

INTRODUCTION

Welcome to our report on 'Our Business and Society' for 2005.

Social responsibility is core to our business, whether we're helping students achieve the best possible results at school, encouraging college students to become teachers or helping business people make better decisions.

In everything we do, our aim is to combine a commitment to our commercial goals with a clear understanding of our responsibilities in the wider world and our performance has continued to improve over the past year.

We have seen a terrible succession of disasters and man-made tragedies across the world – from the earthquake in Pakistan and India, to the hurricanes in the US and the terrorist attacks in London. In each case, the spirit and practical response of people all around Pearson was characteristically generous and inspiring. In addition, we have continued to develop our relationship with Jumpstart and Book Aid International and we're pushing forward with the work of the Pearson Foundation in the US.

As a creative business, we rely heavily on the imagination and brainpower of the thousands of people who work here and we continue to place great emphasis on the need for the makeup of our businesses to reflect the communities in which they operate.

It may sound like a cliché, but it is true that we believe our people are our greatest asset. For us, corporate responsibility does not belong in a 'box' somewhere out of sight. It is a daily part of what the company strives to be: brave, imaginative and decent in the way it treats its customers, its suppliers, its own people and the wider world in which it operates.

The following pages outline how we performed against last year's targets, set some standards for us to reach for 2006, and look at some highlights from around Pearson. Please do not hesitate to send questions or comments to david.bell@pearson.com.



David Bell, *Director for people*

PEARSON OUR BUSINESS AND SOCIETY

OUR PROGRESS IN 2005

In 2005 we focused on some specific targets. Here's how we performed against them:

1. Continue to advance in key indices of social responsibility. We again improved our score in the Dow Jones Sustainability Indices 2005. We also moved forward again in the 2004 Business in the Community Corporate Responsibility Index and have been included in the FTSE4Good Indices since inception. And for the second year, Pearson was ranked as a top 100 company in the Most Sustainable Companies in the World listing by Innovent.

2. Commission an independent review of social, environmental and ethical (SEE) processes. With an independent consultancy, we carried out a review of the SEE risk processes in our UK businesses. The review found that overall the current processes were appropriate, but made some recommendations to strengthen our approach which we are now implementing.

3. Work with UK media companies and industry bodies to benchmark measurements of good practice. We continue to work with the CSR media forum. This group consists of many of the major media companies in the UK and meets regularly throughout the year. We also presented our sustainable paper sourcing policy in the UK to other national newspaper publishers through the Newspaper Publishers Association.

4. Introduce independent verification for targeted areas of social responsibility activities. Our environmental review was independently verified and the statement can be viewed at www.pearson.com/environment. Pearson also joined with several UK publishing groups under the auspices of Publishers Resolution for Ethical International Manufacturing Standards (PRELIMS) to introduce a social accountability audit of the printers we use around the world. From 1 January 2007, none of the signatories to PRELIMS will use a printer who has not satisfactorily engaged in this process, by either achieving the standard, or having in place an acceptable plan for improvement.

5. Complete the register of the environmental performance of our key printers. We have added further printers to our register during the year and this objective is broadly complete. This register will be updated regularly.

6. Map the sources of wood, certification methods used and recycled content for the paper supplied to us for our books and newspapers. We have established a new process to receive annual returns data from our main global paper suppliers on the source, certification and recycled content of the paper we use. This information is helping us meet our commitments on improved certification of the paper we use. We continue to work with WWF UK Forest and Trade Network as we enhance our responsible paper sourcing practice.

7. Continue to assess key printers and paper suppliers against UN Global Compact standards. Our programme of supplier visits in China, India and elsewhere continued in 2005. Some existing plants were revisited, particularly where we had concerns, and the programme was extended to include South Korea.

8. Continue to reduce energy used in our buildings. We achieved progress towards our target of a 10% reduction in electricity and gas usage per square metre of our space from 2003 to 2008. Energy use figures are included in our environmental review at www.pearson.com/environment.

9. Continue to recruit and promote people from diverse backgrounds as well as increase the number of women in senior management roles. In 2005 we created and circulated our 'diversity mid career hiring strategy' to senior managers in the UK and the US. Each company has been asked to develop an approach to encourage more recruitment from diverse backgrounds, especially in areas which are currently under-represented. Pearson hosted the first main event for the National Newspaper Diversity Forum (NNDF) in 2005 – the prize-giving ceremony for the School Journalism Competition. NNDF was set up in 2004 to generate more interest in journalism among under-represented groups in society and is chaired by David Bell.

10. Develop a strategic community partnership in the UK. Pearson is piloting a new community programme in the UK, giving a free book to every five year old in Warwickshire and Southwark in their first term of primary school. The programme aims to promote reading, encouraging children and parents to take time to read together. Pearson is working on the programme with Booktrust, an independent national charity. If the pilot is successful, the programme will be extended more widely across the UK in 2006.

OUR PLANS FOR 2006

Continue to advance in the key indices of social responsibility.

Examine ways to minimise the environmental impact of book packaging.

Extend our environment and labour standards auditing to our printers in South Africa and Latin America.

Continue our drive for independently verified certification to ensure the suitability of paper we purchase for our books and newspapers – this will expand to include jackets and covers.

Conduct our biennial employee survey.

Continue to recruit and promote people from diverse backgrounds and increase the number of women in senior management roles.

Introduce networking groups in the UK and US to develop future leaders and retain key employees.

Conduct a full evaluation of the pilot of our UK community programme and, subject to that, roll out the project more widely.

Continue to develop our partnership with Jumpstart in the US, to support and encourage college students to become teachers.

OUR BUSINESSES



Pearson businesses have a special, privileged role in society: our job is to bring learning to life. We try to create the most effective educational services; the most reliable tests of educational achievement; the most independent and authoritative business news, comment and analysis; the most entertaining and informative books. Here are some examples:

PEARSON EDUCATION US

School

> Last year, we reported that Pearson Education's School companies commissioned 21 independent scientific research studies to validate the effectiveness of its mathematics, reading and science products. For example, an independent research firm conducted a study of Pearson Prentice Hall's *Algebra 1* and concluded it increased student performance, helping to achieve higher test scores and improve attitudes towards the study of mathematics. The study showed that 53% of students in grades 8–12 using *Algebra 1*, performing below average at the beginning of the year, improved to average or advanced by the end of the year. In addition, 43% of students performing at average at the beginning of the year improved to advanced levels by the end of the year.

> Pearson Scott Foresman published an early intervention programme centred on the compelling research of two of the most respected authorities in early literacy. Based on Project Optimise, a five-year longitudinal research study by Dr Edward J. Kame'enui and Deborah C Simmons, Pearson Scott Foresman's Early Reading Intervention identifies at-risk children in kindergarten and first grade (ages five and six) and provides intervention to improve reading achievement.

Research shows the 97% of kindergarten children who were taught with Scott Foresman's Early Reading Intervention experienced faster achievement rates and were able to sustain that level of achievement into second grade. The Early Reading Intervention programme is aligned to the US Department of Education's nationwide literacy initiative, Reading First. Pearson Scott Foresman's new elementary reading programme *Reading Street*, is the first of its kind to comply with the No Child Left Behind Act and Reading First.

Higher Education

> Pearson has pioneered a series of online resources such as *MyMathLab* and *MathXL* – an innovative series of text-specific online courses designed to work with Pearson Addison-Wesley and Pearson Prentice Hall mathematics and statistics textbooks. The system allows college maths students to practice problems and submit assignments online, and the software intervenes to provide assistance if the student is struggling.

A white paper commissioned by Pearson Education validates the success of *MyMathLab*, showing how it has successfully reshaped how the subject is taught and learnt in college courses. The report, ‘Making the Grade: A Report on the Success of *MyMathLab* in Higher Education Math Instruction,’ summarises several surveys conducted amongst faculty and students users of *MyMathLab*, as well as interviews with faculty members and instructors. Colleges and universities around the US are reporting increases in pass rates of 30–40%, as students benefit from learning at their own pace, in their own way.

Since 2001, approximately 1 million students have been using *MyMathLab* and *MathXL*. Last year alone, 350,000 students enrolled in a course using either version, and more than 1,100 colleges and universities are using the programme. One instructor at DeVry University said. “*MyMathLab* is the best thing that has happened in the 46 years I’ve been teaching math. For the first time, students are coming to class wanting to learn.”

Pearson has other Lab curricula including *MyPhysicsLab*, *MyPsychLab*, *MyEconLab*, *MyHistoryLab*, *MySpeechLab*, and more are planned.

Pearson Education Australia

> In 2005, Pearson Education Australia released a new book, *Bullying Solutions*, at the National Coalition Against Bullying Conference in Melbourne. The book so impressed the education minister for the state of Victoria that a copy was immediately ordered for every school in the state.

> The 2005 Pearson Education Australia UniServe Science Teaching Award was won by a team from the Department of Zoology at the University of Melbourne. Their submission was based on the development of original software that enables students to submit an anonymous draft of an assessment item and receive feedback via reviews from fellow students.

Financial Times Group

The Financial Times newspaper has a strong reputation for incisive and objective news reporting. This commitment dates back to 1908 when Pearson's then proprietor, Lord Cowdray, ventured into the publishing industry by investing in a London newspaper, the Westminster Gazette. He believed that the purpose of the paper was to be an independent voice in the community and this value has stood firm ever since.

The FT and its network of business newspapers and websites are an important channel for helping to shape the debate on key political, economic and social issues. The FT Group also plays an important part in raising the profile of various causes and campaigning organisations. For example:

> The FT is partner to a number of not-for-profit organisations such as the UK's [Business in the Community](#) and [The Prince of Wales International Business Leaders Forum](#). Both are committed to promoting and advancing responsible business behaviour and the FT has used its publishing voice to bring their work to a wider audience, helping to put social responsibility on the mainstream business agenda.

> Last year the FT's Asia edition published a special report on the Pakistan earthquake. The eight page supplement focused on the challenge facing the government and its citizens in seeking to rebuild the affected region.

In addition, the FT donated over £200,000 worth of advertising space to support a variety of causes, including the Disasters Emergency Committee, the Red Cross and Unicef for their relief efforts following the tsunami and the Pakistan earthquake.

> The FT's journalism attracted many accolades in 2005 including several awards for reporting of social issues. Awards included: Newspaper Feature of the Year Award from the Work Foundation Awards in 2005 for its special report entitled Reinventing Retirement, FT journalist, Amy Kazmin, won first prize in the magazine category of the Human Rights Press Awards jointly organised by the FCC and Amnesty International, for her piece entitled 'Deliver them from evil.' FT journalist, Fiona Harvey, was honoured by the Foreign Press Association for Environment Story of the Year, for a piece on climate change sceptics.

> Research by Futerra, a specialist sustainable development communications agency, found the FT provided the most balanced reporting on climate change issues. The findings were based on a review of 320 UK national newspaper climate change articles between August and November 2005, including 63 from the FT.

> The FT is sponsor to [The European-Atlantic Movement](#) (TEAM), a charity that aims to promote understanding and discussion of European, transatlantic and world affairs to sixth formers and teachers. As a non-political organisation, this partnership fits well with the FT's independence as a newspaper.

> FTSE, a joint venture between Pearson and the London Stock Exchange, includes a series of 'socially responsible indices' alongside their financial products. The FTSE4Good Index series is designed for use by retail SRI fund products and for fulfilling institutional mandates. All licensing revenues from FTSE4Good indices are donated to UNICEF.

The Penguin Group

Since Allen Lane founded Penguin in 1935, the company has championed free speech, never afraid to court controversy along the way. For example, in 1960 Penguin published the first unabridged version of *Lady Chatterley's Lover* and more recently in 2000, Penguin defended author Deborah Lipstadt in court against holocaust denier, David Irving. Here are some examples from last year, of the way Penguin continues this tradition of bravery, freedom of expression and a commitment to raising awareness of social issues:

> Rough Guides, our travel guide imprint, published and printed two million copies of *The Rough Guide to a Better World* in 2005, in partnership with the Development Awareness Fund of the Department for International Development. The not-for-profit book was distributed free via post offices in the UK. Last year, Rough Guides also published *The Rough Guide to Ethical Shopping*.

>In 2005, Penguin lent its voice to the fight to end extreme poverty, teaming up with the key campaigners leading the debate: The Commission for Africa, Professor Jeffrey Sachs of the United Nations Millennium Development Goals and Make Poverty History, to publish three major books on the subject. *Our Common Interest: An Argument* (Commissions for Africa) and *The End of Poverty* (Professor Jeffrey Sachs) dealt with the issues at the heart of the global G8 Summit. *Make Poverty History* sold on a not-for-profit basis with 25p from the sale of each copy going towards the Make Poverty History campaign.

>At the end of the year, Penguin published *Free Expression Is No Offence* in association with English PEN, as part of their campaign of the same title. English PEN exists to uphold writers' freedoms around the world; to campaign against the persecution and imprisonment of writers for stating their views and to promote the friendly co-operation of writers and the free exchange of their ideas. The book launched on 10 December 2005 to coincide with the United Nation's Human Rights Day, highlighting Penguin's ongoing commitment to the fundamental right of freedom of expression.

>Puffin supports many literacy and educational charities around Britain. These include the 7-Stories Centre for the Children's Book in Newcastle, which help with resources for teachers' centres in Britain and Ireland. Every two years, Puffin works with Comic Relief to produce a special picture book for young children. In 2004, it was an Angelina Ballerina story and in 2006 it will be a book by top children's illustrator, Lauren Child. All proceeds go to Comic Relief, a charity which aims to end poverty and social injustice.

In 2005, Puffin teamed up with the Football League, the Department for Education and Skills and the National Literacy Trust on an exciting new initiative, 'Playing with Words,' and through a donation of £10,000, used football and footballers to encourage boys and girls aged 9-13 to read. Puffin provided posters, stickers and a reading journal for the children to record their reading activities. The pilot scheme is currently in full flow with six schools participating in the test run.

>Annually, Penguin is one of several major World Book Day contributors. This is a charity that aims to introduce all children to the magic of reading. One element of this is the production of a small selection of books by the country's very best children's writers and illustrators, priced at just £1.

>Penguin is proud to be the UK publisher of *Anne Frank's Diary*. The company also contributes to the Anne Frank Exhibition, which travels the country educating young people about the need for tolerance and the issues of bullying and racial hatred.

>Dorling Kindersley has a history of publishing partnerships with charities including the Royal Horticultural Society, The Royal Society for the Protection of Birds and St. John Ambulance. DK has also developed a special relationship with UNICEF publishing books to raise awareness of the UN's Convention of the Rights of the Child. In 2005, Dorling Kindersley published the paperback edition of *Stars at Bedtime*, a selection of children's short stories chosen by celebrities, with donations from the book going to St. George's Hospital in the UK.

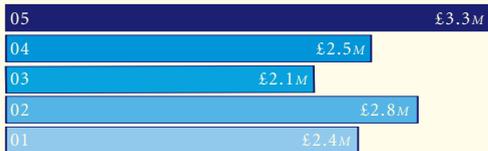
>Penguin Australia lends its publishing voice to raise awareness of various causes. One example is a series of anthologies entitled *Girls' Night In* and *Kids' Night In*. Every book sold includes a royalty donation to War Child, an international relief and development agency dedicated to providing effective and sustainable aid to children affected by war. To date, this publishing programme in Australia has raised over \$210,000 for the charity.

OUR COMMUNITIES

We focus our charitable giving on education and literacy projects around the world, whilst encouraging our employees to play an active part in their local communities.

In 2005 we donated more than £3.3m in cash donations – boosted by our one-off contributions to disaster relief efforts – and gave additional in-kind support such as employees’ time, advertising space, publishing expertise and book donations. In 2004, our total cash and in-kind support was £5.91m, as reported in the Giving List in *The Guardian* newspaper in November 2005. This equates to 1.4% of our pre-tax profit. 2005 numbers for cash and in-kind support will be reported later this year.

PEARSON’S CASH CHARITABLE GIVING*



*NOTE – 2004 AND 2005 NUMBERS INCLUDE OUR RELIEF FUNDS

In 2005, we continued to support and encourage our employees to play a part in their local communities, providing them with time, money, and Pearson products where appropriate. In fact, Pearson Education was named Outstanding Corporation of the Year by the Association of Fund Raising Professionals in the US, in their annual Awards for Philanthropy.

Via the Pearson Foundation in the US and via the efforts of our employees around the world, we provide ongoing financial and operational support to educational programmes that serve students, teachers, schools, and education-focused community organisations around the globe.

PEARSON’S CASH AND IN KIND CHARITABLE GIVING*



*NOTE – PER CENT CLUB SUBMISSIONS ARE REPORTED IN THE GUARDIAN’S GIVING LIST. 2005 NUMBERS ARE TO BE REPORTED LATER THIS YEAR

Disaster relief

We set up relief funds to collect Pearson and employee donations in response to the South Asian tsunami, the earthquake in Pakistan and India, the London bombings and the hurricanes along the US Gulf Coast. Together, these relief funds raised more than £1.04m (\$1.8m) for those affected.

In response to Hurricanes Katrina and Rita, Pearson people at our 20 locations across the United States initiated their own grassroots efforts to help – shipping food, clothing and supplies; organising fundraisers of all types; volunteering, and opening their homes to evacuees. Our businesses used their resources to assist in many ways:

> Pearson Government Solutions helped with staffing American Red Cross phone banks and donated meals to hundreds of volunteers in northern Virginia. We helped the Department of Health and Human Services to make contact with medical professionals volunteering to help, and provided hotlines for the Center for Diseases Control and Prevention.

> The Pearson School Systems teams worked with school districts to retrieve data and get their business operations back online. Our Pearson School and Higher Education text book publishers immediately sent books to schools and colleges, and Penguin provided more than 20,000 children's books which were distributed as part of our 'Family Book Night' programme in shelters and schools.

> In Mississippi and Texas, we equipped and staffed mobile classrooms with computers and digital curriculum materials. We also provided Penguin books for the affected children to take with them to their shelters or temporary homes. The Penguin Book Giveaway for Teachers proved especially popular, since the new books were the only educational resources available to the affected teachers.

Following the terrorist bomb attacks in London in July, Pearson set up a memorial fund with Birkbeck College, part of the University of London, to remember Benedetta Ciaccia who was tragically killed. Benedetta had worked at Pearson since 1999 and had just completed an IT foundation degree at Birkbeck College. The memorial fund aims to help talented IT students who have limited financial means. Pearson made an initial contribution to the fund and matched all employee donations, raising a total of £34,000.

Matched funding

We match employee fundraising around the world. In the UK, we run a payroll giving scheme which enables employees to make tax-free donations to their favourite charities, which we match up to £500 a year. Each year, we invite employees to apply for our Pearson Community Awards which recognise employees' commitment to local communities. In 2004 we awarded prizes to employees in the US, UK, Spain, Colombia and Australia.

Supporting local programmes

In 2004, we launched a three year programme with Book Aid International, to encourage reading in East Africa through a series of mobile reading tents. Together with the East African Book Development Association, the programme sends touring tents to remote areas in Uganda, Kenya and Tanzania, where schools lack access to local libraries. In 2005 we donated 24,000 books to the programme and gave a grant for the purchase of locally published books. We also funded training sessions for local employees to strengthen the impact of the reading tents. We share Book Aid's vision and like their approach to finding a sustainable solution by working with local schools, libraries and local publishing organisations. We will extend this relationship in 2006 to ensure that schools taking part in the reading tents project will each have a permanent collection of books – in effect, a library of their own.

The Pearson Foundation

Throughout the year, the Pearson Foundation – the US-based philanthropic arm of Pearson plc – works with leading businesses and civic organisations to support students and teachers in the classroom and to sponsor community-based education programmes around the world.

These public and private alliances included the following ongoing partnerships:

> **Bridgeit**, with whom we make use of mobile phones and satellite technology to deliver digital educational content to teachers and students who otherwise lack access to these resources. The programme expanded in 2005 to provide videos supplied by Pearson Digital Learning's KnowledgeBox to 210 schools in the Philippines. As a result, more than 60,000 elementary school children across the Philippines can now explore this customised library of timely educational material linked directly to the Philippine National Curriculum.

> **The Jordan Education Initiative**, with whom we have developed a comprehensive digital high school curriculum for English language learning, together with the US Government's Middle East Partnership Initiative (MEPI) and the Cisco Learning Institute. In 2005, Jordanian teachers were introduced to *Jordan English Interactive*, which is based on our *Longman English Interactive* programme. Students across Jordan will begin using the programme in 2006.

> **Jumpstart**, with whom we encourage talented college graduates to become pre-school teachers in under-served areas across the US. Throughout 2005, Pearson and Jumpstart have trained and launched the careers of more than 100 Teacher Fellows in 20 states. We expect to welcome an additional 40 Fellows in spring 2006. Fellows receive a stipend, intensive training, mentoring from a Pearson professional, and the resources needed for school success and professional development.

In addition, over 1,500 of our employees in 17 US states have offered their support to Jumpstart by adopting and supporting local pre-schools; reading to children and helping their parents understand the importance of children's literacy; raising funds; and offering business skills and support services to Jumpstart's national offices.

> **Make a Connection Through Art** and **The Mobile Learning Institute**, two programmes that deliver arts and curriculum support to teachers and students in the US. In 2005, we again participated in Nokia's Make A Connection Through Art programme, which gives middle-school students the opportunity to work directly with professional artists in the classroom. We again worked with Nokia to launch the Mobile Learning Institute, which delivers week-long digital arts residencies to middle school and high school classrooms, as well as corresponding summer programmes for teachers and students. More than 5,000 students took part in 2005 – a number we expect will double in the year ahead.

In addition, the Pearson Foundation continued to supply publishing and operational support to a number of youth-focused non-profit organisations, including The Intel Computer Clubhouse, The International Youth Foundation and The National Academy Foundation. For further information, please see www.pearsonfoundation.org.

Further worldwide community involvement

> **UK:** Last year, the FT donated advertising worth £530,000 to support a variety of charities and causes. The FT's UK edition has been donating advertising space to the UK's largest homeless charity, Crisis, for the past ten years. In 2005, the Crisis Christmas Challenge, which encourages corporates to donate their Christmas card budget to the charity, raised more than £785,000 – the most raised in its ten year history.

>The Financial Times operates an employee reading and mentoring scheme in London, in conjunction with Community Service Volunteers. Employees either act as a mentor to the children or help develop their reading skills at one of five schools local to the FT's head office in London. The scheme is growing, with more employees involved each year.

>**Asia:** Throughout 2005, Pearson helped Book Aid to distribute books and education materials to the 52 community libraries in Sri Lanka that were damaged or destroyed as a result of the tsunami in December 2004. Pearson donated 15,000 Longman, Ladybird, Puffin and DK books to help restock the libraries. We also made a local purchase grant to enable Sri Lanka's National Library Service and Documentation Board to buy locally produced titles written in Sinhala and Tamil.

>Pearson launched an appeal fund to support relief efforts in Pakistan, following the earthquake in November 2005. The fund, which raised over £130,000, will go towards educational and relief projects in the affected areas.

>The FT continues to develop its popular financial journalism training programme in China, which now includes Beijing University and Fudan University. The masterclass programme invites applications from experienced Chinese business journalists, who want to learn more about financial and economic reporting, feature writing, international trade and journalist ethics. The programme reflects the FT's belief that high-quality, independent news, comment and analysis is essential to the continued expansion of China's economy.

>For 2006, the Financial Times has committed to support Room to Read, a school construction programme in Laos, Nepal, Sri Lanka and Vietnam. Money raised by the FT and their donations has meant that 24 villages in Laos and Vietnam will have new schools, 31 villages across Asia will have bi-lingual reading rooms and 16,000 children in poverty stricken rural villages will have access to new educational facilities.

> **Australia:** Our publishing businesses in Australia have adopted The Smith Family Learning for Life Program, which provides financial assistance towards the educational needs of disadvantaged children. Over £10,500 was raised by employee activities and company donations in 2005.

> **South Africa:** Pearson continues its support for disadvantaged students at Cape Town University (UCT), by sponsoring annual bursaries for undergraduates in business courses, and the Chair of Economics Journalism at Rhodes University.

We raised money for the Orlando Children's Home in Soweto. Pearson and Penguin donated more than £6,700 to the orphanage, which gives children, from abandoned babies to teenagers, the best chance to develop and make a difference in the world

OUR PEOPLE



It may sound trite to say that our people are very important to us, but at Pearson we know that we are only as good as the people who work here. We aim to hire the very best people, keep them motivated and inspired, reward them for what they do and give them opportunities to grow and learn. In doing this, we believe we can build a community of people who want to do their very best for Pearson and for the success of our businesses.

Our goal is to be the best company to work for and each year we get closer to achieving that. We provide benefits, incentive plans and opportunities that rival those offered by our competitors.

We maintain our policies to reflect a good work-life balance, and introduce new initiatives to reflect the changing expectations of our people, and we continue to provide training and management development opportunities around the world to help people progress. We believe that all this helps to build a strong culture and reinforces our values of being brave, imaginative and decent.

Our culture and the Code of Business Conduct

We believe that our culture stems from the way we treat one another and the way we treat people outside the company. Our Code of Business Conduct sets out what we think is acceptable.

It is now in its third year. We contact Pearson employees each year to ask them to verify that they have understood and complied with the Code of Conduct, and to invite them to report any concerns or breaches of the Code to our group control team or via our confidential whistle blowing helpline. The head of group control follows up any reported breaches. This process goes beyond the requirements of corporate governance rules, which tend to focus on financial matters. Our view is that there is no point in having the Code if it does not have the trust and confidence of our employees. If it does not inspire that confidence, then we need to know why so we can do something about it.

All breaches of the Code are reported to senior management and the audit committee and none of those reported in 2005 were considered to be serious. You can find the Code at www.pearson.com/community/codeofconduct.htm.

Internal communications

Communicating with our people is high on our list of priorities. We have an internal communications programme which enables us to reach people through e-mails, employee roadshows and visits from our senior managers. We try to listen as much as we talk so that we can act upon ideas, suggestions and views. We send out a regular electronic newsletter to all employees, with the latest news from across the company, and Marjorie Scardino continues to email employees with important news. Employees are encouraged to email Marjorie directly with their feedback.

Helping people to continue learning

Our goal is to provide the structure and environment which makes it easy for talented people to reach their potential. We do this by setting clear targets for what people need to achieve in their jobs and we offer training and support to help them get there.

> **Performance reviews** take place in every part of our business each year to ensure that people know what is expected of them, receive feedback on their performance and set targets for the following year. All our people take part in a performance review at least once every year.

> **Career discussions** may be part of the formal performance review process, or addressed separately. We don't believe it is our job to manage people's careers – we believe that people want to be in control of their own destiny – but we do what we can to help them reach their aspirations.

> **Training** is provided to reflect the needs of specific job functions, regions or markets. We still do a lot of face-to-face training as it enables people to meet one another and share ideas; and increasingly we use technology to give people all around the world access to our core curriculum. Each year we assess where our training priorities lie and we constantly consider new ways to introduce familiar topics.

We believe that there's more to any job than simply delivering results, so we provide ways to help people see beyond their current responsibilities and understand more about Pearson.

We have [mentoring](#) programmes across the business. Some programmes are more formal than others but we have found that mentoring is an excellent way to connect people in quite different parts of the business, to provide an insight into previously undiscovered parts of the organisation, and to grow people's skills and aspirations.

We also help people [move around](#) Pearson. We have an internal website where people looking for a move can see all the available jobs across Pearson; additionally, senior managers identify people who would benefit from a move. Our talent management programme highlights where it may be beneficial to move people because of their job or their skills. Where a move involves relocating from one country to another, we have in-house expertise to help the transition go as smoothly as possible. Currently, we have 165 people outside their home country on secondment or permanent transfer and around the same number who are about to go on secondment or have just returned. Of our senior management group, over 24% have experience in at least two Pearson businesses or regions.

Moving people around the world can be a big step and for some positions where the job is focused on contacts or expertise in a particular market, it might not be appropriate. As a taster, we are keen to help people take a [short-term secondment](#) to another team. Our target is to introduce two new structured programmes to assist this initiative this year.

Balancing life and work

Whilst we're serious about what we do at during work hours, we encourage our people to get the right balance between their work and home lives. We have introduced initiatives in different parts of the world to help people make the most of their life outside work. These include job sharing, a support group for returning mothers, flexi-time to help people with child and elder care responsibilities, sabbaticals which can be used for a variety of reasons, and summer hours. In certain countries, we are able to offer tax breaks on home computing equipment and home study courses. Pearson Education US has been recognised for the sixth consecutive year by *Working Mother* magazine as one of the '100 Best Companies for Working Mother'. In addition, *Work Matters* magazine recognised Pearson Education's Prepare-to-Care programme, which offers one-on-one counselling to those who provide care for elderly parents.

Building skills and expertise for the future

In addition to the training and development we provide in each part of the business, we have a number of cross-Pearson initiatives to help build the skills and knowledge of our people for the future. One of these is Pearson's [senior leadership programme](#), the Senior Leadership Masterclasses. These are offered to senior leaders across the Pearson business around the world and so far almost all our senior management group has attended at least one.

Once a year, we bring together around 100 of our senior managers at the [Brighton meeting](#) to think about the world inside and outside the company and to consider how we can make both a better place. We also hold a separate meeting with 100 of our more junior high potential managers to address similar themes. This is called [Forum](#) and now boasts an alumni group of over 600 managers. We bring together the alumni group on a regional basis throughout the year and many new ideas have been generated from this group.

Building the skills base of our company also includes knowing who our very best talent are and how they plan to make the most of their skills to reach their potential. Each year, as part of the annual talent review, Marjorie discusses with the head of each business and function across Pearson, people who may one day have a significant impact on the company. We aim to create a development plan for each person so that we can retain people and develop them for the future. The talent review is built around an objective set of criteria called the Leadership Profile, which describes what's important for our leaders.

Benefits beyond salary

We see reward going beyond the issue of salary and – in addition to competitive pay – we follow a set of global principles to guide the way we provide [benefits](#). These principles include recognition for excellent performance and innovation; encouraging share ownership irrespective of seniority; and fair treatment of all employees taking into account work-life balance. Individual packages are set locally but aim to include incentives, health, welfare and retirement plans and opportunities to acquire company stock. Benefits packages can be confusing so we've worked hard to make them clear and easy to understand. We have an internal website where all employees can check their personal details.

Looking ahead

We will be running our biennial employee opinion survey during 2006. We take a sample of 5,000 employees, – around 15% of our people worldwide – and ask them to complete the survey, which is useful in highlighting areas on which we need to focus in the years ahead.

DIVERSITY



We aim to be:

> A diverse company – a company that reflects the societies in which we operate. We want to attract the very best candidates, at all levels, regardless of race, gender, age, physical ability, religion or sexual orientation. We do not set specific, numerical targets for recruitment or promotion of particular groups, but we place great emphasis on ensuring that the pool of applicants for our jobs is diverse.

> A fair company – where pay, retention, promotions and redundancies are determined without discrimination.

> A company, which uses diversity to help achieve our commercial goals and targets new opportunities in growing markets.

We are now in the fourth year of our diversity plan. Our goals are to have diversity at the heart of everything we do and to be at least the best in our industry for diversity.

Since our last report, we have made progress in the following areas:

> **Promotion and retention:** We have held focus groups in a number of our locations to find out more about the barriers to promotion for women and people from diverse backgrounds. We are piloting employee networks where employees can learn from role models all over Pearson and share common experiences.

> **Work with our preferred suppliers:** In the UK, where we handle the majority of our recruitment through agencies, we have set up a preferred supplier list for recruitment agencies and worked with them to encourage more diverse shortlists of candidates. We are now working with a number of specialist executive search firms to help us with the diversity of our mid-career hires.

- > **Internships:** We have extended summer internship programmes in the US, UK and Hong Kong, resulting in 15% more interns from diverse backgrounds during 2005. The vast majority are keen to work for Pearson in the future and in 2005 we made four permanent hires in the UK from the scheme.
- > **Recruitment:** We continue to focus on recruiting students from diverse backgrounds by holding open days, attending careers fairs and working with student societies and university careers services. Our US college recruiting programme has also grown significantly in the past year.
- > **Websites:** We are continually updating our diversity websites for both internal and external users with news stories from across the business. The website is available at <http://diversity.pearson.com>.
- > **Training:** We have designed diversity training at induction level for our recruiters, our managers and our top executives, and have begun to roll it out across the company.
- > **Senior leadership profile:** Our top 100 business leaders are formally measured during the appraisal process, on how they are helping to drive diversity throughout their businesses.
- > **Community programmes:** We have evaluated the impact of our community and corporate social responsibility programmes on people from diverse backgrounds. Our focus on inner-city initiatives and under-served communities means that much of our activity directly benefits people from these groups.
- > **Pay:** We have evaluated the pay of men and women in top management and are satisfied that we do not discriminate against women by paying them less than men for similar jobs.
- > **Supplier diversity:** We have established a supplier diversity policy, which is currently being disseminated across the business.
- > **Commercial achievements:** We have enjoyed a number of commercial successes this year including increased revenues from the sale of *Made In Britain – Inspirational Role Models from Ethnic Minority Communities*. The African American Odyssey textbook holds a 50% US college market share and was selected by the city of Philadelphia, Pennsylvania, as a required text for all high school juniors.

Awards

Pearson's diversity efforts have been recognised with a number of awards:

> [Race for Opportunity Gold Award](#) – we moved from 11th place in 2004 to ninth place in 2005.

> [Penguin US named New York University's Diversity Employer of the Month, January 2005.](#)

Data

We now have solid data across Pearson which enables us to track the success of our diversity policies.

In addition to this, we also now collect the following data:

> The proportion of women and people from diverse backgrounds in management.

> The proportion of women and people from diverse backgrounds in senior management.

> The proportion of women and people from diverse backgrounds participating in development programmes.

Goals for the year ahead

> Show evidence of progress in recruitment of people with diverse backgrounds for both entry level and management positions.

> Introduce networking groups in the US and UK to develop future leaders and retain key employees. For more information on diversity at Pearson please see <http://diversity.pearson.com>.

LABOUR STANDARDS AND HUMAN RIGHTS



Pearson employs over 32,000 people around the world and our network of suppliers employ many more. We want Pearson to be known as a company that is brave, imaginative and decent. To help guide us, we have our Code of Business Conduct. This outlines the standards we expect, not only of our employees, but of everyone connected with our company, including partners and suppliers.

We are also guided by the UN Global Compact's 10 principles on labour standards, human rights, business ethics and the environment. Pearson became a founding signatory to the Global Compact at the United Nations in 2000 and served on the Advisory Council.

Our business

We have applied the Global Compact to our own business and created our own set of guidelines on labour standards and human rights which we use to assess and report on our performance. These guidelines are:

- > **Diversity:** We offer equal employment opportunities to all. The people we recruit and promote are selected on merit and suitability, and are not discriminated against because of gender, race, origin, background, religion, marital status, sexual orientation, disability or age.
- > **Employment conditions:** We comply with the relevant laws relating to employment and employment conditions in each country where we operate. We remain committed where such laws are lacking, to introducing our own guidelines. Subject to relevant laws in the countries where we operate, we fully respect the right of our people to freedom of association and representation either through trade unions, works councils, or any other appropriate forum.
- > **Workplace violence:** We are satisfied that we have systems in place to deal with physical and verbal abuse, or the threat of it, and any other form of intimidation within our workforce.

> **Exploitation of labour:** We recognise that labour standards and conditions may vary from country to country. Pearson companies conduct business in many of the poorer countries of the world where living standards are low. Where Pearson companies directly control their activities in a country, we ensure that our people have satisfactory wages and working conditions, and that there is no exploitation of labour. Working terms take account of local economies.

> **Human rights:** Our products are produced and manufactured across the world and sold in many countries, often by companies we do not own which are operating on our behalf. In the course of conducting business in 'high risk areas', we are committed to ensure that we are not complicit in human rights abuses and continue to monitor this. If we were to find ourselves inadvertently implicated in human rights abuses, we would take immediate steps to rectify the situation.

In 2001, with the assistance of independent consultants, we put in place a procedure to assess our performance against these guidelines. We carry out an annual survey among our human resources professionals focusing on these guidelines. The 2005 survey covered 90 business operations in 45 countries. Together, the business operations surveyed employ over 30,500 people out of a current universe of over 32,000 employees. The survey report can be found at www.pearson.com/community/progresscommunication.htm.

Based on this report, employee feedback to our Code of Business Conduct and our social, environmental and ethical risk assessment processes, we can confirm that we have continued to meet the guidelines we have set ourselves.

Our suppliers

Pearson spends over £2bn each year with our suppliers. Our most significant categories of supply are:

> Paper

> Production, primarily printing

> Distribution

The majority of our significant suppliers are located in North America and in Western Europe. However, some of our suppliers, particularly those providing print and production services are based in less developed countries. As our Code of Business Conduct and adherence to the Global Compact imply, we have certain principles we expect of all our suppliers wherever they are in the world. Since signing the Global Compact, we have:

- > Written to many thousands of our suppliers to advise them of our commitment to the Global Compact.
- > Introduced specific contractual commitments relating to labour standards and human rights into our key contracts, particularly those that relate to paper supply, printing and distribution.
- > Established an ongoing programme of supplier visits to assess compliance with the Global Compact.
- > Worked with the UK book publishing industry to introduce common standards on labour standards and human rights.

In addition to our own programmes, Pearson is a strong supporter of industry co-operation to set common supplier standards. Industry co-operation has the dual advantage of increasing our influence as well as reducing the compliance costs for our supplier partners. This is why Pearson was one of the founding members of Publishers Resolution for Ethical Manufacturing Standards (PRELIMS) in the UK. PRELIMS introduced a common set of standards based on an existing model developed by the toy industry. All signatories commit to work only with printers that sign up to the standards, including an independent audit. In addition to our UK operating companies, our local business, Pearson Education Asia, has also adopted the PRELIMS standard.

We set a number of business targets in this area for 2005. Here is how we performed against them:

Business targets	How we performed
To pilot an initial survey on labour standards and human rights issues for completion by potential new suppliers.	Drafted
To carry out an in-depth programme of supplier visits in India focusing on labour standards and human rights issues.	Exceeded (visit programmes in India and South Korea)
To include a review of labour standards and human rights issues into commercial supplier visits conducted by members of the purchasing and production teams.	Achieved
To consider with the heads of purchasing and production opportunities for further improving how their teams are involved in reviewing performance of suppliers against the Global Compact.	Achieved
To continue to work with the UK book publishing industry to promote common standards on labour standards and human rights with suppliers.	Achieved

For 2006, our targets in this area are:

- > To carry out an in-depth programme of supplier visits in South Africa and parts of Latin America focusing on labour standards and human rights issues.
- > To meet our commitment to PRELIMS to only use suppliers who are committed to attain accreditation and meet social accountability standards by January 2007.
- > To review the opportunity to extend the work of PRELIMS to our North American operations.
- > To consider with the heads of purchasing and production opportunities for further improving how their teams are involved in reviewing performance of suppliers against the Global Compact.

ENVIRONMENT



As a business based on ideas, our direct environmental impact is limited, but we are committed to understanding the effect we have on the world around us and to setting targets to manage and reduce that impact. Environmental responsibility is not new to Pearson. We introduced an Environment Policy back in 1992. This was reviewed and updated in 2000 and again in 2004. The full policy can be viewed at www.pearson.com/environment. We are also guided by the UN Global Compact's principles on the environment.

For us, our impact falls into two distinct areas – aspects under our direct control, and areas where we can exert influence over the practices of our suppliers. Areas of greatest direct impact for Pearson are energy use, unsold product, waste and business travel. The most significant environmental issues in the supply chain relate to the purchase and use of paper, use of third party printers and distribution.

In 2005, we made good progress in furthering environmental management within the company. Here are some highlights:

- > We continued to improve the quality and quantity of the data collected and reported within our environmental report.
- > We established an environmental register of our major printer suppliers, which will be updated regularly.
- > We set up a database of the sources of wood, certification methods used and recycled content for the paper supplied to us. This has allowed us to set improvement targets for 2006.
- > We were ranked top of our sector by Business in the Community in the Environment Index 2004.
- > We reported on our progress to the UN as part of our commitment to the Global Compact.

> We increased the efficiency of our use of electricity and gas by a further 2.7% compared to our target to reduce electricity and gas use levels across the company by 10% by the end of 2008.

The environmental considerations relating to the purchase of paper continue to be a priority for us. Following our introduction of a paper purchasing policy in November 2003, Pearson has further developed its responsible paper sourcing practice. As part of an action plan on responsible paper sourcing agreed with the WWF UK Forest & Trade Network, we established a database on the environmental characteristics of the paper we purchase. We have also met many of our key suppliers to discuss and review environmental issues including certification and increasing the recycled content in the paper we use in our books. This has allowed us to set specific targets for our operating companies for 2006.

Our full environment report includes detailed performance data relating to our energy and water use, waste reduction and recycling, business travel and emissions to air relating to our operations. The report can be found at www.pearson.com/environment

MANAGING OUR RISKS



We consider social, environmental and ethical (SEE) risks no differently to the way we manage any other business risk. As a result, their evaluation and mitigation is incorporated into our general risk management framework.

Our operating companies are responsible for managing their own risks. As part of our risk reporting systems, they review and report on their business risks, including SEE risks, to our group control function on a semi-annual basis. The results of these reviews are reported via the audit committee to the board. This reporting is supplemented by risk review sessions – facilitated by group control with the operating companies and the Pearson Executive Committee. In 2005, we carried out an independent review of the SEE risk processes in our UK businesses.

Our 2005 risk assessments did not identify any significant under-managed SEE risks, nor have any of our most important SEE risks, many concerned with reputational risk, changed year on year.

> **Journalistic/author integrity:** Fundamental to both our newspaper and publishing operations. Our newspapers have clearly articulated journalistic policies and procedures covering journalistic standards of conduct.

Within the book publishing businesses, editorial and legal review processes are in place to ensure that our authors' independence and freedom of speech is respected and maintained, whilst protecting us legally and on copyright infringement.

> **Ethical business behaviour:** Our widely published Code of Business Conduct outlines how we behave as a business. To ensure compliance, we ask employees on an annual basis to confirm that they understand the Code and to report any breaches. Our confidential whistle blowing help lines are another vehicle by which unacceptable behaviour can be reported.

> **Compliance with UN Global Compact standards:** As a signatory to the UN Global Compact it is important that both we and our suppliers comply with these guidelines. Our greatest exposure is where we source printed material from developing countries, where less rigorous standards may apply. Both operating company and corporate employees regularly visit suppliers in these countries to ensure compliance.

> **Environmental impact:** Compared to many other businesses we do not believe that our products have significant environmental impact. However, wherever possible we strive to understand the effect of printed material on the environment. We work with suppliers to use renewable sources of paper and recycled paper where available and economically viable. In the UK, we are lead participants in an industry-wide initiative involving both publishers and retailers, which looks at the process of book returns – a feature of our industry.

> **People:** People are key to our business. Our human resource policies are designed to attract and retain talented and motivated employees who enjoy and contribute to the growth of Pearson.

RATING OUR PERFORMANCE



In 2005 we set out to improve in the key indices of social responsibility. Here are some highlights:

- > Improved score in the Dow Jones Sustainability Indices.
- > FTSE4Good member.
- > Improved ranking in the Top 100 table of companies in the 2004 Business in the Community Corporate Responsibility Index.
- > Ranked as a Top 100 company in the Most Sustainable Companies in the World listing by Innovest for a second year.
- > Viego assessed Pearson as a sector leader for its management of environmental and human rights responsibilities.
- > Featured for the first time as one of the top 10 best companies in the BITC Race for Opportunity rankings.

Dow Jones Sustainability Indices

Pearson again improved the company score in the Dow Jones Sustainability Indices in 2005. We were included in both the DJSI Global Index and the DJSI STOXX Sustainability Index of European Companies.

The DJSI Global Index consists of more than 300 companies that representing top 10% of the largest 2,500 companies in the Dow Jones Global Indexes – based on an assessment against a series of sustainability criteria. The DJSI STOXX Sustainability index tracks the financial performance of the top 20% of European companies drawn from the largest 600 companies in the Euro STOXX index.

FTSE4Good

In June 2001, FTSE a joint venture half owned by Pearson and half owned by the London Stock Exchange – introduced the first of a series of ‘socially responsible indices’ alongside its other financial products. The FTSE4Good Index series is designed for use by retail SRI fund products and for fulfilling institutional mandates. All licensing revenues from FTSE4Good indices are donated to UNICEF.

FTSE4Good excludes certain industries including tobacco and armaments. Companies must pass the FTSE4Good selection criteria relating to environmental sustainability, relationships with stakeholders and upholding and supporting human rights. An independent advisory committee sets the selection criteria. Membership is subject to a bi-annual review. Pearson has been included within the FTSE4Good indices since inception.

Business in the Community Corporate Responsibility Index

Business in the Community (BITC) introduced the Corporate Responsibility Index in 2002. The index is a voluntary self-complete survey which benchmarks corporate responsibility performance. In 2004, Pearson rose in the rankings of the top 100 ‘Companies that Count’ with the company score rising from 58% in 2002 to 84% in 2004. Results for 2005 will be released in May 2006.

Innovest Strategic Value Advisors

Pearson has been included for the second year in a ranking of the most Sustainable Corporations in the World, released at the World Economic Forum in Davos in January 2006. The ranking was produced by Innovest Strategic Value Advisors, together with a Toronto-based CSR publisher, Corporate Knights. The Global 100 were selected on the basis of performance and strategic ability to manage their triple bottom line: society, environment, and economy.

Vigeo

Vigeo is a corporate social responsibility (CSR) ratings agency based in France, offering company CSR profiles both to the corporate market as well as to investors. Ratings are based on an analysis of publicly available data together with a company interview. Vigeo scores company performance on human resources management, the environment, customers and suppliers, corporate governance, community involvement and human rights. Pearson achieved sector-leading scores for its management of the environment and human rights.

Race for Opportunity

Pearson was named one of the top 10 best companies in the UK's Business In The Community Race for Opportunity 2005 rankings. Named 'most improved performer' the previous year, Pearson gained particularly high marks in the areas of leadership and marketing in 2005. The annual ranking aims to benchmark company performance and progress in the race arena, across a variety of criteria including employment, engaging ethnic minority businesses, marketing and inclusive community involvement programmes.

UN GLOBAL COMPACT



Pearson was a founder signatory of the UN Global Compact which sets out worldwide standards for the corporate sector. The 10 principles of the UN Global Compact are:

HUMAN RIGHTS

- > Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- > Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

- > Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- > Principle 4: the elimination of all forms of forced and compulsory labour;
- > Principle 5: the effective abolition of child labour; and
- > Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- > Principle 7: Businesses should support a precautionary approach to environmental challenges;
- > Principle 8: undertake initiatives to promote greater environmental responsibility; and
- > Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- > Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.