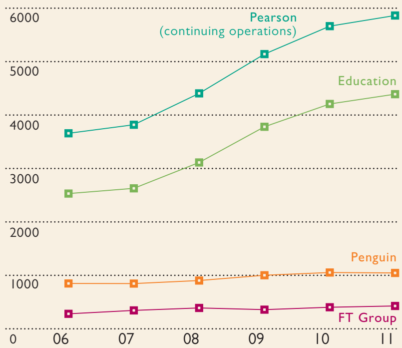




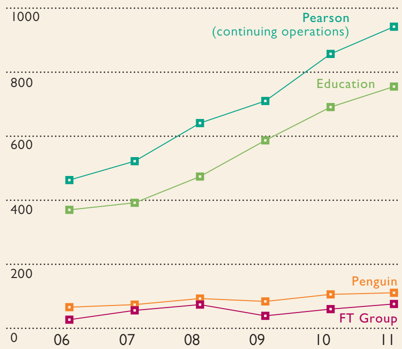




SALES £m



ADJUSTED OPERATING PROFIT £m



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OUR PERFORMANCE
OUR IMPACT ON SOCIETY
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Chairman's introduction

Pearson is pleased to report another year of solid progress on our financial and strategic goals, and on our returns to investors.

Watch the interview with Glen Moreno, Chairman
www.pearson.com/ar2011/glen-moreno

Dear shareholders,
Over the course of 2011, the value of our shares increased by 20%. They ended the year at a little over £12, their highest level for a decade. That growth was ahead of both the overall market (the FTSE100 was down 5.6%) and our sector (the DJ Stoxx 600 Media index was down 10.6%).

Add in the dividend and Pearson's total return to shareholders was 24.4% in 2011. This was ahead of the FTSE 100 (down 2.2%) and the DJ Stoxx 600 Media index (down 6.7%).

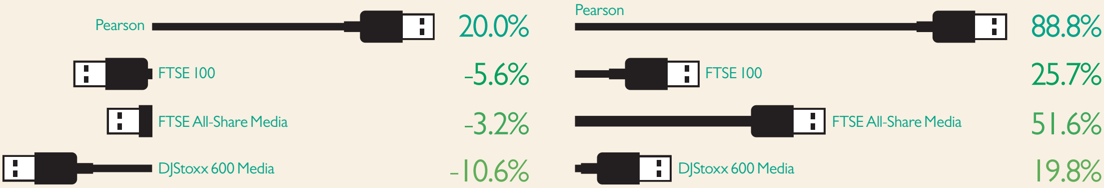
On a longer term view, our shares are up by almost 90% over the three years to the end of 2011 and by more than 50% over five years. Our total shareholder return is 113% over three years and 93% over five years.

This is a record we take some pride in. The board concentrates its time and energy on doing all we can to sustain it, even in the challenging economic conditions that face us. We do that by focusing on the following inter-related themes that we examine in more detail through this report.

SHARE PRICE PERFORMANCE

ONE YEAR % CHANGE
(01.01.11 – 31.12.11)

THREE YEAR % CHANGE
(01.01.09 – 31.12.11)



Source: Datastream as at 31 December 2011

Strategy

For more than a decade now, Pearson's strategy has revolved around our commitment to become the leading global learning company. The company saw tremendous social and economic need for education and skills, giving rise to significant business opportunities. We have therefore initiated – and continue to pursue – a radical shift in our business portfolio towards education.

That focus on lifelong learning has been accompanied by three related and ongoing changes in:

- what we deliver (from products to services);
- how we deliver it (from print to digital); and
- where we operate (from developed world to faster-growing developing economies).

As always, Marjorie provides a vivid description of how we are applying our strategy, and adapting to accelerating structural change in our industries, in her review.

See page 08 for the chief executive's strategic overview

Performance

The board and management closely monitor the performance of Pearson's businesses against strategic and operating plans.

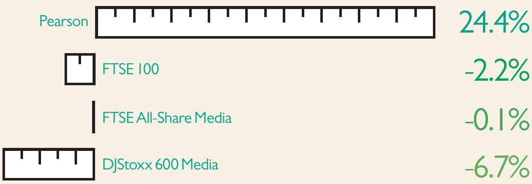
As our strategy unfolds, we are seeing some fundamental changes in the dynamics of our business. We are therefore developing additional measures of business and financial performance more appropriate to our changing business models.

We discuss these changes in detail within our performance section.

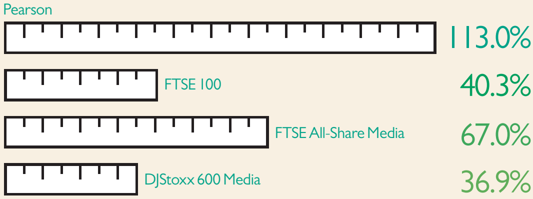
See page 13 for our performance review

TOTAL SHAREHOLDER RETURN

ONE YEAR %
(01.01.11 – 31.12.11)



THREE YEAR %
(01.01.09 – 31.12.11)



Source: Datastream as at 31 December 2011

Chairman's introduction continued

Governance

The board believes that good governance is closely linked to effective long-term strategy and value creation. The board agenda reflects our key priorities: Governance, Strategy, Business Performance and People.

We focus on board composition, board effectiveness, succession planning and engagement with shareholders.

We set out our framework and policies in the Governance section.

See page 46 for the Governance report

Risk

The board, the audit committee and management devote a good deal of time to evaluating, monitoring and mitigating traditional business risks from the impact of economic recession to business continuity to the loss of key assets or people.

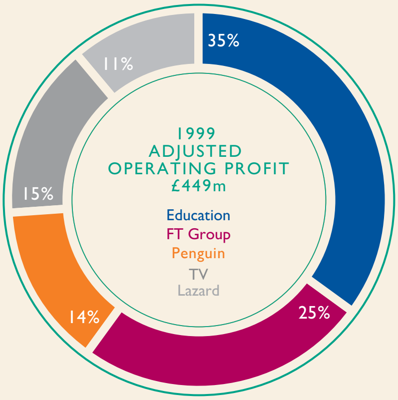
We also focus on newer risks that arise both from our evolving strategy and the changing economic, political and competitive environment. These newer risks include the emergence of disruptive technologies and technology-based competitors; operational and management challenges related to doing business in emerging markets; managing change in our traditional print-based publishing businesses; and protecting the reputation of Pearson and our world-famous brands.

We discuss these changes in detail within our strategy and performance sections.

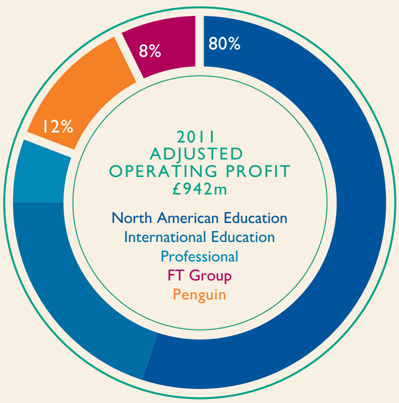
See page 13 for our performance section and the Audit Committee report

CHANGE AT PEARSON

OPERATING PROFIT



UK GAAP



IFRS

Remuneration

The board's commitment to long-term value creation through a clearly-defined strategy sets the agenda for our approach to remuneration. We set high performance hurdles for Pearson's senior managers. Where they have done well, our shareholders have done well too.

Even so, the board is deeply aware of the public debate and mood over executive compensation. This has influenced our remuneration plans for 2012.

We set out our policies and plans in full in our Remuneration report.

See page 65 for the Remuneration report

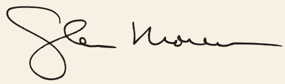
Responsibility

The board is keenly aware that Pearson's long-term value and franchise rests on fulfilling a social purpose. We exist to help improve people's lives through learning. Our value is a by-product of helping teachers teach and students learn; of helping business people understand the world and make good decisions; of informing and entertaining readers through one of life's greatest pleasures – a good book.

This is our core purpose and business, and we discuss it in detail both in Marjorie's Strategy review and in our Corporate Responsibility report.

See page 08 for the chief executive's strategic overview
See page 36 for the Our impact on society report

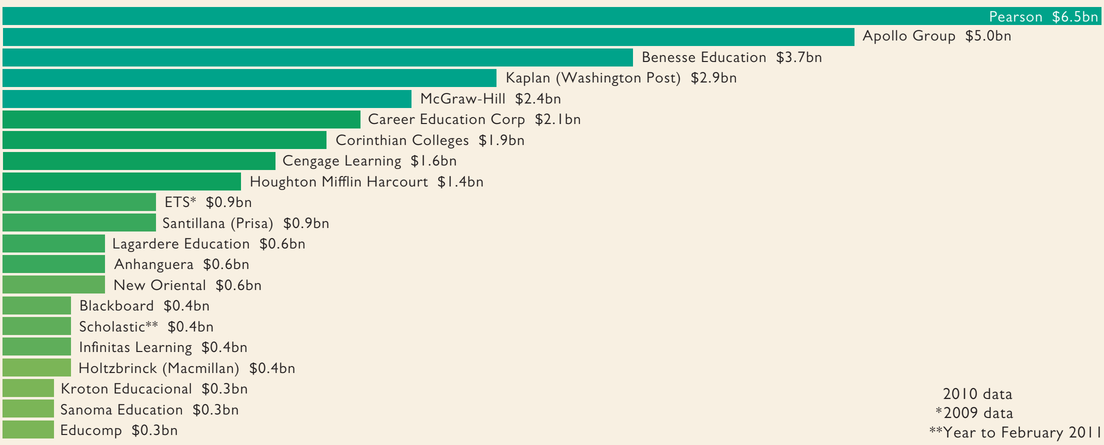
We hope that shareholders find that this report adds both to their understanding of the company and to the way we approach our opportunities and responsibilities. We welcome your feedback on its content, and as always we very much hope to see you in person at our annual shareholders meeting at the end of April.



Glen Moreno Chairman

THE WORLD'S LEADING EDUCATION COMPANIES

EDUCATION REVENUES $bn



2010 data
*2009 data
**Year to February 2011

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Pearson's strategy: Marjorie Scardino, Chief executive

The outside environment has inspired us to move more quickly, to be more radical in our approach, to be more courageous.

Watch an interview with Marjorie Scardino, Chief executive:
www.pearson.com/ar2011/marjorie-scardino

Dear shareholders,
By the time you start to read this letter (and please forgive the presumption that you *do*), its subject – 2011 – will be ancient history. Pearson will be more than one quarter of the way through the *next* year, and making plans for the next five.

Like us, you may be more concerned about the future than the past. But we all know that what *has* happened is the best guide to what *might* happen, so I'd like to give last year a little time in this report before I talk about our plans.

What happened in 2011?

After several tough years in the world economy, we began the year hoping for a change for the better. But it turned out to be more of the same: slow economic growth in the developed world; austerity measures taking their toll on spending by governments and consumers; a crisis of unemployment – especially among young people – that played its part in social unrest.

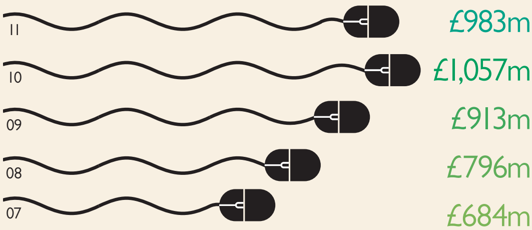
If that reads like a downbeat assessment of our world this past year, that's how it felt. The wind was not in our sails. Even so, I'm anything but downbeat about the resilience and creativity Pearson's people showed through those troubled and troubling waters.

Despite the gloom, they ground out another set of financial results to be proud of, and they achieved some goals that we believe will set us up for the future – and maybe even make the world a little better in the process.

KEY FINANCIAL MEASURES: FIVE YEAR RECORD

ADJUSTED EARNINGS PER SHARE PENCE

OPERATING CASH FLOW £m



You can see all the countable details in the charts on these pages, but to pick out a few of the high notes:

- Sales up 6%, and just shy of £5.9bn;
- Operating profits up 12%, to £942m;
- Earnings per share also up 12%, to 86.5p;
- A proposed dividend increase of 9%, taking our full-year payment to 42p; and
- An encouraging verdict from the stock market, which at year-end had pushed our shares 20% higher than last year (and almost 90% higher over the past three years).

That share price ended the year just over £12, a ten-year high. And on most of those financial measures, we set all-time highs for Pearson.

So, we can take one last look back at 2011 with some pride in a job well done. But we can't spend any time congratulating ourselves. Another quick glance at the past tells us why.

Back in 2007, as the financial crisis was taking hold, the best consumer book company on the planet (that would be Penguin) published the memoirs of Alan Greenspan, the former chairman of the US Federal Reserve. In the financial crisis that followed, his legacy came under fire, but looking back, the title of his book was remarkably prescient. He called it *The Age of Turbulence*.

That's a perfect description of what Pearson's future holds, and what we have to plan for now. And there's more than one kind of turbulence that's going to require our vigilance and imagination:

Economic turbulence

The prospects for the world economy look dim for the short term. Any recovery from the 2008 financial crisis was faint and short-lived. Europe is now ploughing through one urgent economic crisis after another; austerity measures around the over-indebted world are having a deep impact, and growth appears to be slowing even in some emerging markets now.

Still, the big shifts in economic growth and power are accelerating. Developing economies are growing on average 3% points a year faster than the US. And if that gap continues, those so-called 'emerging' markets will account for two-thirds of the world's output in less than 20 years. China may overtake America as the world's largest economy within the next ten. That's an exciting – and sobering – prospect for a company like ours that today makes around two-thirds of its profits in America and just 2% in China.

Social turbulence

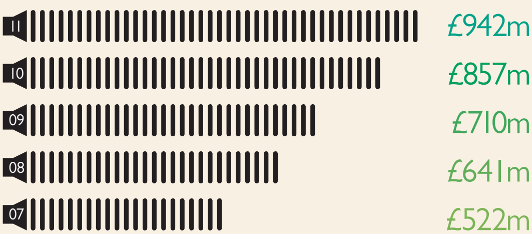
Economic turbulence generally builds to social upheaval. So those economic shifts are playing a part in protests across the Middle East, demonstrations in Western Europe and on Wall Street and riots in the UK.

Our flattening world is becoming more unequal. This past October, we reached a world population of seven billion people. More than half of them are living on $2 a day or less.

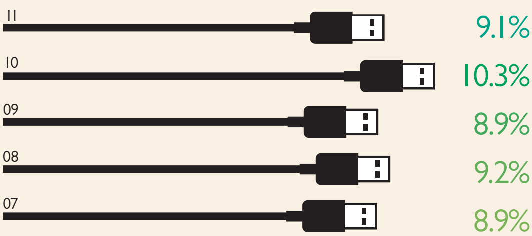
The world of work is one of the sources of profound disruption and anger (described by the *Financial Times* as 'the din of inequity').

KEY FINANCIAL MEASURES: FIVE YEAR RECORD

ADJUSTED OPERATING PROFIT £m



RETURN ON INVESTED CAPITAL %



Pearson's strategy: Marjorie Scardino, Chief executive continued

Around the globe more than 200 million people are unemployed. The young have been hit especially hard. In America, the youth unemployment rate has increased almost 70% to 18% since 2007; in the UK the rate is even higher, at more than 20%. In rich OECD countries, one in five young people is out of work; in much of the Middle East it's one in three; in parts of Southern Africa one in two.

And those who are 'no-longer-young' but still need to work can't find it either because they don't have the right skills. Creating new jobs – and helping people learn the skills that they'll need to secure them and succeed – will be one of the most pressing priorities for governments around the world.

(I recognise the inherent dangers of raising such matters as someone in a very fortunate position whose remuneration is there for all to see somewhere in the pages of this report. But I'm convinced that large companies and the people who run them are going to have to understand and respond to these kinds of issues.)

Political turbulence

If we needed someone to tell us, former US President Bill Clinton did in the FT Magazine back in October: "Successful countries are ones where economic forces and government work together to raise job growth, lower unemployment, and narrow inequalities in income, health care and education." But that kind of collaboration seems elusive right now.

In addition, our environment, both physical and social, is ever more political and ever more sensitive to political intervention. Managing those forces has come to be a requirement of every organisation. In our case that runs from consideration of media regulation and reform of education to copyright and intellectual property protection.

The public's scepticism of financial institutions is also provoking more scepticism of companies in general, and especially of those that make a profit out of providing a public service, such as journalism or education. A climate of suspicion will be a critical challenge for a company that is large, global, successful and heavily dependent on the public's trust and the public purse, as we are.

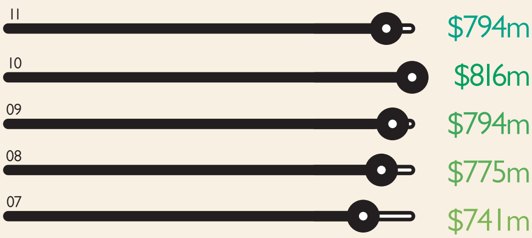
OUR STRATEGY

1

Long-term organic investment in content

Over the past five years, we have invested more than £4bn in our business: new education programmes; new and established authors for Penguin; the FT Group's journalism. We believe that this constant investment is critical to the quality and effectiveness of our products and that it has helped us gain share in many of our markets.

EDUCATION AND PENGUIN PRE-PUBLICATION EXPENDITURE AND AUTHOR'S ADVANCES $m

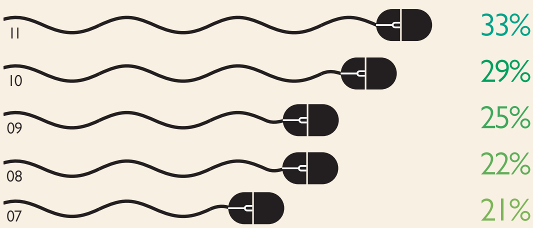


2

Digital products and services businesses

Our strategy is to add services to our content, usually enabled by technology, to make the content more useful, more personal and more valuable. These digital products and services businesses give us access to new, bigger and faster-growing markets. In 2011, our digital revenues were £2bn or 33% of Pearson's total sales.

PEARSON'S DIGITAL REVENUES
% OF SALES



Technological turbulence

The death of Steve Jobs, the leader of Apple, was a moment to reflect on the remarkable technological changes in our times. At the start of his life, the silicon chip hadn't been invented. By the end of it, only 56 years later, two billion people were using the internet and five billion were using mobile phones.

Not all of them by a long shot were using Apple devices, but that company did play a special role in the creation and growth of new consumer forms and technologies. It helped open fresh possibilities for many, including our company, and has made fundamental changes in what we do and how we do it. Those changes will only speed up.

What does that mean for our future?

So these are turbulent times for any company, but especially for one like ours. And this turbulence is not a freak storm at sea that will soon give way to calmer waters. This kind of disruption is our new reality. It's the environment we have made our plans around for the next five years at least.

This environment doesn't provoke us to change course, or to throw our strategy overboard. We think it remains a sound fundamental strategy, one that has proven it can enable the company to prosper through good times and bad. (In 2006, before the financial crisis and the subsequent recession, our sales were £4.4bn. In 2011, still in a downturn, they were more than 30% higher – around £6bn. In that time, our profit rose from less than £600m to close to £950m and earnings per share from a little over 40p to about 86p).

But the outside environment has inspired us to move more quickly, to be more radical in our approach, to be more courageous. The areas we'll be changing centre on themes that are familiar, but on which we're either moving faster or taking a different approach.

Here's a summary of them:

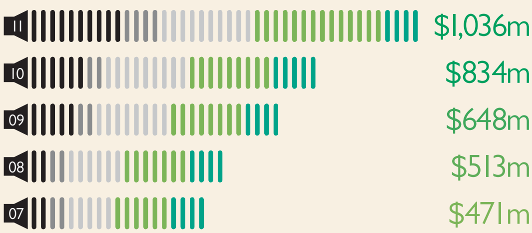
1. Investment: We're an aggressive, long-term investor in our businesses. This past year, we made some £0.5bn of organic investment: new learning programmes and technologies, new authors, taking our assets into new markets.

3

International expansion

We are already present in more than 70 countries and we are investing to become a much larger global company, with particular emphasis on fast-growing markets in China, India, Africa and Latin America. In 2011, Pearson generated $1bn of revenue in developing markets for the first time. They now account for 11% of our total sales and 22% of our people.

RAPID GROWTH IN EMERGING MARKETS
PEARSON REVENUES $m



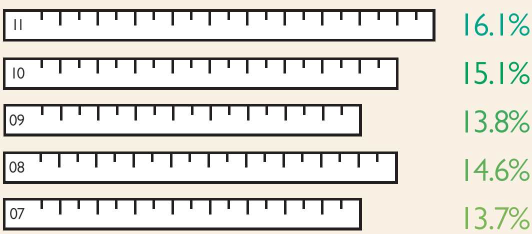
China/Hong Kong India Africa
Central/Latin America Middle East

4

Efficiency

Our investments in content, services and new geographic markets are fuelled by steady efficiency gains. Since 2007, our operating profit margins have increased from 13.7% to 16.1% and our ratio of average working capital to sales has improved from 20.1% to 16.9%.

PEARSON MARGINS %



Pearson's strategy: Marjorie Scardino, Chief executive continued

In addition, we have over the past five years invested £2.5bn in acquisitions, all of which have been additions or fill-ins to build our existing business. Our very strong balance sheet – just £500m of net debt at the end of 2011 – allows us to contemplate more of the same, should we see good opportunities.

2. Technology: Today's Pearson is a technology company as much as we are a newspaper or book publishing company (though those don't go away in the digital age – they are more flexible). Digital businesses last year contributed about one-third of our sales, or almost £2bn in total. Five years ago, they were 20%, about £720m. This represents a fundamental shift in our business, our culture and our growth opportunities.

3. Fast-growing markets: For many years, Pearson was primarily an Anglo-American company. Though we're still very much at home and working in those two countries, Pearson is now a truly international company with market-leading businesses from China to India to Brazil to southern Africa. 'Emerging markets' last year added up to 11% of our sales – and 22% of our people (because we're generating rapid growth there and getting ready for more).

4. Efficiency and scale: While we've been growing, a feature of Pearson has long been steady efficiency gains also. Our margins reached an all-time high of 16.1% this past year, and our cash generation was more than 100% of profits, as it has been for the last five years. Still, we see more to go for and more ways to go, especially as we accelerate our transition from traditional print-based activities to digital and services models.

What I've talked about in this report are the themes that have brought us to where we are, and made us a more durable company. We think they, too, are durable. But that doesn't mean that our plans and programmes aren't both innovative and brave.

Finally, as we encounter the future we've been preparing for, we will stand by some principles that have long been part of Pearson's DNA:

1. We want to follow our 'always learning' motto inside as well as outside our company – with our own people as well as with our customers. We want to educate our workforce for the needs of today, and, more importantly, for the needs they'll have throughout their working lives – needs to change skills, to teach themselves, and to excel rather than merely get by.

2. We want our work to be effective in tackling some big problems. That means helping people learn who have not had access to education; helping change the face of business through new ways of learning and making decisions; measuring ourselves by whether what we do is effective, not whether it's used.

3. We want to be a company that has a strong sense of social purpose (helping people make progress in their lives through learning) and high standards of ethical behaviour (which we summarise in Pearson's values: brave, imaginative and decent).

As we strive to achieve these goals, we want our shareholders to know and understand our direction. I hope you are enthused enough about it to support us into this future that we've planned and practiced for and now are taking head-on.

Thank you for the support you've given us up to now.

Marjorie Scardino Chief executive