

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.



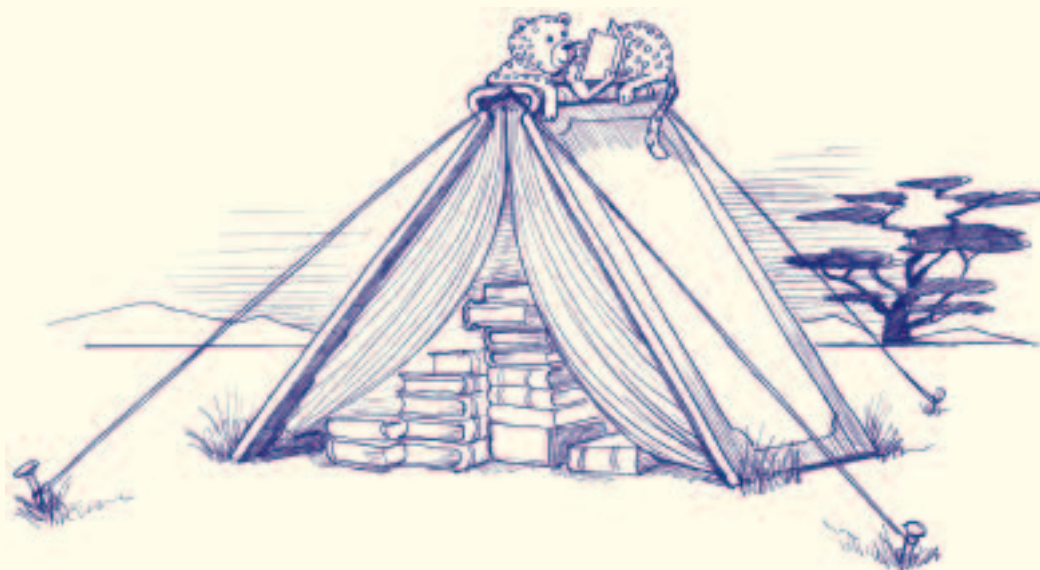
David Bell, *Director for people*

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.

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

OUR EDUCATION PRODUCTS



At Pearson we combine our commercial purpose as an education and information company with a wider social purpose: to help people of all ages get on in their lives. This means that our greatest social impacts arise from our core products and services. To help us measure this impact we have committed to provide scientific validation for our education products. We've made good progress in this area over the past year. Here are some examples:

- > In 2004 Pearson Education's [School](#) companies commissioned 21 independent scientific research studies to validate the effectiveness of its mathematics, reading and science products, all intended to meet the research design criteria of the US Department of Education's What Works Clearing house. By sponsoring these new independent studies, Pearson Education made a major commitment to provide scientific evidence to validate the effectiveness of all of our major programmes, aligning them with the No Child Left Behind education act.
- > [Pearson Knowledge Research](#), a part of the Pearson Knowledge Technologies acquisition in June 2004, is recognised for its groundbreaking research in developing innovative educational technologies, and is noted for its text understanding technology using meaning-based research, and for its automated essay scoring technology.

- > [LessonLab](#) and the [LessonLab Research Institute](#) provide continuing education for teachers and school administrators through traditional and research-based distance learning programmes. For a three-year project funded by the National Science Foundation, scientists and researchers from LessonLab and California Polytechnic-Pomona, led by Dr. Kathleen Roth, are studying the impact of structured, collaborative analysis of science lessons on teacher learning. Using LessonLab's online, interactive video software platform and Cal-Poly's scientific expertise, they are providing teachers with science lesson videos and a set of online analysis tasks to guide them exploring the content and the pedagogy in science lessons.
- > Currently in its first year and funded by the Institute of Education Sciences, the [Algebra Learning for All](#) project will focus on the pre-algebra curriculum already in use from Pearson Scott Foresman in District 1 of Los Angeles Unified School District. Directed by LessonLab's Dr James Stigler, the goal is to implement two professional development programmes to find practical ways to improve teachers' knowledge of mathematical content for its use in the classroom and students' mathematical achievement.
- > With funding from numerous foundations, the acclaimed Waterford Institute developed the research-based [Waterford Early Reading and Early Math and Science curricula](#). Distributed by Pearson Digital Learning, these programmes are validated by 10 years of research, including published efficacy studies conducted by the Waterford Institute and other research organisations.
- > Originally developed by research-based computer-aided instruction pioneer Dr Patrick Suppes of Stanford University, [SuccessMaker](#) has a long history of proven success in schools and districts across the US and around the world. The SuccessMaker Enterprise digital courseware is scalable and research-based, aligned to state and local standards, and dynamically adapts to individual student learning levels. It is aligned with the instructional standards outlined by the International Reading Association and addresses five essential components of reading: phonemic awareness, phonics, reading fluency, vocabulary development and reading comprehension. SuccessMaker gives educators the ability to forecast and manage achievement on high-stakes tests. Numerous research studies and successes demonstrate improved test scores, student performance and product efficacy.

- > **NovaNET** is a computer-based, online courseware system that links educators with progressive technology and proven teaching methods. The NovaNET learning system is the culmination of more than 35 years of educational research and technological development that started at the University of Illinois at Urbana Champaign Computer-based Educational Research Laboratory (CERL). Initially created with a grant for the National Science Foundation, the curricular materials completed under the grant are the foundation of what has grown into the NovaNET system – a computer-based learning system that offers an extensive online library of interactive instructional courseware, providing learners and teachers with access to thousands of hours of self-paced, mastery-based instruction.
- > In September, **Pearson Education** launched the first formative assessment products designed to forecast student growth toward US state performance standards. Released for the 2004-2005 school year, the first two products in the **Progress Assessment Series** product line, PASeries Reading and PASeries Mathematics, use the scientific Lexile® scale for reading measurement and its new companion Quantile™ scale for mathematics to evaluate student progress.
- > **Pearson Assessments** began marketing the **BASI™ (Basic Achievement Skills Inventory)** this past year. Developed in association with Achilles N. Bardos, PhD, co-author of the GAMA™ (General Ability Measure for Adults) test, the BASI series comprises multi-level, norm-referenced achievement tests for children and adults that may be group- or self-administered. Providing both comprehensive and survey versions, the BASI series helps present a complete evaluation of academic skills. These convenient tests yield standard scores, national percentile rankings, grade equivalency, age equivalency, and performance classification by learning objective – without requiring individual administration or lengthy testing.

Normed during the 2002–03 school year and highly correlated to the leading individually and group-administered achievement and intelligence tests, the BASI series provides a current, valid, and reliable assessment tool.

Pearson Early Learning has collaborated with the most respected leaders in early childhood development to create assessment and research-based learning programmes for children from birth through age 12. They include:

- > **Opening the World of Learning** is an integrated curriculum for pre-school that incorporates the latest research-based early literacy instructional strategies. Our award-winning Penguin, Putnam, Dutton, and Dorling Kindersley children's books are integrated into the programme to engage children in both fiction and non-fiction, and model conversations for teachers to foster learning new vocabulary and concepts.

- > **The Early Screening Inventory-Revised** is a developmental screening for three to six year olds. It identifies children who may need special education services in order to perform successfully in school. Extensive research has shown the ESI-R to be both highly reliable and highly valid.
- > **The Ounce Scale** is the first performance assessment tool developed for infants and toddlers. The Ounce Scale provides an interactive system of documentation, monitoring, and evaluation of development for Early Head Start programmes, early intervention programmes (including children at risk for special needs or those with disabilities), and other home and centre based infant, toddler, and preschool childcare in the community. It provides a meaningful way to evaluate children's accomplishments, areas of difficulty, and approaches to learning. There is guidance to thinking about future goals so that family and caregivers can work together. Families and caregivers using the Ounce Scale learn to observe their children and to use this information to enhance relationships and support development.
- > **The Work Sampling System** is a research-based performance assessment designed to assess children's learning and improve instruction from age three to 12. The Work Sampling System reflects current thinking in standards and assessment, and focuses on high standards of learning and instructionally meaningful, developmentally appropriate teaching. The programme provides insight into how an individual child learns and targets the following areas: Personal and Social Development, Language and Literacy, Mathematical Thinking, Scientific Thinking, Social Studies, the Arts, and Physical Development and Health.
- > **Get Ready to Read!** is an easy-to-use, 20-question screening tool that helps pinpoint a child's readiness for learning reading and writing and provides activities to develop young children's readiness skills.
- > **Read Together, Talk Together** is a reading programme for children from two to five years old based on dialogic reading. Built on research-based language and literacy activities, dialogic reading is a shared picture book reading experience in which adults read to children, prompt them with questions, expand on their answers, and praise their storytelling abilities. In dialogic reading, children and adults have a conversation about a book. The programme is also used for parenting education to support the parents' engagement in the children's education.

OUR PUBLISHING

Pearson is the world's largest book publishing company and with this comes a huge sense of responsibility. Every day our people make editorial judgements – be it about the authors we sign; the books we publish; the online products we run; the stories we edit – that can have a big impact on our readers and users. Freedom of speech and editorial independence have always been at the heart of our businesses:

The Penguin Group

When Allen Lane founded Penguin back in 1935 his mission was to bring great literature to the masses with the first Penguin Classics costing the same as a pack of cigarettes. Since then, Penguin has been the champion of free speech, not being afraid to court controversy along the way. For example, in the 1960's Penguin published the first unabridged version of *Lady Chatterley's Lover* and in 1988 stood by its publication of Salman Rushdie's *Satanic Verses*.

Penguin lends its publishing voice to raise awareness of various causes. Here are some recent examples:

- > [Rough Guides](#), our travel guide imprint, published and printed two million copies of *The Rough Guide to a Better World* in 2004 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 June 2004 [Puffin](#) published *Making it Home* to coincide with Refugee Week in the UK. Puffin partnered with the International Rescue Committee to publish this collection of real-life stories told by refugee children around the world. All royalties are donated to the charity.

> **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 to publish books to raise awareness of the UN's Convention of the Rights of the Child. These include *Children Just Like Me* and *A Life Like Mine*. In 2004 Dorling Kindersley published *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.

The Financial Times Group

The *Financial Times* 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 online sites is 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:

- > Last year the FT donated advertising worth some £380,000 to support a variety of charities and causes. For example, the UK edition of the FT has been donating advertising space to the UK's largest homeless charity, **Crisis**, for the past nine years. In 2004, Crisis' Christmas Challenge, where companies donate their Christmas card budget to the charity, raised more than £600,000. All four editions of the FT also donated free advertising space to the aid agencies appealing for funds to support the Tsunami relief effort.
- > The FT is partner to a number of not-for-profit organisations such as the UK's **Business in the Community** and the **International Prince of Wales 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 and help to put social responsibility on the mainstream business agenda.
- > In 2004 the FT partnered with the Employers' Forum on Disability, the UK's leading organisation for understanding and promoting disability in the work place, to launch **The Disability Standard**. The Standard and accompanying Best Practice directory is a management tool to help UK businesses achieve the changes required under the Disability Discrimination Act.

- > 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 company between Pearson and the London Stock Exchange, include a series of 'socially responsible indices' alongside its financial products. The FTSE4Good Index series is designed for use by retail SRI fund products and for fulfilling institutional mandates. These tradable indices form part of a market response for encouraging positive responsible practice. All licensing revenues from FTSE4Good indices are contributed by FTSE to UNICEF.

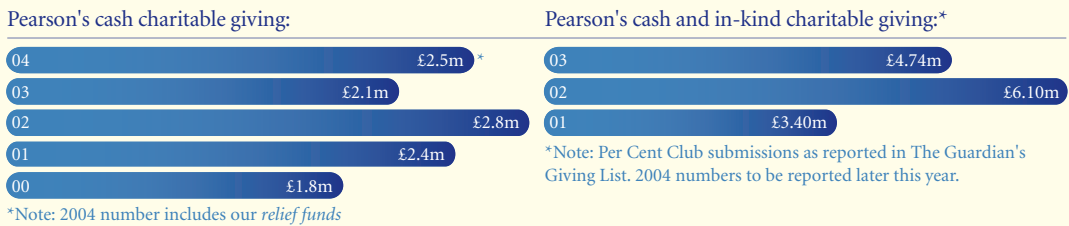
Pearson Education

Every day Pearson Education produces textbooks, multimedia programmes and online services for use by students, teachers and professors. Our products – whether it's a child's first reading book, a school textbook, a digital college programme or school or professional certification – help people of all ages get on in their lives. This makes it hard to separate our impact on society from what we do everyday but here are a few noteworthy examples:

- > In early 2005 Pearson Allyn & Bacon agreed to donate its share of the proceeds from its [Intervening for Literacy](#) textbook to Jumpstart, our not-for-profit partner in the US which pairs college students with pre-schoolers in low-income communities for one-to-one attention in literacy and language skills. The book is modelled after Jumpstart and sets out what volunteers and tutors need to know about early intervention for literacy development, and what they need to do.
- > In 2004 Pearson Education partnered with Wharton School at the University of Pennsylvania to launch Wharton School Publishing. The debut title was C.K. Prahalad's [The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits](#). Prahalad argues that the world's billions of poor people have immense untapped buying power and shows why business can't afford to ignore 'Bottom of the Pyramid' markets. Prahalad challenges business to wake up and 'plug' in without regard for politics, personal gain or a concern about towing the party line. Amazon.com voted this as its top business book of 2004.
- > Our Longman brand is active in [HIV and AIDS awareness](#). Since 1997 Longman has published a range of books that tackle HIV/AIDS. The programme includes the Sara series, the product of a major research product undertaken by UNICEF on the empowerment of the girl child in Africa.

OUR COMMUNITIES

We focus our charitable giving on education and literacy projects around the world. In 2004 we invested £2.5m in cash donations and gave additional in-kind support such as staff time, advertising space, publishing expertise and book donations. In 2003 our total cash and in-kind support was £4.74m as reported in the Giving List in *The Guardian* newspaper in November 2004. This equates to 1.2% of our pre-tax profits. 2004 numbers will be reported later in the year.



2004 saw the launch of the [Pearson Foundation](#), a not-for-profit organisation established to extend our commitment to education in partnership with non-profit and public interest organisations. Though it's only just begun, we have already partnered with a number of leading businesses and civic organisations to support students and teachers in the classroom and to sponsor community-based education programmes around the world. These include:

- > **Bridgeit:** An innovative programme that uses mobile phones and satellite technology to deliver our digital educational content to teachers and students who otherwise lack access to these resources. This programme was launched in the Philippines in 2003 in partnership with Nokia, the International Youth Foundation and the United Nations Development Programme. Initial research shows a distinct improvement in academic performance.

- > **The Jordan Education Initiative:** A public-private partnership with Cisco Learning Institute and the US State Department's Middle East Partnership Initiative to supply English Language Teaching (ELT) materials and training to teachers and students in Jordan.
- > **Make a Connection Thru Art:** A partnership with Nokia and US not-for-profit Big Thought to provide arts education and life-skills programmes to middle-school students in US classrooms.
- > **Intel Computer Clubhouse Network:** An alliance with Intel to adapt our Digital Arts Activity Library for use across the Computer Clubhouse Network's innovative after-school community centres. These bring computers and technology to young people in around 100 underserved communities around the world.

Jumpstart: In 2001, Pearson partnered with Jumpstart, a US non-profit organisation that pairs college students with pre-schoolers in low-income communities for one-to-one attention in literacy and language skills. The Pearson Teacher Fellowship programme encourages talented college graduates to become pre-school teachers in under-served areas across the United States. Now in its fourth year, Pearson and Jumpstart have trained over 70 Fellows in 15 locations across the US and will welcome an additional 30 Fellows in spring 2005. Fellows receive a stipend, intensive training, mentoring from a Pearson professional, and other important resources needed for school success and professional development.

To date, over 1,000 of our US employees have offered their support to Jumpstart, impacting the lives of over 10,000 children across the US. They've done this in a number of ways: adopting a local pre-school; reading schemes; raising funds including \$100,000 at a Jumpstart Golf Tournament; and offering business skills and services.

In 2004 Pearson nominated Jumpstart for the Committee for Corporate Excellence's annual non-profit organisation of the year award. From the hundreds of entries nominated from all the top global corporations, we are proud that Jumpstart was honoured with this award.

Book Aid: we have been long-term partners with Book Aid International, an international development agency that makes books and educational materials available in the developing world. We share Book Aid's vision and particularly like its approach to finding a sustainable solution by working with local schools, libraries and publishing organisations. Over the years we have sponsored Book Aid in a number of ways including cash and book donations as well as publishing projects, including Puffin's publication of a book of short stories in celebration of Book Aid's 50th anniversary with all royalties going to Book Aid.

In 2004 we decided to take this one step further by investing in a three-year reading tent programme to promote literacy and reading enjoyment in East Africa. In partnership with the East Africa Book Development Association, the programme sends touring tents to remote areas in Uganda, Kenya and Tanzania where schools and libraries lack access to local libraries. The tents are stocked with books and run two-day reading events such as storytelling and reading and writing competitions. After each workshop, the participating schools and communities receive a library of books. In 2004 we donated over 22,000 Longman books to the programme. Pearson is also funding training sessions to strengthen the delivery and impact of the Reading Tent project in both the short and long term.

Our employees. It is important to us that we support and encourage our employees to play their part in their local communities. We do this by providing them with time, money and products. For example, we match employee fundraising around the world and, in the UK, we run a payroll giving scheme where employees can make tax-free donations to their favourite charities which we will match up to £500 a year.

Each year we invite employees to apply for our Pearson Community Awards to recognise their commitment to their local communities. In 2004 we awarded seven prizes (\$500 plus \$2,000 to a chosen charity) to employees in the US, UK, Spain and Australia.

In 2004 we witnessed a number of unforeseen tragedies. We are proud that, in all cases, Pearson people displayed a passionate commitment to play their part. To capture this we set up three relief funds. In each case, the amount raised was a combination of corporate and employee donations. The Tsunami appeal will be accounted for in our 2005 accounts:

- > **Fondo Recoletos-Pearson Víctimas 11-M:** In the wake of the 3-11 Madrid bombings Pearson and Recoletos jointly set up a Disaster Fund kick-started by donations of €150,000 made by both companies. Employees were invited to donate to the fund bringing the total raised to €318,586 which was donated to the Fundación Víctimas del Terrorismo, a respected Madrid-based non-partisan NGO which acts as an umbrella organisation for charities involved in terrorism relief work. The money was invested in a number of projects including awards worth €6,000 each to 30 schoolchildren who lost one or both parents on 3-11.
- > **Beslan appeal:** In partnership with our Russian newspaper *Vedomosti*, Pearson set up an appeal fund to support children affected by the tragic events in Beslan. Pearson made an initial donation of £5,000 and employees raised additional funds boosting the total to £19,000. Working with a charity on the ground in Russia, Lifeline, we invested this money in two projects: a telephone helpline service providing adults and children with advice on how to receive compensation and treatment and a peer-to-peer support group for teenage victims.
- > **Tsunami appeal:** Like many other companies, Pearson established its own Tsunami relief fund. Kick-started with a donation of £100,000 from Pearson, we have raised over £350,000 with more than 3,500 of our employees pledging donations, all of which were matched. We divided this money between emergency relief through the International Red Cross and educational regeneration through our long-term partner Book Aid and a partnership with Penn University.

OUR PEOPLE



Everything we create – ideas, stories, newspapers, images, books, websites – is only as good as our people’s minds and imaginations. Our goal is to be the best company to work for in the world so that, though all our people could leave tomorrow, they choose to stay. Our first step is to provide benefits, profit share plans, development programmes and a culture that rivals anywhere else.

2004 employee survey

In 2004 we conducted our biannual employee survey which went to 9,000 employees right across Pearson. As in previous years, we have analysed the results and used them to shape our action plan for the year. We scored strongly in areas such as benefits, ethics, working conditions and diversity, but less strongly in others such as promotions and creating a stress-free environment so we are focusing our attention on improvement in these areas.

Developing talent across Pearson

We’re not unusual in making talent development a top priority but, given the nature of our business, it’s especially important.

- > **Performance reviews and career discussions:** Our goal is that each Pearson employee has a formal performance review at least once a year. Based on employee feedback, we have also introduced informal career discussions – an opportunity for an individual to talk openly with their manager about their future and career aspirations. The approach depends from business to business and, in some cases, will take the form of career development workshops where employees have the chance to step back from their daily responsibilities to explore their interests and motivations.

- > **Mentoring:** We run informal and formal mentoring programmes across Pearson. While we encourage line managers to provide regular feedback, we recognise that additional guidance can be valuable, especially as people look to gain new skills or move around the company. These mentoring relationships typically last for 12 months and often continue beyond that. We ask mentors and their mentees to report back on their progress through the year. Where we don't run a formal programme, we set up mentoring on an ad hoc basis, carefully choosing the mentor for their knowledge and skill-base as well as their commitment. We try where possible to mix people from different operating companies or different functional areas.
- > **Training:** Each operating company offers a range of training to suit the needs of its people locally. Whether it's an in-house or public programme, we ensure that we select training for the specific needs of the business to build the right kinds of skills. Where it makes sense, we combine training so that companies located close to each other can share resources and ideas as well as promote best practice.
- > **Functional forums:** Over 350 of our people have come together cross-company and cross-region in functional or learning forums to share information and ideas and best practice. These forums have been held in finance, HR, IT, design, marketing, communications and editorial. These events have led to a number of collaborative projects – such as tackling new markets and products as well as finding cost efficiencies.
- > **Inspire:** This year we have introduced a new management training event, Inspire, which we are running for around 1,500 of our key managers across Pearson. The aim is to help managers develop a core set of leadership skills exploring areas such as what makes a great boss; getting more out of talent; inspiring others; and how to make a difference as a leader. During 2005 over 1,000 of our leaders will take part in an Inspire event.

Management development

While we aim to nurture the career of every single one of our 33,000 employees, we also focus on the leaders of today and the future leaders of tomorrow. As well as the Pearson-wide programmes outlined below, each operating company runs its own management development programme for middle and senior managers.

- > **Senior leadership profile and training:** We have developed the Pearson leadership profile which sets out the most important attributes for leadership within Pearson. At its centre lie our values of bravery, imagination and decency. The profile forms the basis of our Senior Leadership Master Classes, a series of two and three day classes covering leadership and business strategy. Over 70% of our senior managers from around the world have so far taken part.
- > **Brighton meetings:** Once a year we gather our top 100 managers to think about the world inside and outside the company and how we can make both better. We have been holding these meetings for eight years now and it has created a cohesive management team. This group has very low turnover (less than 2%) and over 14% have worked in more than one Pearson business or function.
- > **Managing talent:** Each year we work with our operating companies to do a formal review of talent across Pearson. We do this to ensure that we have the right people in our top jobs as well as the right people coming through the business. We monitor the development of our leaders and give them the opportunity to move around the business. We have an intranet dedicated to internal vacancies that employees can access to look for opportunities within the business.

Our values and culture

We want Pearson to be a company that is brave, imaginative and decent. Our Code of Business Conduct spells out our basic standards for conduct in Pearson and what we expect of anyone connected with our company. The code can be read at <http://www.pearson.com/community/codeofconduct.htm>

When we relaunched the code two years ago, we made a promise to contact every Pearson employee each year to see how we're performing. This is over and above what we're expected to do by corporate governance rules because there's no point in having a code unless it has the trust and confidence of every one of our employees. And if it doesn't, then we need to know why so we can do something about it. In 2004 and 2005 our chief executive, Marjorie Scardino, e-mailed employees to confirm they are happy with the way we are operating. Employees were invited to report any concerns or breaches of the code to our Group control team or via our confidential ethical helplines.

Benefits

We recognise that reward is more than just a salary. In addition to competitive pay, we aim to offer each Pearson employee a comprehensive and flexible benefit package including healthcare, retirement plans, company stock options and life insurance. While packages are defined locally, we follow a set of principles globally. These include recognition for excellent performance and innovation; encouraging share ownership irrespective of level; and fair treatment of all employees taking into account work-life balance. We've worked hard to make our benefits easier to understand. Employees can now go online to check their personal details at our My Pay and Benefits site.

Internal communications

We have a dedicated internal communications programme. This is a two-way process: we want all of our 33,000 employees to know the latest Pearson news but we also want to hear their ideas. We run a series of staff roadshows through the year where members of our management team visit local offices. In 2005 we will run these in around 50 locations. We post regular news through our new online newsletter, @Pearson, and on our intranet site. Marjorie e-mails all employees with important news and encourages them to e-mail her direct with their thoughts.

DIVERSITY

We aim to be:

- > A diverse company – a company that reflects society. We want to attract the very best candidates, at all levels, regardless of race, gender, age, physical ability, religion or sexual orientation. We always try to hire the best person for the job, and to ensure that our hiring is non-discriminatory. 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 terminations are determined without discrimination.
- > A company which uses diversity to help achieve our commercial goals and that targets new opportunities in growing markets.

In 2003 we launched a four-year 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 significant progress in the following areas:

- > **Promotion:** We have run employee focus groups in a number of our locations to find out more about the barriers to promotion for women and people from minority backgrounds.
- > **Work with our preferred suppliers:** In the UK, where we source 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. Between mid-2003 and the end of 2004, the proportion of ethnic minority candidates sent to us in our London-based businesses increased from 9% to 30%. We are now seeking to extend this work to the executive search firms we use.

- > **Internships:** We have quintupled the number of minority summer interns in the US, UK and Hong Kong. The vast majority are keen to work for Pearson in the future and a number have already been hired.
- > **Recruitment:** We have been focusing on recruiting minority students by holding open days, attending careers fairs and working with student societies and university careers services. We have seen the proportion of minority graduates joining Pearson rise significantly over the past year.
- > **Websites:** We have launched new diversity websites for both internal and external users. The internal website attracted 2,500 unique users in its first month. The external website is available at <http://diversity.pearson.com>
- > **Training:** We have designed training at induction for our recruiters, our managers and our top executives, and have begun to roll it out across the company. The CEO, CFO and director for people have all had diversity training over the last year.
- > **Senior leadership profile:** Our senior leadership profile measures our senior talent against the attributes we think are important to Pearson. Diversity and inclusion form part of this and are an integral part of our appraisals for senior managers.
- > **Community programmes:** We have evaluated the impact of our community and corporate social responsibility programmes on ethnic minority groups, which confirms our focus on inner-city initiatives and underserved communities mean 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.

Awards

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

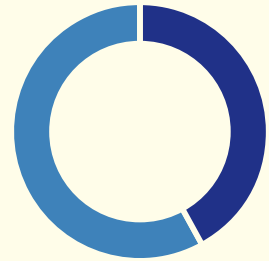
- > **Race for Opportunity Most Improved Company.**
- > **New York University's Diversity Employer of the Month, January 2005 for Penguin US.**

Data

We now have very solid data across Pearson which enables us to track the success of our diversity policies. Our workforce looks like this:

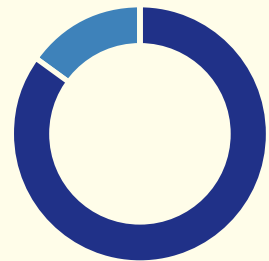
Gender

- Male – 42%
- Female – 58%



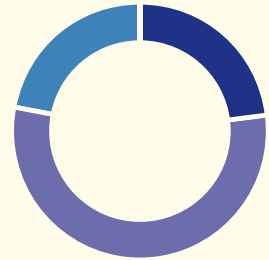
Ethnicity

- White – 85%
- Minority backgrounds – 15%



Age

- Under 30 – 23%
- 30-50 – 55%
- Over 50 – 22%



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

- > The proportion of women and minorities in management.
- > The proportion of women and minorities in senior management.
- > The proportion of women and minorities participating in development programmes.
- > Responses to our employee survey with cuts by all these categories.

We track progress against our goals by reviewing this data on a regular basis. In addition, we also collect data on our markets.

Goals for the year ahead

- > Continue to increase the recruitment and promotion of people from minority backgrounds, as well as the number of women in senior management roles.
- > Improvement in our offering to key ethnic minority markets.

For more information on diversity in Pearson please see <http://diversity.pearson.com>

LABOUR STANDARDS AND HUMAN RIGHTS

Pearson is a global company with 33,000 people, a network of suppliers and operations in more than 60 countries. We want Pearson to be known as a company that is brave, imaginative and decent all around the world. To help guide us, we have our Code of Business Conduct, which spells out our basic standards for conduct in Pearson and what we expect of anyone connected with our company – employees, suppliers and partners. We know that rules can't tell us how to behave but we think this is a good starting point. You can download the code at www.pearson.com/community/codeofconduct.htm

We are also guided by the Global Compact's 10 principles [insert link to global compact section] 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 we continue to be actively involved through our membership of the advisory committee.

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 introduce 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 trades 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:** Pearson companies and people operate globally. 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 ensuring that we are not complicit in human rights abuses and continue to monitor this. If we were to find ourselves inadvertently implicated in abuses of human rights, we would take immediate steps to rectify such a 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 2004 survey covered 92 business operations in 45 countries. Together, these business operations surveyed employ 31,349 people out of a current universe of 33,000 employees. This represents 95% of all Pearson 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 confirm that we have continued to meet the guidelines we have set ourselves.

Our suppliers

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

- > Paper
- > Production, primarily printing, and
- > Distribution

The majority of our 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 UN Global Compact imply, we have certain principles we expect of all our suppliers wherever they are in the world. This is what we are doing to help ensure these standards are being maintained:

- > Writing to many thousands of our suppliers to advise them of our commitment to the Global Compact.
- > Introducing specific contractual commitments relating to labour standards and human rights into our key contracts, particularly those relating to paper supply, printing and distribution.
- > Introducing a programme of supplier visits to assess supplier compliance with the Global Compact.
- > Working with the UK book publishing industry to introduce common standards on labour standards and human rights.

We set a number of business targets in this area for 2004. Here is how we performed against them:

- > To ensure over 75% of our key printing contracts contain clauses relating to labour standards and human rights Achieved
- > To extend our programme of in-depth supplier visits to assess compliance with the Global Compact to a further three countries Achieved (Malaysia, Singapore and Australia)
- > To carry out a series of briefings to our global purchasing and production teams to explain their responsibilities on labour standards and human rights Achieved
- > To work with the UK book publishing industry to agree common standards on labour standards and human rights Achieved

For 2005, our targets in this area are:

- > To pilot an initial survey on labour standards and human rights issues for completion by potential new suppliers.
- > To carry out an in-depth programme of supplier visits in India focusing on labour standards and human rights issues.
- > To include a review of labour standards and human rights issues into commercial supplier visits conducted by members of the purchasing and production teams.
- > To review 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.
- > To continue to work with the UK book publishing industry to promote the common standards on labour standards and human rights with suppliers.

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/community/e-policy.htm. 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, business travel, unsold product and waste. However, most of the significant issues in publishing are supply chain issues and therefore about influence rather than direct control. The key areas here are the purchase and use of paper, use of third party printers and distribution.

In 2004, we made good progress in furthering environmental management within the company. Here are some highlights:

- > We have reviewed and updated our environment policy.
- > We have continued to improve the quality and quantity of the data collected and reported within our environmental report.
- > We have reviewed the environmental performance of our major paper and printer suppliers.
- > We have briefed our purchasing and production teams on environmental issues.
- > We have maintained or improved our position within key ethical investment indices.

- > We have reported on our progress to the UN as part of our commitment to the Global Compact.
- > We have increased the efficiency of our use of electricity and gas by 4% compared to our target to reduce electricity and gas use levels across the company by 10% by the end of 2008.
- > We have prepared an intranet site focusing on how colleagues can help Pearson save energy.

The environmental considerations relating to the purchase of paper continues to be a priority for us. Following our introduction of a paper purchasing policy in November 2003, Pearson has become a member of the WWF UK Forest & Trade Network, a partnership between businesses and the conservation group WWF, seeking to improve responsible paper sourcing practice. During 2004, we agreed an action plan as part of membership of WWF UK F&TN; communicated our policy to our suppliers; discussed the issue of increasing recycled content in our book papers with our suppliers; and collected information on the source and origin of wood used, certification systems, chlorine and recycled content of the paper we purchase.

Our full environment report can be found at www.pearson.com/community/envr.htm

MANAGING OUR RISKS



We believe our social, environmental and ethical (SEE) risks should be managed no differently than any other business risk that we face. Therefore, back in 2002, we incorporated the evaluation of SEE risks into our general risk management framework.

Each operating company is responsible for managing its own risks. Every six months we ask the business units to formally review and report on their business risks, including SEE risks, to our Group control function. The results of these reviews are reported via the audit committee to the board. In addition, the head of Group control annually meets with the Pearson Executive Management Committee to formally review and discuss the key risks facing the business.

In 2004, as in prior years, our risk assessments did not identify any significant unmanaged SEE risks. Similarly our most important SEE risks, many of which are concerned with reputational risk, have not changed year on year.

> **Journalistic/author integrity:** Fundamental to both our newspaper and publishing operations. Our newspapers have clearly laid down 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 details how we behave as a business. To ensure compliance, annually, we ask employees to confirm that they understand the Code and report any breaches. Our confidential ethical helplines are another vehicle by which unacceptable behaviour can be reported. Our Group legal counsel and head of Group control follow-up all reported incidents.
- > **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 staff 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 affect 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.

To enhance our existing procedures, in 2005, we plan to carry out an independent external review of the SEE risk management procedures adopted by our UK businesses. We anticipate that this will develop into a formal self-assessment SEE audit programme, which will be rolled about across the rest of the business.

During 2005, we will also be reviewing our risk reporting in preparation for the introduction of the new Operating and Financial Reporting requirements, which we will first have to comply with for our 2006 annual report and accounts.

RATING OUR PERFORMANCE



In 2004 we committed to maintain or improve our ratings in key indices of corporate social responsibility. Here are some highlights:

- > Media Sector leader in the Dow Jones Sustainability Indices for third year running.
- > FTSE4Good member.
- > Top 100 company in 2003 Business in the Community Corporate Responsibility Index.
- > Top 100 company in Most Sustainable Companies in the World listing by Innovest.
- > Top three global media company by OEKOM research.
- > 'A' rating from CoreRatings.

Dow Jones Sustainability Indices

In 2004, Pearson was ranked as the Media Sector leader for the third year running 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 represent the 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

FTSE is a joint venture company between Pearson and the London Stock Exchange. In June 2001, FTSE 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. These tradable indices form part of a market response for encouraging positive responsible practice. All licensing revenues from FTSE4Good indices are contributed by FTSE 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 biannual review. Pearson has been included within the FTSE4Good indices since inception.

Pearson is also included in the FTSE ISS Corporate Governance Indices, a new tool to help investors to factor corporate governance into their investment strategies.

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 benchmarking corporate responsibility performance. In 2003 Pearson was ranked in the Top 100 'Companies that Count' with the company score rising from 57% to 78%. Results for 2004 will be released on 3 April 2005.

Innovest Strategic Value Advisors

Pearson has been included in a new ranking of the most Sustainable Corporations in the World released at the World Economic Forum in Davos in February 2005. The ranking was produced by Innovest Strategic Value Advisors, together with a Toronto-based CSR publisher, Corporate Knights. The Global 100 were selected based on performance and strategic ability to manage their triple bottom line (society, environment and economy).

OEKOM

OEKOM Research provides environmental and social corporate and country ratings for financial service providers and institutional investors. OEKOM has developed a library of some 800 criteria to assess corporate performance and distils these into a set of approximately 200 sector-specific indicators. Based on an assessment of these indicators, companies are given an overall social cultural rating and environmental rating which together make up the corporate responsibility rating. Ratings range from A+ to D-. OEKOM rated Pearson as B-, ranking it third overall among 24 Media companies reviewed.

Core Ratings

Core Ratings is an independent rating agency providing independent investment analysis of corporate responsibility risks. It provides investors with research and ratings of companies looking at corporate governance, environmental and social performance. In 2004 Core Ratings assessed Pearson as an A drawn from a rating scale ranging from A+ to D.

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.