READING ALLOWED

PEARSON

Annual Review and Summary Financial Statements 2004

Contents

Throughout this review (unless otherwise stated):

1. Growth rates are on an underlying basis, excluding the impact of currency movements and portfolio changes. In 2004, currency movements reduced revenues on a continuing business basis by £302m and profits by £51m while portfolio changes increased revenues by £41m and reduced profits by £8m.
2. Adjusted figures are stated before goodwill, integration costs and non-operating items. Goodwill is amortised over no more than 20 years.
3. The 'business performance' measures, which Pearson uses alongside other measures to track performance, are non-GAAP measures for both US and UK reporting. Pearson uses these measures because we consider them to be most useful for tracking underlying business performance. Reconciliations of operating profit, adjusted earnings per share and operating free cash flow to the equivalent statutory heading under UK GAAP are included in notes 2, 9 and 27 of the governance and financial statements.
4. The value of the dollar has been translated at the year end rate; $1.92: £1 sterling.

READING ALLOWED

Pearson is a company built on the importance and pleasure of reading. Our authors, educators, editors, journalists and designers bring ideas and stories, facts and figures, words and images to life, in print and on screen.

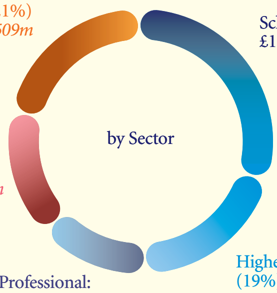
This year alone, we'll publish our largest ever programme to help America's school children to read and we'll bring classic books to life in a new Penguin literature programme. We'll celebrate Penguin's 70th birthday with 70 'Pocket Penguins' reflecting the unique range of Penguin's publishing heritage. And, through the *Financial Times*, we'll bring a global perspective on business and politics to more readers than ever.

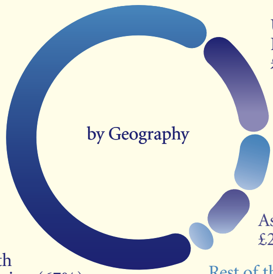
From our roots as the world's largest book publisher, we've grown to provide a range of related services: testing and learning software for students of all ages; data for financial institutions; public information systems for government departments.

We are leaders in education, consumer books and business information – all businesses that fuel the world's booming demand for knowledge. We're well placed to grow and meet our financial goals, and we know that these go hand in hand with our business goals: to educate, entertain and inform.

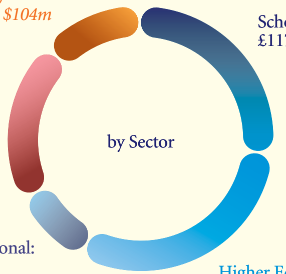
FINANCIAL HIGHLIGHTS

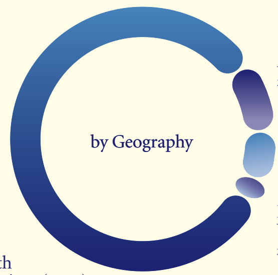
Sales: Total £3,729m *$7,160m**





Adjusted operating profit: Total £433m *$832m**





Note: United Kingdom operating loss excluded = £(26)m *$(50)m*.

*Continuing businesses (excluding Recoletos).

	2004 £m	2004 $m	2003 £m	2003 $m	Underlying change %
Sales[1]	3,729	*7,160*	3,879	*7,448*	3
Business performance					
Adjusted operating profit[1, 2]	433	*832*	462	*887*	7
Adjusted profit before tax[2]	386	*741*	410	*787*	
Adjusted earnings per share[2]	30.0p	*57.6¢*	32.0p	*61.4¢*	
Free cash flow[1, 2]	279	*536*	188	*361*	
Return on invested capital	6.2%		6.3%		0.3%pts[3]
Statutory results					
Operating profit	231	*444*	226	*434*	
Profit before tax	171	*328*	152	*292*	
Basic earnings per share	11.1p	*21.3¢*	6.9p	*13.2¢*	
Dividends per share	25.4p	*48.8¢*	24.2p	*46.5¢*	
Net borrowings	1,206	*2,316*	1,361	*2,613*	

(1) Continuing businesses (excluding Recoletos: sales (2004: £190m; 2003: £169m), operating profit (2004: £22m; 2003: £28m)).
(2) Before goodwill (2004: £(224)m; 2003: £(264)m) and non-operating items (2004: £9m; 2003: £6m).
(3) At constant currency.

BUSINESS HIGHLIGHTS

Pearson Education

	Sales	Adjusted operating profit
04	£2,356m / *$4,524m*	£293m / *$563m*
03	£2,451m / *$4,706m*	£313m / *$601m*
02	£2,756m / *$5,292m*	£326m / *$626m*
01	£2,604m / *$5,000m*	£274m / *$526m*
00	£2,090m / *$4,013m*	£237m / *$455m*

The Financial Times Group

	Sales	Adjusted operating profit
04	£777m / *$1,492m*	£108m / *$207m*
03	£757m / *$1,453m*	£86m / *$165m*
02	£726m / *$1,394m*	£80m / *$154m*
01	£801m / *$1,538m*	£72m / *$138m*
00	£844m / *$1,620m*	£98m / *$188m*

The Penguin Group

	Sales	Adjusted operating profit
04	£786m / *$1,509m*	£54m / *$104m*
03	£840m / *$1,613m*	£91m / *$175m*
02	£838m / *$1,609m*	£87m / *$167m*
01	£820m / *$1,574m*	£80m / *$154m*
00	£755m / *$1,450m*	£79m / *$152m*

Pearson Education

		2004 £m	*2004 $m*	2003 £m	*2003 $m*	Underlying change %
Sales	School	1,118	*2,147*	1,176	*2,258*	–
	Higher Education	731	*1,404*	772	*1,482*	4
	Professional	507	*973*	503	*966*	12
	Total	2,356	*4,524*	2,451	*4,706*	4
Adjusted operating profit	School	117	*225*	127	*244*	2
	Higher Education	133	*255*	148	*284*	1
	Professional	43	*83*	38	*73*	30
	Total	293	*563*	313	*601*	5

The Financial Times Group

		2004 £m	*2004 $m*	2003 £m	*2003 $m*	Underlying change %
Sales	Financial Times	208	*399*	203	*390*	3
	Other FT publishing	110	*211*	112	*215*	5
	IDC	269	*517*	273	*524*	3
	Total continuing	587	*1,127*	588	*1,129*	3
	Discontinued (Recoletos)	190	*365*	169	*324*	15
	Total	777	*1,492*	757	*1,453*	6
Adjusted operating profit/(loss)	Financial Times	(9)	*(17)*	(32)	*(62)*	72
	Other FT publishing	11	*21*	6	*11*	61
	Associates and joint ventures	6	*11*	3	*6*	100
	IDC	78	*150*	81	*156*	9
	Total continuing	86	*165*	58	*111*	69
	Discontinued (Recoletos)	22	*42*	28	*54*	(18)
	Total	108	*207*	86	*165*	39

The Penguin Group

		2004 £m	*2004 $m*	2003 £m	*2003 $m*	Underlying change %
Sales	Total	786	*1,509*	840	*1,613*	–
Adjusted operating profit	Total	54	*104*	91	*175*	(24)

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*

CHIEF EXECUTIVE'S REVIEW

Pearson is a company that thrives on the power of a good story. We use stories every day to teach children, enlighten business people and entertain book readers. We also use them in our business to learn from the past as we take on the future.

This year one of our most famous brands, Penguin, celebrates its 70th birthday – after seven decades packed with stories and lessons. One example: E.V. Rieu was hired by Penguin's founder Allen Lane to launch the Penguin Classics. He did it well, and when he retired he wrote: 'The Penguin Classics, though I designed them to give pleasure even more than instruction, have been hailed as the greatest educative force of the twentieth century. And far be it for me to quarrel with that encomium, for there is no one whom they have educated more than myself.'

All of us in Pearson could say that today. In trying to educate, entertain and inform, the 33,000 people here are trying to be a great educative force in the twenty-first century. In the process, we're constantly learning ourselves.

Our history, rewritten

Eight years ago we started some radical editing of 160-year-old Pearson. We wanted to recompose it as a company with industrial logic – businesses that were in the same general field and could thus share assets and operations as well as culture and style.

Our business objective was to be a high-performing, durable company that could take advantage of the best growth markets. Our social objective was to help people move on in their lives intellectually and professionally – to 'live and learn'.

We focused on a few simple things:

– Putting together businesses that combined publishing and services.
– Building market scale, brands and leadership in those businesses.
– Creating an atmosphere of collaboration, confidence and achievement.

Our businesses prepare people to succeed in a 'knowledge economy'

Our businesses prepare people to succeed in a 'knowledge economy'

The proof of the success of our strategy would be increasing the value of the company for its owners. Here's how I see our report card:

1. Financial performance For four years (1997-2000) we made good strategic and financial progress. By 2000 we had largely finished reshaping our set of businesses (though we're never really finished). We had steadily rising sales, margins and cash, and of course a large boom (and soon-to-be bust) in the internet.

Then we suffered a sharp downturn in business advertising and technology which hurt financial returns, in our newspapers in particular. We also saw US school budgets struggle with state budget deficits; the US dollar weaken; consumer book buying lag.

So we began a second chapter for Pearson, this time to improve our operational fitness – taking out costs and changing the way we did things to become more efficient. At the same time, we stuck to our financial goals, restating them slightly in 2001 to 'earnings, cash and return on invested capital' to adjust to our new phase of development.

At the end of those three years – chapter two – adjusted earnings per share are up 40%; free cash flow is up 106%; and return on invested capital is up 1.6 percentage points.

2. Strategic logic We now have a coherent, complementary set of businesses, all with the objective of adding value to words, stories or data, and all with market leadership, scale and brands:

– Our education business is now the world's largest, broadest and most international.
– Our consumer publishing business is the most famous brand in its industry and a leader in its markets.

Adjusted earnings per share

Our progress In 2004 we increased our adjusted eps by 5% on an underlying basis. Currency movements eroded our reported performance by 3.7p. In 2005 we expect strong earnings growth.

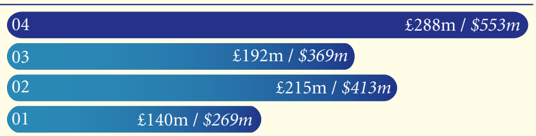
Our progress In 2004 we increased our adjusted eps by 5% on an underlying basis. Currency movements eroded our reported performance by 3.7p. In 2005 we expect strong earnings growth.

* Constant currency

Total free cash flow

Our progress Our cash improved by £96m, helped by the receipt of the TSA payment in December 2004. We expect our free cash flow to increase further in 2005.

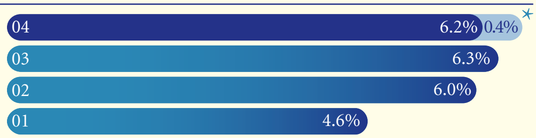
Our progress Our cash improved by £96m, helped by the receipt of the TSA payment in December 2004. We expect our free cash flow to increase further in 2005.



Return on invested capital

Our progress Reported ROIC was a little lower than in 2003 at 6.2% but it rose again on an underlying basis. This was the result of improvements in operating profit and working capital efficiency. We expect further improvement on ROIC in 2005.

* Constant currency



– Our business information company includes the most international business newspaper and online service as well as the main business papers in many national markets. It also has the advantage of a data business which leads its sector, shares the same customer segments and helps stabilise the newspapers in business advertising cycles.

These businesses now share a company culture that is enthusiastic, self-confident and collaborative. They also share central business and supply chain services and work together on anything that will reduce costs or add quality or help us invent new products. In 2003 and 2004 alone we generated some $500m of revenues and $100m of cash savings through that kind of cost and revenue collaboration.

Our strategy, revisited

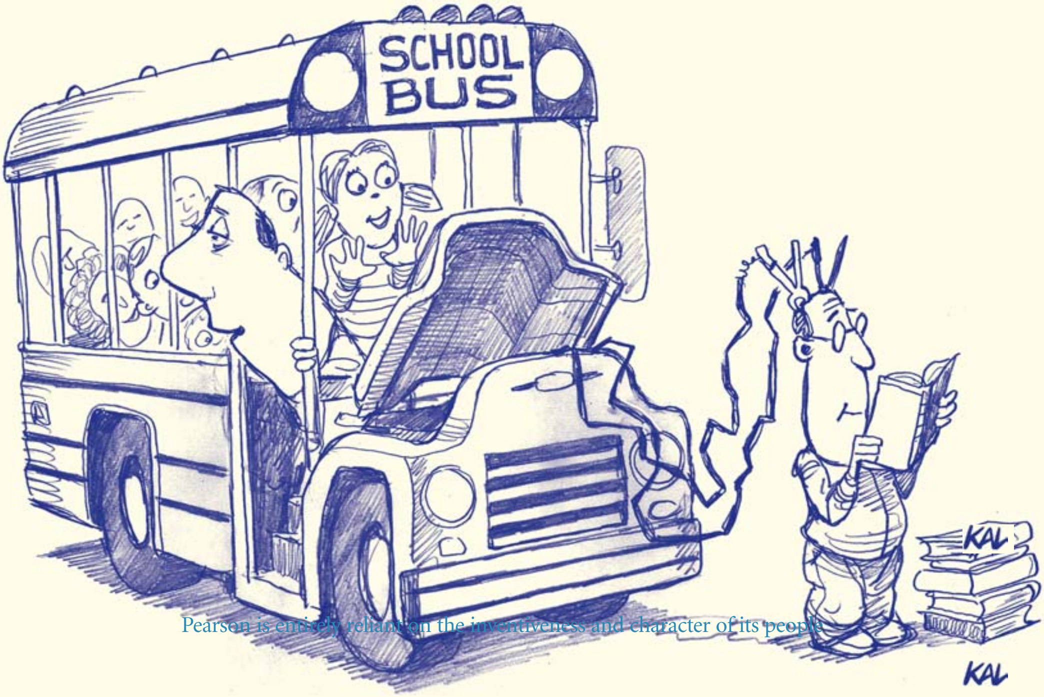
Going into 2005, our objective is the same as it has been for the past eight years: to create wealth for our owners by adding value to words and data and helping people get on in their lives. We think that's an excellent focus for two reasons:

1. Because of the trends we see in the world The demand for education and personal development is a worldwide movement. School and college enrolments are growing. Countries realise that educated citizens foster economic progress and democracy; individuals realise that they can't advance in a knowledge economy without education.

In much of the world, that demand starts with a desire to learn English, the language of international business and politics. That's increasingly important to market economies that want to promote inward investment, and it creates growing markets in Europe and the USA, as well as in the emerging giants of India and China.

2. Because we have competitive advantages Our greatest advantage is our people. At the centre of the company is knowledge of how to manage the financial, legal and creative issues that make great publishing by talented people commercial.

Secondly, everything we make and sell (education, journalism, commentary and literature) requires the company to value independence of thought and open-mindedness, and it takes special care and skill to turn that into value for shareholders.



Pearson is entirely reliant on the inventiveness and character of its people

Next is our scale. We are twice as large as any other publishing company. That gives us clout with retailers, distributors, suppliers – all the links up and down our supply chain. That scale has come through aggressive consolidation in geographic and functional areas to achieve operational efficiency. Over the past four years, we've reduced costs by close to £400m in all our businesses.

Our focus on utility also makes us stand out. People have learned that technology can allow them to have things just as they want them: so they want what they buy to be tailored for them, to solve their problem. In education, we're slowly becoming famous for our content-plus-applications approach: for insisting, for instance, that what we produce is not just a book, but a way of helping a teacher teach and a student learn. In newspapers, particularly their online versions, it also helps to be able to offer news and analysis on the topic a reader chooses, in his own way.

Finally, in every one of our divisions, breadth is an advantage. It puts us in the position to be innovative. We can try market-changing ideas others can't because we have parts of the puzzle that no one else has and a wider range of products and markets to spread the costs of exploiting them over. That gives us leeway to try out something new without risking our business.

2004

That strategy and those advantages helped us move ahead in 2004. We made progress on all our financial goals. It was a low point for the US school market and a tough year for Penguin. But all the same, we improved our earnings by 5%, our cash flow by almost 50% and our return on invested capital from 6.3% to 6.6% at constant currency. Those results were thanks to some outstanding efforts all around Pearson, among them:

– Our Higher Education business achieved the remarkable feat of growing faster than its competitors for the sixth straight year – helped by more innovations in the use of technology and the customisation of its textbooks.
– Our education business outside the US grew faster as we became more efficient and strengthened our products and services.
– Our contracting businesses in testing and government services won more business that will contribute to their long-term growth, with newly-signed contracts worth almost $2bn in the past 18 months.
– Our flagship brand, the *Financial Times*, began its return to financial health as it reduced its losses by £23m.
– And IDC, our financial information business, excelled in customer service and product innovation to post profits up 85% from five years ago – outstanding in a market that hasn't been growing.

2005 and beyond

At the start of 2005, we're beginning to write the next chapter in Pearson's history. We can now begin to see our efforts in the first two chapters paying off. Our improved efficiency and productivity and our strong products and services are now combining with more healthy markets in 2005 and the years to follow.

The market for business advertising is slowly recovering and the US school market is entering a phase of buoyant new business opportunity. Some of our biggest profit contributors – Higher Education and IDC – see steady growth in their markets while some emerging businesses – in international education, government services and testing – are preparing for rapid growth. All around Pearson, our customers are asking for the changes in our products and services we've been planning for some time – changes driven by the use of technology and the demand for personalisation in particular.

Almost all of the people in Pearson are owners of a stake in the company, like you. In 2005 we are all applying our determination and ingenuity – and no small amount of grit – to make sure that this new chapter in our history makes happy reading for all Pearson shareholders.

Marjorie Scardino, *Chief executive*

THE BEST OF OUR KNOWLEDGE

Business Reviews

A CLASS OF YOUR OWN

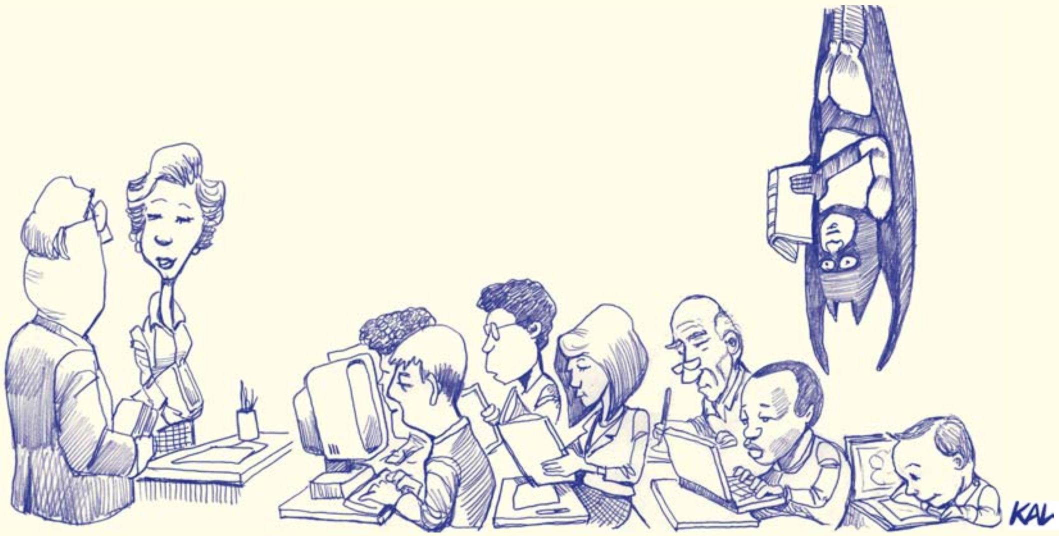
With sales of around £2.4bn and publishing operations all around the world, our education business is the largest and most international. It's also the broadest, serving students from pre-school through school and higher education and on into their professional lives; and providing a wide range of services from textbooks to testing and technology-based learning programmes.

The base of our education business is our publishing. Around one in three American schoolchildren learn reading and maths with one of our textbooks, and we publish more than one-third of all US college textbooks. Outside the US, we are a $1.2bn education company, three times the size of our nearest rival. We are the leading publisher for students of English as a second language and have growing businesses in school, college and professional publishing.

We also have leading positions in educational testing and services. Last year we marked 40 million examination papers and administered over one million tests for professional people. We mark school examinations for the US federal government, 20 American states and thousands of UK schools. We provide tests to certify all kinds of professional people including nurses, software engineers and business school applicants, and we manage public information for government customers including the US Departments of Health and Education.

In 2004, our education business moved forward on several fronts. It reported good growth in underlying sales and profits, and laid the ground for faster growth in 2005, which should be a buoyant year in US education. States in America are seeing their budgets recover and planning more textbook purchases, while the federal government is spending more on reading instruction, school testing and professional development of teachers. We've published new programmes in key subjects such as maths, science and music and won some $1bn of new long-term contracts in school and professional testing. And we've made some investments to combine our content, testing and technology into an integrated service for schools and colleges.

So 24,000 American schools are using our technology to help instruct children and manage information about how they are doing; around three million US college students are pursuing their courses online through one of our programmes; and thousands of college professors are teaching from bespoke textbooks that we've published to their own specifications. These services help each student to learn at his own pace, in his own way.



We fashion learning materials around the needs of individual students

We're confident about the future of our broad-based education business for several reasons. Over the past 10 years our US school and college publishing businesses have grown at an annual rate of around 7%, and our testing businesses have grown faster. Worldwide, estimates put education publishing as a $100bn plus industry, growing at around 5%. The British Council estimates that two billion people, or one-third of the world's population, will be studying English by 2015. In just about every market we're in, governments and individuals have consistently made investing in education – and the learning achievements of students of all ages – a priority.

There has never been a better time to be in the business of education.

IN THE PINK

The FT Group brings together the world's best international business newspaper with a network of leading national business titles and a consistently successful financial information company.

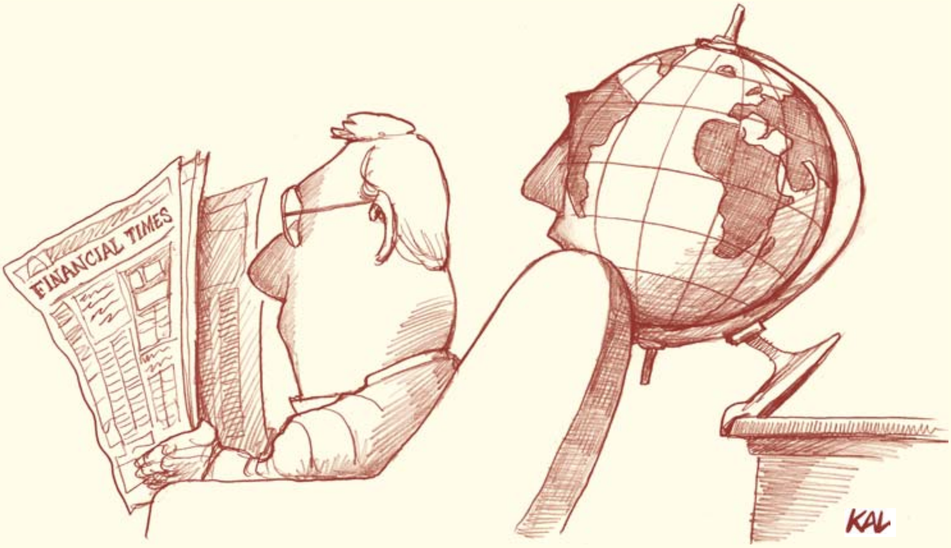
The *Financial Times* is the world's most international newspaper, printed in 24 cities with correspondents in 55 countries and readers in over 110. We create four different newspapers every day – for the UK, continental Europe, the US and Asia – at the same time as we provide live news and analysis around the clock on FT.com. Eight years ago the FT's newspaper circulation was 300,000, with more than half in the UK; today it is 435,000, with two-thirds outside the UK. And over the same period FT.com has gained a regular audience of around three million monthly users and 76,000 paying subscribers. In print and online, the FT has more paying readers today than at any point in its history.

Alongside the FT, we have a network of leading national business newspapers and online services including *Les Echos* in France and *FT Deutschland* in Germany, stakes in business newspapers in South Africa, Russia and India, and 50% of the world's best weekly current affairs journal, *The Economist*. So the FT Group combines an international perspective on business news with local market intimacy; it shares ideas, stories and insights across our newspapers; and its individual parts punch above their weight because we buy paper, distribution and other services together.

Twelve years ago, the FT Group conceived Interactive Data Corporation, now one of the leading providers of financial data to institutional and private investors. IDC provides them with information on more than 3.5 million securities traded around the world, and through a combination of organic growth and bolt-on acquisitions has grown from a company with sales of $140m in 1997 to a $500m company today.

For the past three years, our newspapers have faced a harsh business advertising recession, coupled with the increasing importance of the internet as a source of news.

In 2004, we weathered the storm and set the stage for further recovery. Our cost actions meant that our network of newspapers returned to profit, even though we haven't yet seen any meaningful pick-up in advertising. Our investments in content and technology kept our newspaper franchises strong – maintaining high-quality audiences in print and growing audiences online very rapidly. IDC posted another great year, growing again even while its competitors were shrinking and adding some new businesses which will be important to its long-term future.



The world's business newspaper

Looking further ahead, we're confident about the prospects for the FT Group, even in an uncertain advertising climate. We see financial institutions continuing to rely on IDC for the high quality financial information they need to operate successfully and meet their regulatory requirements. We see business people looking for a truly global outlook on business, finance and economics, and for independent, authoritative news and analysis. And we see advertisers shifting from mass media to niche titles which deliver a very precise, very targeted audience of the world's influential business people, investors and political leaders. Among them Warren Buffett, the world's most successful investor, who told his shareholders: 'If you wish to keep abreast of trade and currency matters, read the *Financial Times*.'

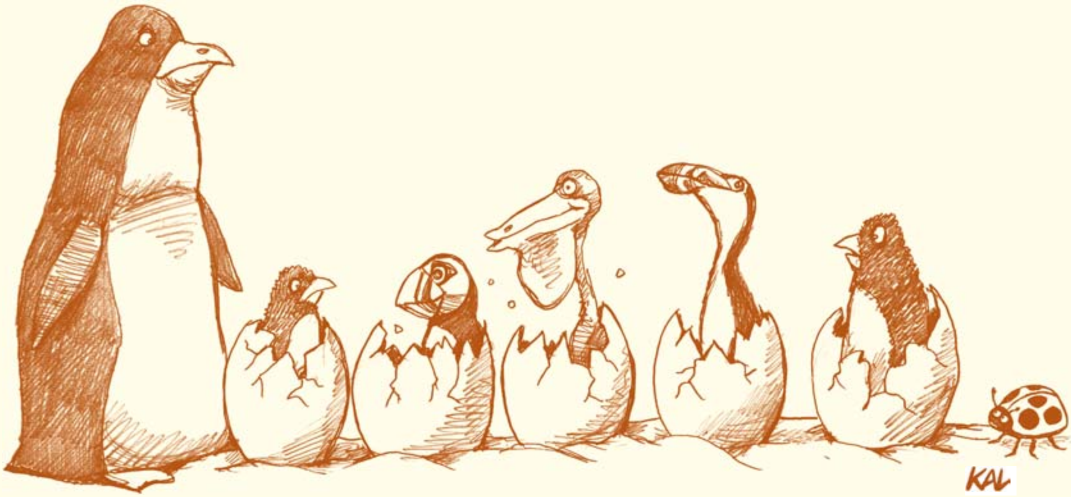
NOVEL IDEAS

Penguin is one of the world's leading consumer publishing businesses, the most loved brand in the industry and home to other famous names such as Dorling Kindersley, Puffin and Ladybird. Each year we publish close to 4,000 titles, for adults and children, in fiction and non-fiction, from timeless classics to the hottest bestsellers.

We benefit from strength in all areas: an unrivalled stable of bestselling authors including Patricia Cornwell, Jan Karon, Nora Roberts, Terry McMillan, Jamie Oliver and Nick Hornby; a strong record of uncovering new writing talent such as Sue Monk Kidd, Zadie Smith, Eoin Colfer and Khaled Hosseini; and a stable, powerful backlist of evergreen titles through Dorling Kindersley and the Penguin Classics.

After five straight years of record sales and profits, 2004 turned out to be a tough year for Penguin. The business was hit by the weak dollar and a slowdown in the US book market (Penguin makes around two-thirds of its sales in the United States), and by a disrupted move to a new warehouse in the UK which is now running smoothly. Our year was also affected by some trends which the consumer publishing industry has faced for some years now: the growing importance of major supermarket chains as booksellers; increasing competition in backlist publishing; and weakness in the 'mass market' category of bestselling books in the United States.

Some of Penguin's efforts to tackle these industry issues will begin to bear fruit in 2005. We've created some innovative ways of reaching new readers, including a direct-to-consumer sales operation in the United States. We have led the industry in innovation, launching a 'premium paperback' that is meeting our consumers' wish for a higher quality, more appealing style of book. And we've continued to invest in new authors – especially in relatively fast-growing segments of the consumer publishing market such as history, politics and business. Our newest imprints, including the Penguin Press, Gotham and Razorbill, have already published some big hits, including Lynne Truss's *Eats, Shoots & Leaves*, a one-million seller in the US, and Ron Chernow's acclaimed biography of the first US Treasury Secretary, *Alexander Hamilton*. Together, our new imprints have already published more than 30 national bestsellers in the US and generated sales of some $40 million.



Hatching a new generation of book brands

We're also stepping up our efforts to make the most of the scale we enjoy when Penguin and Pearson Education work together. Pearson is the world's largest book company and we have combined our warehousing and distribution operations in Australia, Canada, India and the UK. In 2005, we'll begin to see significant cost savings from these combinations, which will help us improve Penguin margins and reinvest in the quality writing that has made Penguin the world's best and most inventive publishing company for the past 70 years.

OUR BUSINESS AND SOCIETY

Welcome to our report on 'Our Business and Society'. In the pages that follow – and in much greater detail on our website at www.pearson.com/community/csr_report2004 – we set out the progress in social responsibility that we have made in the past year. Our record – whether it's on our UN Global Compact commitments, the diversity of our people or our charitable giving including the three relief funds we set up last year – has continued to improve, though we know that we have a lot still to do. We are particularly pleased that we have been able to set up our Pearson Foundation which makes our educational resources available to those who may lack access to them otherwise. Through this, we are already involved in educational projects from Manila to the Bronx.

As a creative business, we are entirely dependent on the minds and imagination of our 33,000 people. We think that what attracts people to work for us, and prompts many of them to stay, is that we feel a strong sense of responsibility for everything we do. It's their commitment to create the most inspiring textbooks, the best educational testing, the most accurate newspapers, the most original fiction, and the most effective services to governments that make Pearson a company to which we are all proud to belong. We think 'responsible' behaviour is inseparable from what we do every day: our greatest social impact arises from the products and services we create.

In the following pages you will see that we have set out our performance against the targets we set last year and also laid down some new goals for 2005. You will find our full report online at www.pearson.com/community/csr_report2004. I hope you will not hesitate to contact me with any questions or comments at david.bell@pearson.com.

David Bell, *Director for people*

Our Progress in 2004

In 2004 we focused on some specific targets. Here’s how we performed against them:

1. Maintain or improve our ratings in key indices of social responsibility We held our position as media sector leader in the Dow Jones Sustainability Indices 2004 for the third year running. Pearson was also included in the Innovest ranking of the 100 Most Sustainable Corporations in the World, the top 100 in the 2003 Business in the Community CR Index and the FTSE4Good Indices.

2. Assess key printers and paper suppliers against UN Global Compact standards We have continued our programme of supplier visits in China, India, Malaysia, Australia, Singapore and Western Europe. We have also run a series of seminars with our main purchasing and production teams in the UK and US to incorporate the review of our commitments under the Global Compact into our terms of business.

We are working with Book Aid to support mobile reading tents in East Africa

3. Develop strategic community partnerships for key markets outside the US Our new Pearson Foundation has built a number of partnerships in countries such as Jordan, South Africa and the Philippines to share our educational programmes with young people who otherwise lack access to our resources. In 2004 we launched a three-year programme with long-term partner Book Aid International to encourage reading in East Africa through a series of mobile reading tents.

Our Progress in 2004 *continued*

4. Work with UK book production companies to develop industry guidelines on labour standards and human rights in the supply chain Pearson, along with other major book publishing companies in the UK, has successfully worked on setting industry standards for Social Accountability. The standards follow the principles relating to labour standards set out in the UN Global Compact and have been endorsed by the industry trade association, the Publishers Association.

5. Reduce energy use in key buildings and review packaging and office waste Using 2003 as the base year, in 2004 we achieved a 4% reduction against our target of a 10% reduction in electricity and gas usage per square metre of our space by the end of 2008. Paper recycling facilities are in place for 46 of our top 50 buildings and we started to review our use of packaging.

6. Continue to invest in scientific research-based education products Last year we continued our commitment to provide scientific research to validate the educational value of our products and services. For example, in 2004 we commissioned 21 independent scientific research studies into our School maths, reading and science products.

7. Extend the reach of our management development programmes to more countries and parts of the business In 2004 we rolled out our senior leadership masterclasses around the world with 150 senior managers from Europe, the US, Asia and Australia taking part. In addition, each operating company has worked hard to improve their own management development, coaching and mentoring programmes around the world.

8. Introduce business targets and milestones for our diversity strategy To ensure that we continue to make progress against our goals we have introduced quarterly reporting where each head of business reports to Marjorie Scardino on diversity. Our progress in diversity was recognised by the Race for Opportunity survey where Pearson was named 'most improved company'.

Our Plans in 2005

Continue to advance in the key indices of social responsibility

Commission an independent review of our social, environmental and ethical (SEE) processes, initially in our UK businesses

Work with UK media companies and industry bodies to develop understanding of our main social responsibilities

Introduce independent verification into targeted areas of our social responsibility activities

Complete the register of the environmental performance of our key printers

Map the sources of wood, certification methods used and recycled content for the paper supplied to us for our books and newspapers

Continue to assess key printers and paper suppliers against the UN Global Compact standards

Continue our drive to reduce the energy used in our buildings

Continue to increase the recruitment and promotion of people from minority backgrounds, as well as the number of women in senior management roles

Develop a strategic community partnership in the UK

Remember, for the detailed report visit
www.pearson.com/community/csr_report2004

BOARD OF DIRECTORS

Chairman

Dennis Stevenson●▲ chairman, aged 59, was appointed a non-executive director of Pearson in 1986 and became chairman in 1997. He is also chairman of HBOS plc and a non-executive director of Manpower Inc. in the US.

Note On 27 February 2005 Pearson announced that Dennis intends to retire later in the year.

Executive directors

Marjorie Scardino● chief executive, aged 58, joined the Pearson board in January 1997. She trained and practised as a lawyer, and was chief executive of The Economist Group from 1993 until joining Pearson. She is also a non-executive director of Nokia Corporation.

David Bell director for people, aged 58, became a director of Pearson in March 1996. In 1998 he was appointed Pearson's director for people with responsibility for the recruitment, motivation, development and reward of employees. He is also chairman of the Financial Times Group, a non-executive director of VITEC Group plc and chairman of the International Youth Foundation.

John Makinson chairman and chief executive officer of The Penguin Group, aged 50, joined the Pearson board in March 1996 and was finance director until June 2002. He was appointed chairman of The Penguin Group in May 2001. He is also chairman of Interactive Data Corporation and a non-executive director of George Weston Limited in Canada.

Rona Fairhead▲ chief financial officer, aged 43, joined the Pearson board and became chief financial officer in June 2002. She also served as deputy finance director from October 2001. From 1996 until 2001, she worked at ICI, where she served as executive vice president, group control and strategy. She is also a non-executive director of HSBC Holdings plc.

Peter Jovanovich chief executive of Pearson Education, aged 56, joined the Pearson board in June 2002. He became chief executive of Pearson Education in 1998. Prior to this he was president of the McGraw-Hill Educational and Professional Group and chairman and CEO of Harcourt Brace Jovanovich. He also serves on the boards of the Association of American Publishers and the Alfred Harcourt Foundation.

Note Peter resigned in January 2005 for health reasons.

Non-executive directors

Terry Burns*†● aged 60, was the UK government's chief economic adviser from 1980 until 1991 and Permanent Secretary of HM Treasury from 1991 until 1998. He is non-executive chairman of Abbey National plc and Glas Cymru Limited, and a non-executive director of Banco Santander Central Hispana and The British Land Company plc. He was appointed a non-executive director of Pearson in May 1999, and our senior independent director in February 2004.

Reuben Mark*†● aged 66, is chairman and chief executive of the Colgate-Palmolive Company and a non-executive director of Time Warner Inc. He became a non-executive director of Pearson in 1988.

Vernon Sankey*●▲ aged 55, was previously chief executive of Reckitt & Colman plc and is chairman of Photo-Me International plc. He is also a non-executive director of Taylor Woodrow plc and Zurich Financial Services AG. He became a non-executive director of Pearson in 1993.

Rana Talwar†●▲ aged 56, was previously group chief executive of Standard Chartered plc. He became a non-executive director of Pearson in March 2000.

Patrick Cescau*● aged 56, is chairman of Unilever. He became a non-executive director of Pearson in April 2002.

Susan Fuhrman● aged 60, is dean of Penn Graduate School of Education at the University of Pennsylvania. She became a non-executive director of Pearson plc in July 2004. She is a member of the Board of Trustees of the Carnegie Foundation for the Advancement of Teaching, and a member of the Council for Corporate and School Partnerships of the Coca-Cola Foundation.

* a member of the audit committee.
† a member of the personnel committee.
● a member of the nomination committee.
▲ a member of the treasury committee.

FINANCIALS TIME

Summary Financial Statements

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2004

All figures in £ millions	2004 Results from operations	2004 Other items	2004 Total	2003 Results from operations	2003 Other items	2003 Total
Sales of which	3,919	–	3,919	4,048	–	4,048
Continuing operations	3,729	–	3,729	3,879	–	3,879
Discontinued operations	190	–	190	169	–	169
Group operating profit of which*	455	(224)	231	490	(264)	226
Continuing operations	433	(215)	218	462	(258)	204
Discontinued operations	22	(9)	13	28	(6)	22
Non operating items	–	9	9	–	6	6
Net finance costs	(69)	–	(69)	(80)	–	(80)
Profit before taxation	386	(215)	171	410	(258)	152
Taxation	(117)	55	(62)	(128)	53	(75)
Profit after taxation	269	(160)	109	282	(205)	77
Equity minority interests	(30)	9	(21)	(28)	6	(22)
Profit for the financial year	239	(151)	88	254	(199)	55
Dividends on equity shares			(201)			(192)
Loss retained			(113)			(137)
Adjusted earnings per share			30.0p			32.0p
Basic earnings per share			11.1p			6.9p
Dividends per share			25.4p			24.2p

*Included within operating profit is £10m (2003: £nil) relating to associates and joint ventures.

CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2004

All figures in £ millions	2004	2003 restated
Adjusted operating profit*	455	490
Working capital and other operating movements	(12)	(181)
Net operating expenditure on fixed assets	(21)	11
Operating cash flow	422	320
Integration costs	(4)	(8)
Interest, taxation and dividends	(327)	(327)
Net movement of funds from operations	91	(15)
Acquisitions and disposals	(4)	(59)
Other non operating movements including new equity and purchase of own shares	(7)	4
Net movement of funds	80	(70)
Net debt at beginning of the year	(1,361)	(1,408)
Exchange differences on opening net debt	75	117
Net debt at end of the year	(1,206)	(1,361)

*Before goodwill amortisation. Net debt excludes finance leases.

BALANCE SHEET
AS AT 31 DECEMBER 2004

All figures in £ millions	2004	2003 restated
Intangible assets	2,890	3,260
Other fixed assets	538	553
Current assets	2,558	2,523
Creditors – amounts falling due within one year	(1,275)	(1,704)
Net current assets	1,283	819
Total assets less current liabilities	4,711	4,632
Creditors – amounts falling due after more than one year	(1,772)	(1,392)
Provisions for liabilities and charges	(123)	(152)
Net assets	2,816	3,088
Equity shareholders' funds	2,603	2,893
Equity minority interests	213	195
	2,816	3,088

The financial statements were approved by the board of directors on 27 February 2005 and signed on its behalf by Dennis Stevenson and Rona Fairhead.

INDEPENDENT AUDITORS' STATEMENT TO THE MEMBERS OF PEARSON PLC

We have examined the summary financial statements of Pearson plc.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Pearson annual review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statements within the Pearson annual review with the annual financial statements, the directors' report and the report on directors' remuneration, and its compliance with the relevant requirements of section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the Pearson annual review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

This statement, including the opinion, has been prepared for and only for, the company's members as a body in accordance with section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion In our opinion the summary financial statements are consistent with the annual financial statements, the directors' report and the report on directors' remuneration of Pearson plc for the year ended 31 December 2004 and comply with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP, Chartered Accountants and Registered Auditors, London

27 February 2005

SUMMARY FINANCIAL REVIEW

Adjusted operating profit, on an underlying basis, was up 5% (up 7% for continuing businesses).

Statutory profit before tax was £171m, up £19m, largely as a result of lower goodwill amortisation and a reduced interest charge. The 20 cent weakening in the average US dollar rate against the pound (£1:$1.83 in 2004 against £1:$1.63 in 2003) reduced our reported operating profit.

Goodwill This is the final year of amortisation under UK GAAP, ahead of moving to International Financial Reporting Standards in 2005. The goodwill amortisation charge fell to £224m from £264 in 2003 as a result of the lower dollar exchage rate and the reduction in charges relating to fully amortised assets. There were no impairments in 2004.

Non operating items These reflected gains and losses on the sale or closure of businesses and on the disposal of fixed assets and investments. In 2004 we had profits on the sale of our stakes in Capella and Business.com, which were partially offset by small losses elsewhere.

Interest Net operating interest fell by £11m to £69m, as an increase in floating interest rates was offset by a combination of lower levels of average net debt and a one-off credit of £9m for interest on a repayment of tax in France. The average three month LIBOR (weighted for the Group's borrowings in US dollars, euros and sterling) rose by 0.4%. We were partially protected from these increases by our treasury policy (see page 10 in the governance and financial statements), which put £736m of our year-end debt on a fixed rate basis. As a result, the Group's average net interest rate payable (excluding the £9m credit described above) rose by only 0.25%, to 5%.

Taxation The total tax charge for the year was £62m, representing a 36% rate on pre-tax profits of £171m. This was higher than the UK statutory rate of 30%; as in previous years, this was largely attributable to the fact that the goodwill amortisation charge in the profit and loss account was only partially eligible for tax relief. The total tax charge included credits of £48m relating to previous years; these reflected a combination of progress in settlements with the Revenue authorities and changes to deferred tax balances. The mix of profits between jurisdictions with different tax rates was also a relevant factor; the effect in 2004 was similar to that in 2003.

The tax rate on adjusted earnings reduced from 31.2% in 2003 to 30.3% in 2004, benefiting from prior year credits and the mix of profits.

Minority interests Minority interests were principally a 39% minority share in IDC and a 21% minority share in Recoletos.

Dividends The dividend payment of £201m which we are recommending in respect of 2004 represents 25.4p per share – a 5% increase on 2003. The dividend is covered 1.2 times by adjusted earnings and 1.4 times by free cash flow. We seek to maintain a balance between the requirements of our shareholders, including our many private shareholders, for a rising stream of dividend income and the reinvestment opportunities that we see across Pearson. This balance has been expressed in recent years as a commitment to increase our annual dividend faster than the prevailing rate of inflation while progressively reinvesting a higher proportion of our distributable earnings in our business.

Pensions Pearson operates a variety of pension schemes. Our UK fund is by far the largest and we also have some smaller defined benefit funds in the US and Canada. Outside the UK, most of our people operate 401K (essentially defined contribution) plans. The pension funding level is kept under regular review by the company and the Fund trustees. The scheme was valued as at 1 January 2004 and the next valuation will be at 1 January 2006. As a result of the 2004 valuation, the company agreed to increase contributions to £30m in respect of 2004; to £35m in 2005; and to £41m annually from 2006 to 2014.

Summary financial statement This summary financial statement, including the summary directors' report, was approved by the board on 27 February 2005. It does not contain sufficient information to allow for a full understanding of the results and state of affairs of the Pearson Group. For further information, the governance and financial statements of Pearson plc should be consulted. If you have not received the full annual report, but wish to do so, please return the request form attached to your proxy form for the annual general meeting. If, however, you are happy to receive the summary report only (which does include a summary financial statement) you need take no action. The auditors have issued an unqualified report on the financial statements containing no statement under sections 237(2) or 237(3) of the Companies Act 1985.

SUMMARY DIRECTORS' REPORT

The full directors' report is set out on pages 13 to 19 of the governance and financial statements of Pearson plc. Details of the businesses, the development of the Group and its subsidiaries and likely future developments are given on pages 1 to 12 of the governance and financial statements and on pages 16 to 25 of this annual review.

Results and dividend The profit for the financial year ended 31 December 2004 was £88m (2003: £55m). The loss retained for the year was £113m (2003: £137m) and has been transferred to reserves. A final dividend of 15.7p per share is recommended for the year ended 31 December 2004. This, together with the interim dividend already paid, makes a total for the year of 25.4p (2003: 24.2p). The final dividend will be paid on 6 May 2005 to shareholders on the register at the close of business on 8 April 2005, the record date.

Directors The present members of the board, together with their biographical details, are shown on page 26. Five directors, Marjorie Scardino, Rona Fairhead, Patrick Cescau, Reuben Mark and Vernon Sankey will retire by rotation and stand for re-election. Susan Fuhrman, who was appointed to the board on 27 July 2004, retires from office in accordance with the articles of association of the company and will offer herself for reappointment. Patrick Cescau, Reuben Mark, Vernon Sankey and Susan Fuhrman as non-executive directors of the company, do not have service contracts.

Corporate governance The full directors' report, including the report on directors' remuneration which has been considered and adopted by the board, is contained in the governance and financial statements, copies of which are obtainable from the company. These reports describe how the company has applied the principles and complied with the provisions of the Combined Code on corporate governance, as well as giving reasons for any non-compliance. The company also complies with the best practice provisions on remuneration matters prescribed in Schedule A of the Combined Code on corporate governance, and has done so throughout the year ended 31 December 2004. The tables on pages 34 and 35 give information on directors' remuneration, pension positions and interests in Pearson shares.

For the full directors' report go to the Pearson annual report 2004 at www.pearson.com.

Annual general meeting (AGM) The notice convening the AGM to be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, is contained in a circular to shareholders to be dated 31 March 2005.

Philip Hoffman, Secretary

27 February 2005

SUMMARY REPORT ON DIRECTORS' REMUNERATION

This is a summary of the full report on directors' remuneration set out on pages 20 to 35 of the governance and financial statements 2004.

The personnel committee Reuben Mark chairs the personnel committee; the other members of the committee during 2004 were Terry Burns and Rana Talwar. All three members of the committee are independent non-executive directors.

The committee's terms of reference are set out on the company's website.

Remuneration policy Pearson seeks to generate a performance culture by operating programmes that support its business goals and reward their achievement. It is the company's policy that total remuneration (base compensation plus short- and long-term incentives) should reward both short- and long-term results, delivering competitive rewards for target performance, but outstanding rewards for exceptional company performance.

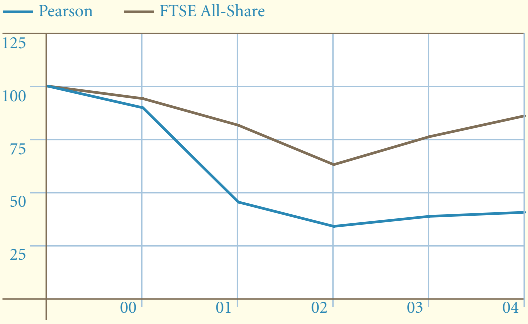
The company's policy is that base compensation should provide the appropriate rate of remuneration for the job, taking into account relevant recruitment markets and business sectors and geographic regions. Benefit programmes should ensure that Pearson retains a competitive recruiting advantage.

Share ownership is encouraged throughout the company. Equity-based reward programmes align the interests of directors, and employees in general, with those of shareholders by linking rewards with Pearson's financial success.

Performance We set out below Pearson's total shareholder return performance relative to the FTSE All-Share index (of which Pearson is a constituent) on an annual basis over the five-year period 1999 to 2004. We have chosen this index on the basis that it is a recognisable reference point and appropriate comparator for the majority of our investors.

Remuneration Total remuneration is made up of fixed and performance-linked elements. Consistent with its policy, the committee places considerable emphasis on the performance-linked elements i.e. annual bonus, bonus share matching and long-term incentives.

Total shareholder return



Base salary Our policy is that the base salaries of the executive directors should be competitive with those of directors and executives in similar positions in comparable companies. We use a range of companies of comparable size and global reach in different sectors including the media sector in the UK and selected media companies in North America to make this comparison. We use these companies because they represent the wider executive talent pool from which we might expect to recruit externally and the pay market to which we might be vulnerable if our salaries were not competitive.

Our policy is to review salaries annually.

Other emoluments It is the company's policy that its benefit programmes should be competitive in the context of the local labour market, but as an international company we recognise the requirements, circumstances and mobility of individual executives.

Annual bonus The committee establishes the annual bonus plans for the executive directors and the chief executives of the company's principal operating companies, including performance measures and targets and the amount of bonus that can be earned.

The performance measures relate to the company's main drivers of business performance at both the corporate and operating company level. Performance is measured separately for each item. For each performance measure, the committee establishes performance thresholds, targets and maxima for different levels of payout.

For 2005, the performance measures for Pearson plc are sales, growth in underlying adjusted earnings per share, cash flow and working capital as a ratio to sales. For subsequent years, the measures will be set at the time.

For 2005, the committee reviewed the target annual bonus opportunity for the CEO, based on an assessment of market practice by Towers Perrin, and increased it from 75% to 100% of base salary. The committee is satisfied with the CEO's resulting target total direct compensation relative to the market and the increase in the proportion of her compensation that is performance-related. The target annual incentive opportunity for the other executive directors and other members of the Pearson Management Committee remains 75% of salary. The maximum bonus for performance in excess of target remains in all cases, including the CEO, 150% of salary.

The committee may award individual discretionary bonuses.

Actual pay-outs for 2004 averaged 107% of salary.

Bonus share matching The company encourages executive directors and other senior executives to hold Pearson shares. The annual bonus share matching plan permits executive directors and senior executives around the company to invest up to 50% of any after tax annual bonus in Pearson shares. If these shares are held and the company's adjusted earnings per share increase in real terms by at least 3% per annum, the company will match them on a gross basis of one share for every two held after three years, and another one for two originally held (i.e. a total of one-for-one) after five years.

Long-term incentives Executive directors, senior and other executives and managers are eligible to participate in Pearson's long-term incentive plan introduced in 2001. The plan consists of two parts: stock options and/or restricted stock. The aim is to give the committee a range of tools with which to link corporate performance to management's long-term reward in a flexible way.

The principles underlying it are as follows:

> the committee uses an accepted economic valuation model to determine the impact of any performance conditions and calculate the relative value of both stock options and restricted stock;

> based on these values, the committee establishes guidelines each year for the expected value of awards i.e. their net present value after taking into account all the conditions, and in particular, the probability that any performance conditions will be met;

> the maximum expected value of awards for executive directors is based on an assessment by the committee's independent advisers of market practice for comparable companies. Actual awards for 2004 were below the maximum policy levels set out in the 2003 report;

> no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson's share plans in any 10-year period commencing in January 1997;

> awards of restricted stock are satisfied using existing shares.

For 2005, the committee will be able to make awards under the long-term incentive plan in the form of both restricted stock and stock options although, at the date of publication of this report, no decision had been made.

Service agreements For health reasons, Peter Jovanovich stood down as a director of the company on 31 January 2005, but remains entitled to contractual short- and long-term disability and other benefits. These arrangements are set out in an agreement dated 28 January 2005.

In accordance with policy, all continuing executive directors have rolling service agreements with one or more group companies under which, other than by termination in accordance with the terms of these agreements, employment continues until retirement.

These service agreements provide that the company may terminate these agreements by giving 12 months' notice and specify the compensation payable by way of liquidated damages in circumstances where the company terminates the agreements without notice or cause. We feel that these notice periods and provisions for liquidated damages are adequate, but not excessive, compensation for loss of office.

Directors' remuneration was as follows:

All figures in £000s	2004 Salaries/fees	2004 Bonus	2004 Other†	2004 Total	2003 Total
Chairman					
Dennis Stevenson	325	–	–	325	275
Executive directors					
Marjorie Scardino	645	831	62	1,538	879
David Bell	375	483	16	874	491
Rona Fairhead	390	503	14	907	493
Peter Jovanovich	473	571	8	1,052	695
John Makinson	460	119	212	791	809
Non-executive directors					
Terry Burns	35	–	–	35	35
Patrick Cescau	35	–	–	35	35
Susan Fuhrman (appointed 27 July 2004)	18	–	–	18	–
Reuben Mark	47	–	–	47	47
Vernon Sankey	40	–	–	40	40
Rana Talwar	35	–	–	35	35
Total	2,878	2,507	312	5,697	3,834
Total 2003	2,795	714	325	–	3,834

†Other emoluments exclude pension contributions and include £37,955 in respect of housing costs for Marjorie Scardino and a location and market premium of £184,517 for John Makinson.

The interests of directors were as follows:

	Ordinary shares at 1 Jan 04	Ordinary shares at 31 Dec 04	Restricted shares at 1 Jan 04	Restricted shares at 31 Dec 04	Share options 1 Jan 04	Share options 31 Dec 04
Dennis Stevenson	163,268	167,043	–	30,000	2,512	3,556
Marjorie Scardino	93,733	127,761	643,566	975,648	540,194	540,194
David Bell	56,492	77,305	326,095	455,969	181,188	181,627
Terry Burns	3,133	4,089	–	–	–	–
Patrick Cescau	–	–	–	–	–	–
Rona Fairhead	9,622	12,710	279,594	449,803	60,000	61,904
Susan Fuhrman	–	551	–	–	–	–
Peter Jovanovich	56,450	86,461	453,587	491,639	459,724	459,724
John Makinson	39,214	115,898	393,894	511,184	409,773	351,853
Reuben Mark	13,561	14,798	–	–	–	–
Vernon Sankey	2,992	3,943	–	–	–	–
Rana Talwar	4,346	8,152	–	–	–	–

Note 1 Ordinary shares includes both ordinary shares listed on the London Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. The figures include both shares and ADRs acquired by individuals investing part of their own after tax bonus in Pearson stock under the annual bonus share matching plan.

Note 2 Restricted shares comprise awards made under the reward, annual bonus share matching and long-term incentive plans. The number of shares that may vest, subject to any performance conditions being met.

Note 3 Executive directors of the company, as possible beneficiaries, are also deemed to be interested in the Pearson Employee Share Trust and the Pearson Employee Share Ownership Trust, the trustees of which held 82,840 and 6,774,054 Pearson ordinary shares of 25p each respectively at 31 December 2004 and also at 28 February 2005.

Note 4 At 31 December 2004, Marjorie Scardino, John Makinson and David Bell each held 1,000 shares in Recoletos Grupo de Comunicación S.A. Dennis Stevenson held 8,660 shares. John Makinson held 1,000 shares in Interactive Data Corporation.

Note 5 From 2004, Marjorie Scardino is also deemed to be interested in a further number of shares under her unfunded pension arrangement, which provides the opportunity to convert a proportion of her notional cash account into a notional share account reflecting the value of a number of Pearson shares.

SHAREHOLDER INFORMATION

Payment of dividends to mandated accounts Where shareholders have given instruction for payment to be made direct into a bank or building society, this is done through the Bankers Automated Clearing System (BACS), with the associated tax voucher showing the tax credit attributable to the dividend payment sent direct to the shareholder at the address shown on our register. If you wish the tax voucher to be sent to your bank or building society, please inform our registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Telephone 0870 600 3986 or, for those shareholders with hearing difficulties, textphone number 0870 600 3950.

Dividend reinvestment plan (DRIP) The plan provides the benefit of giving shareholders the right to buy the company's shares on the London stock market with the cash dividend. If you would like further information about the DRIP, please contact Lloyds TSB Registrars. Telephone 0870 241 3018.

Personal Equity Plans (PEPs) and Individual Savings Accounts (ISAs) The government no longer permits investment to be made in PEPs, although existing PEPs may be continued. Existing Corporate PEP and Single Company PEP holders who require further information about their PEPs should ring the HBOS helpline on 0870 606 6417. Lloyds TSB Registrars offer ISAs in Pearson shares. They can be contacted for information on 0870 242 4244.

Low cost share dealing facilities A telephone and internet dealing service has been arranged through Lloyds TSB Registrars which provides a simple way of buying and selling Pearson shares. Commission is 0.5% with a minimum charge of £20 for telephone dealing and £17.50 for internet dealing. For telephone sales call 0870 850 0852 between 8.30 am and 4.30 pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number shown on your share certificate.

A postal facility, which provides a simple, low cost way of buying and selling Pearson shares, is available through the company's stockbroker, JPMorgan Cazenove Limited, 20 Moorgate, London EC2R 6DA. Telephone 020 7588 2828. An alternative weekly postal dealing service is available through our registrars, telephone 0870 242 4244 for details.

ShareGift The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small holdings of shares, whose value makes them uneconomic to sell. Details can be obtained from the ShareGift website at www.sharegift.org or by telephoning 020 7337 0501.

Shareholder information online Lloyds TSB Registrars provide a range of shareholder information online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. Lloyds TSB Registrars can be contacted for information on 0870 600 3970.

Information about the Pearson share price The current price of Pearson ordinary shares can be obtained from the company's website, www.pearson.com, from www.ft.com or from Financial Times CityLine (telephone 0906 843 3620).

American Depositary Receipts (ADRs) Pearson's ordinary shares are listed on the New York Stock Exchange in the form of ADRs and traded under the symbol PSO. Each ADR represents one ordinary share. All enquiries regarding registered ADR holder accounts and payment of dividends should be directed to The Bank of New York, the authorised depositary bank for Pearson's ADR programme, at The Bank of New York, Investor Services, P.O. Box 11258, Church Street Station, New York, NY 10286-1258, telephone 1-888 BNY ADRs (toll free within the US) or (1) 610 382 7836 (outside the US), or email shareowners@bankofny.com, or sign-in at www.stockbny.com. Voting rights for registered ADR holders can be exercised through The Bank of New York, and for beneficial ADR holders (and/or nominee accounts) through your US brokerage institution. Pearson will file with the Securities and Exchange Commission a report on Form 20-F that will contain a US GAAP reconciliation.

Advisers
Auditors PricewaterhouseCoopers LLP
Bankers HSBC Bank Plc
Brokers JPMorgan Cazenove Limited, Citigroup
Financial advisers Lazard Brothers & Co. Limited, J. Henry Schroder & Co. Limited
Solicitors Freshfields Bruckhaus Deringer, Herbert Smith and Morgan, Lewis & Bockius

PRINCIPAL OFFICES WORLDWIDE

Pearson (UK)
80 Strand
London WC2R 0RL UK
T +44 (0)20 7010 2000
F +44 (0)20 7010 6060
firstname.lastname@pearson.com
www.pearson.com

Pearson (US)
1330 Avenue of the Americas
New York City, NY 10019 USA
T +1 212 641 2400
F +1 212 641 2500
firstname.lastname@pearson-inc.com
www.pearson.com

Pearson Education
One Lake Street, Upper Saddle River
NJ 07458 USA
T +1 201 236 7000
F +1 515 284 6719
firstname.lastname@pearsoned.com
www.pearsoned.com

The Financial Times Group
Number One Southwark Bridge
London SE1 9HL UK
T +44 (0)020 7873 3000
F +44 (0)020 7873 3076
firstname.lastname@ft.com
www.ft.com

The Penguin Group (UK)
80 Strand
London WC2R 0RL UK
T +44 (0)20 7010 2000
F +44 (0)20 7010 6060
firstname.lastname@penguin.co.uk
www.penguin.co.uk

The Penguin Group (US)
375 Hudson Street, New York City
NY 10014 USA
T +1 212 366 2000
F +1 212 366 2666
firstname.lastname@uspenguingroup.com
us.penguingroup.com

2005 Financial Calendar

6 April Ex-dividend date

8 April Record date

21 April Last date for dividend reinvestment election

29 April Annual general meeting

6 May Payment date for dividend and share purchase date for dividend reinvestment

25 July Interim results

23 September Interim dividend

Design Radley Yeldar
Illustration Kevin ‘KAL’ Kallagher
Print CTD Printers Ltd

This review is printed on paper which is
produced from sustainable forests and is made
from totally chlorine-free pulp.