



Mind
expanding
business

PEARSON

Our Business and Society 2006

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There's something special about each one of Pearson's businesses. Our customers put their trust in us when they teach from our school or college programs, act on our test results, rely on information, analysis and the intellectual stimulation of our newspapers and books. We know that helping a five-year-old learn to read or helping a business person understand a global context has to be as enriching for those customers as it is for us and for our shareholders, because our strong financial performance will only come if it is the by-product of helping those customers get on in their lives.

For all 29,000 people who work at Pearson, that combination of shareholder, customer and social interests makes it a special privilege and a special responsibility to come to work every day. It gives us the steam to go the second and third mile.

A handwritten signature in blue ink, which appears to read "Marjorie Scardino". The signature is fluid and cursive.

Marjorie Scardino, *Chief executive*

Annual Report 2006: Chief Executive's Review

Our Progress in 2006

Each year we set ourselves targets to help us become the kind of company we strive to be: one that is brave, imaginative and decent. You can read below about how we performed against them in 2006.

Continue to advance in the key indices of social responsibility.

Achieved: We significantly improved our ranking in the Business in The Community Corporate Responsibility Index for 2005 from 57th to 24th. Our score has risen from 58% in 2002 to 94.5% in 2005. The 2006 results will be published in May. We also maintained our status in the Dow Jones Sustainability Indices for 2006, and the FTSE4GOOD Index Series.

Examine ways to minimise the environmental impact of book packaging.

Ongoing: Our main distribution centres in the US and the UK explored several options to change methods and materials for the packaging and distribution of books. A number of these options were piloted and some adopted with both a positive environmental and cost impact.

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

Achieved: Audits were carried out at the main printers of our books, magazine and newspapers in South Africa. Visits were also made by our production and purchasing teams to key book printers in Brazil, Mexico, Peru, Columbia and Chile.

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.

Achieved: We made significant progress this year. A particular highlight is that Penguin in the UK has secured Forest Stewardship Council (FSC) chain of custody certification

which will allow its books to carry the FSC label. As well as certification systems such as FSC, we have our own procedure to track wood back through the production process to the original forest allowing us to verify the sustainability of the papers we use.

Conduct our biennial employee survey.

Achieved: Nearly 10,000 employees from every part of Pearson participated in the 2006 employee survey. Areas of strength included benefits, working conditions, co-workers and ethics while pay, stress and job security were marked out as areas for improvement. Diversity scored very highly. We shared the survey findings via the Pearson intranet which is accessible to employees around the world.

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

Ongoing: We measure progress in this area specifically against our US and UK businesses. Our focused recruiting efforts in major markets resulted in a 10% increase in minority representation in the US businesses. Also in the US, the number of women in senior management roles increased by 10% in 2006.

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

Ongoing: We spent time exploring interest in diversity networks in our two largest markets, the US and the UK. Although we met with a positive response, we still have some way to go to establish self-maintaining networks which we will continue to focus on in 2007. We continue to run initiatives such as Diversity weeks which have proved popular with our businesses.

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

Achieved: The evaluation findings from the pilot of our UK community programme Booktime were extremely positive and confirmed our belief that it fully supports the work of teachers, parents and librarians in inspiring young children to learn to read. In 2006 we rolled out the programme – 250,000 children starting school received the gift of a free Puffin book. In 2007 Booktime will reach every child in England and up to 50% of children in Scotland and Northern Ireland. We are delighted to be working with the Department for Education and Skills who are providing funding to support the roll-out in England.

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

Achieved: In 2006 we provided fellowships and training to 45 Pearson Teacher Fellows, and inaugurated Jumpstart's Read for the Record campaign, which, using a special edition of Penguin's children's classic *The Little Engine That Could*, raised more than \$1m in support of Jumpstart's mission to ensure that every child has an equal chance to enter school prepared to succeed.

Our Plans for 2007

Maintain our position in the key indices of social responsibility.
Expand the environmentally friendly book packaging options to distribution centres outside our key markets of the US and UK.
Continue our environmental and labour standards auditing programme with our printers in Asia, the Far East and parts of continental Europe.
Continue to advance our programme for independent certification of the paper we purchase for our books and newspapers.
Continue the process of becoming a climate neutral company with a view to completing that process globally by 2009.
Continue our commitment to build a truly international business by helping more of our people experience a new country on a short-term assignment, with our developing markets as a priority.
Show evidence of progress in retention of people with diverse backgrounds for both entry level and management positions.
Launch the Pearson Foundation Development Fund to support our businesses in their work with community-based programmes around the world.
Work with the UK government to extend our flagship community programme Booktime and build on the success of Read for the Record with Jumpstart in the US.

Our Businesses

Pearson Education

School

Pearson is the world's leading provider of technology, digital curriculum materials, assessment services and software to schools. Its mission is to help teachers teach and students learn. In 2006, Pearson School companies continued to demonstrate the effectiveness of their instructional programmes through independent research and innovation of curriculum offerings.

- Pearson Scott Foresman launched *Reading Street*, the first reading programme to be aligned with the US federal government's No Child Left Behind Act, incorporating a wide range of research-based learning strategies. *Reading Street* focuses on the priority skills that are proven to be indicators of reading success, such as phonemic awareness, phonics, fluency, vocabulary and text comprehension. Created by a nationally recognised panel of experts, practitioners and research, *Reading Street* is designed to help teachers build readers through a wealth of reliable teaching tools for instruction, pacing, assessments and grouping. It prioritises skill instruction at each grade level, so teachers can be assured they will focus on the right skill, at the right time, and for every student.
- Seventh-grade students using *Prentice Hall Mathematics* showed significant academic improvement, outperforming students using other maths programmes, according to an independent study conducted by research firm PRES Associates. The study showed greater improvement from pre- to post-tests than their counterparts using other programmes as measured by two different standardised assessments. Improvement was made on all mathematics objectives measured, and the programme proved to be especially effective with low-performing students. The study design was in compliance with the What Works Clearinghouse criteria to ensure the accuracy and fidelity of the outcomes.

- Researchers at the University of Colorado Institute of Cognitive Science evaluated Pearson Knowledge Technologies' *Summary Street* over the course of a five-year study funded by the Interagency Education Research Initiative, a collaborative effort sponsored by the National Science Foundation, the US Department of Education and the National Institutes of Health. In the research, the automated tool measurably increased student's summarisation, general writing, and reading comprehension skills.
- *Scott Foresman-Addison Wesley Mathematics 2005* was selected to participate in the US Department of Education's Evaluation of Early Mathematics Curricula, a large-scale study created to evaluate the effectiveness of several maths programmes that show promise for improving maths achievement in the early elementary grades. To participate in the study, the curriculum had to demonstrate that it met rigorous criteria, including research support for the conceptual framework that underlies the curriculum, empirical support for the effectiveness of the curriculum, and objectives of the curriculum, including teacher practices and skills, quality of training and support, classroom activity materials and curriculum-specific assessments. The selected curricula will be implemented during the 2006/07 school year.
- Pearson Scott Foresman introduced a revolutionary new way to teach millions of California elementary school students social studies by blending printed text, digital, and activities-based instructional methods. *Pearson Scott Foresman California History – Social Science* is a standards-driven, interactive programme written specifically for California. *The Digital Path*, available in both English and Spanish, allows students to work directly with primary source documents and greatly expands the depth of the content coverage. Every state standard is a lesson in the programme so instruction is highly focused, efficient and productive. *Pearson Scott Foresman California History – Social Science* includes engaging introductions, videos to build background, audio-enabled student text, interactive practice and assessment.

- Pearson Education's PASeries (Progress Assessment Series) is the first formative assessment product line designed to forecast student growth toward state performance standards. 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. In the San Marcos, Texas, school district where it is being successfully used, the Lexile and Quantile measures give teachers and administrators hard data to make informed decisions about classroom instruction in a scientifically reliable way.

Higher Education

Pearson is the world's leading publisher of textbooks and electronic learning materials for college students in the US and around the world. Consistent with its goal of helping educational institutions to become more productive and college students to raise their educational achievement, Pearson has been a pioneer in the use of technology to support instruction and learning.

- Using Pearson's MyMathLab technology, the University of Alabama, Tuscaloosa, instituted the innovative approach to learning, nearly doubling success rates of students in mathematics courses from those reported in the Fall 1999, a success rate for women of 68%, compared to a success rate of 57% for men, and a marked improvement of Africa-American students over Caucasians by as much as 12% some semesters.
- A study of Pearson Allyn & Bacon's MyPsychLab conducted at the University of North Carolina – Charlotte tracked student grades over the course of eight terms, comparing student grades in sections using MyPsychLab to those without. Data showed a 21% increase in As and Bs for those using MyPsychLab, and a decrease in the drop failure rate from 27% to 17%. MyPsychLab enhances course delivery by actively engaging students in an experiential process of learning over the web, so they can learn at the time, in the place and according to the style and pace that best suit them.

- Pearson Education's MyEconLab – offered with many Addison-Wesley and Prentice Hall economics texts – is a rich set of course materials, adaptable instructor tools and an easy-to-navigate interface that promotes active learning. Studies of students show they were able to show grade improvement and better understand complex material using MyEconLab.
- Prentice Hall's Train and Assess IT (TAIT) was successfully used to improve the withdraw/fail rate for the introductory computer course at DeVry-Kansas City. Over the course of three years ending in 2005, the campus withdraw/fail rate dropped from 25%–30% to 13.64%, while the average grade point average of course students was significantly higher than that of students at other campuses. The school concluded that using the TAIT method of teaching the course reduced Kansas City's withdraw/fail by 12%–15%, and in the process discovered that individualised teaching was a far better and more successful way of teaching than the traditional protocol of teaching to everyone in class.

Community Programmes

- Pearson Education, in partnership with the Pearson Foundation and Project Exploration, a Chicago-based science education organisation co-founded by noted paleontologist Dr Paul Sereno, developed a fellowship programme for teachers in honour of the late Dr Neil Campbell, author of the bestselling Pearson Benjamin Cummings text *Biology*. The three-year, \$75,000 grant is being used to fund the Project Exploration Summer Field Institute for Teachers as well as funding of some participants through the Neil Campbell Fellows programme.
- Pearson Prentice Hall, the market leader in advanced placement (AP) programme offerings, provided participants of the College Board's Advanced Placement Summer Institutes with complimentary AP texts and teacher support materials as part of their training workshops. Demand for advanced placement courses is increasing in the US, requiring more teachers to teach the courses, and Pearson is committed to help these teachers raise the academic bar.

- Working jointly with the National Middle School Association (NSMA), Pearson Prentice Hall sponsors the ‘Teams That Make a Difference Award,’ which identifies individuals who work to improve the education and well being of adolescents. The award focuses on teams that created a programme activity or strategy to improve academic achievement or connect adolescents with their community. The four winning schools each received a \$3,000 cash award from Pearson, among other recognition.

Awards

- The Software & Information Industry Association (SIIA) named four Pearson Education products as finalists in the prestigious 22nd Annual CODiE Awards – more nominations than any other education company. The products are: Pearson Assessments’ Prosper (www.PearsonAssessments.com/Prosper); Pearson Knowledge Technologies’ WriteToLearn (www.WriteToLearn.net); Pearson School Systems’ Chancery SMS (www.PearsonSchoolSystems.com/products/chancery); and Pearson Scott Foresman’s California History – Social Science Digital Path (www.ScottForesman.com/state/ca/science/sampler)

The CODiE Awards celebrate outstanding achievement and vision in the software, digital information, and education technology industries. This year’s finalists were chosen from more than 1,200 nominations submitted by more than 600 companies. Experts in the trade press, education, and other disciplines have reviewed all of the products entered.

- PASeries Algebra I received an Award of Excellence from *Technology and Learning* magazine, given to innovative applications that break new ground in some important way and best-of-breed examples that demonstrate clear superiority over similar products in the marketplace. PASeries Algebra I was developed for students in grades 6–12 and uses the Quantile Framework for Mathematics to provide regular progress monitoring of student achievement and to forecast growth toward state performance standards or grade-level expectations.

- *Primary Sources: Think Like a Historian*, an educational CD-ROM programme for grades 4–6 from Pearson Scott Foresman and Colonial Williamsburg, won two prestigious industry awards: *Technology and Learning* magazine’s Award of Excellence for demonstrating superiority over similar products and Learning’s Teacher’s Choice Award for instructional value, ease of use, innovation and relevance to curriculum. Designed to introduce students to the use of primary source documents, the interactive CD-ROM features a wide-range of materials from Colonial Williamsburg’s collections, including artefacts, buildings, oral histories, prints and drawings, and written documents.

Pearson Education, UK

- Pearson Education has launched ActiveTeach – a series of digital teaching resources for secondary schools – in Maths, Science, IT and Business Studies. ActiveTeach is designed to help teachers deliver lessons to students of all attainment levels, particularly to those who may have some difficulty in accessing other materials.
- Longman Digitexts, winner of the prestigious 2005 BETT Award for Primary English, inspire all children to read on screen with great writing by authors such as Jeremy Strong and Angela Royston, brilliant multimedia and amazing interactivity. There are 12 Fiction and Non-Fiction Digitexts available for 7–11 year-olds, covering a wide range of genres and text types. From the opening screens, children are drawn into the text reading for pleasure as well as reading to learn. An access version provided with every text helps lower-attaining readers to progress.
- In the UK, Pearson Education won the Diversity Employer of the Year award from the University of Westminster particularly due to the company’s commitment to the Pearson Ethnic Minority Internship Programme.

- Pearson Education employees have given their support to the Magic Outcomes programme, part of Magic Breakfast, the educational charity set up by Pearson author, Carmel McConnell, with the aim of providing nutritious food to UK primary school children at risk of malnutrition. In 2006, Pearson Education employees helped in various projects at Kingsmead Primary School in Hackney, East London, including assisting with the development of a new environmentally friendly classroom, a reading project with the pupils, sourcing funding to equip a new IT suite and working on improvements to school dinners.

Edexcel

Our UK testing business Edexcel, is the UK's largest awarding body offering academic and vocational qualifications and testing to more than 25,000 schools, colleges, employers and other places of learning in the UK and across more than 100 countries worldwide. Edexcel marks and delivers more than nine million examination scripts each year.

- Edexcel's successful ResultsPlus programme puts personalised learning on the agenda for students and will enable schools and colleges to raise attainment. ResultsPlus provides question-by-question level detail about students' examination results through powerful, logical reports and graphics, giving an unprecedented level of information about performance and helping students to raise their attainment.
- In 2006 Edexcel began a three year sponsorship of the Helena Kennedy Foundation. An Edexcel Bursary is being set up with a £6,000pa donation given in lieu of sending out Christmas Cards. Edexcel was one of the founding partners of the Foundation which develops the vocational skills base of some of the most disadvantaged students in society. This support will enable BTEC students to complete their FE studies and hopefully progress on to the final year of a degree course.

- Edexcel acquired the Trident Trust in 2006. Trident is the UK's largest national provider of work experience for students aged 14–16 years, and successfully organises work experience placements and programmes in the UK for home and international students, working with 130,000 students from 2,000 schools and 90,000 companies to help young people to improve their employability and enterprise skills, and develop as individuals.

For more information go to www.edexcel.org.uk

Financial Times Group

The *Financial Times* and its network of business publications and websites are a vital channel for helping to shape the debate on key international political, business and social issues. The FT Group also plays an important part in raising the profile of various causes and campaigning organisations. In 2006 the FT published special reports on Business & Aids, Investing in Young People, Responsible Business, Sustainable Business, Sustainable Banking and launched the Sustainable Banking Awards. 2007 will see the launch of the Environmental Awards.

- The FT is a key partner of the UK's Business in The Community, an organisation committed to promoting and advancing responsible business behaviour. 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.
- In 2006 the FT launched a seasonal appeal to raise money for Camfed (The Campaign for Female Education). FT readers raised over £500,000 for the charity that dedicates itself to fighting poverty and AIDS in rural communities in Africa by educating girls. The campaign was supported by articles in the newspaper reporting on the work Camfed is doing in Africa.

- Last year the FT was the major sponsor of the Southwark Theatres' Education Partnership (STEP). The FT was the chief donor to the charity as well as funding a 'drama champions' programme, a scheme where primary school teachers were given the opportunity to take part in a training programme to promote drama as an effective teaching and learning tool in schools.
- The FT is the media sponsor for the Employers' Forum on Disability's launch of the Disability Standard. The EFD is the UK's leading organisation for understanding and promoting disability in the workplace, working with employers to make sure that UK plc is accessible for people with a disability.
- The FT is the major sponsor of The European-Atlantic Movement (TEAM), a charity that aims to promote the understanding and discussion of European, transatlantic and world affairs to sixth formers and teachers in the UK. As a non-political organisation, the 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 FT in the US and UK supports Operation Smile, a non-profit organisation providing free reconstructive surgery to children with facial deformities worldwide. In addition to cash contributions, the FT supports Operation Smile with free advertising in its worldwide editions. In 2006, the FT was awarded Operation Smile's 'Corporate Humanitarian Award'. In the summer of 2007, the *Financial Times* will be the official media sponsor of Operation Smile's National Cricket Tournament.

- In 2006 the FT in Asia supported Room to Read, which partners with local communities throughout the developing world to establish schools, libraries and other educational infrastructure. The FT organised a charity gala to help raise money for the scheme. More than HK\$4.7m was raised, making it the most successful event in Room to Read's history.
- The FT in Asia in partnership with *Caijing* magazine, China's leading business journal, has been running journalism Masterclasses with Beijing University for five years. The aim of the programme is to bring international best practice to journalists in China. The course is sponsored by Standard Chartered and Laura Cha, formerly of the China Securities and Regulatory Committee, funds students to visit the FT offices in Hong Kong and London on short secondments. The programme has now been rolled out to students and alumni at Fudan School of Journalism in Shanghai, China (sponsored by Credit Suisse and CLSA) and at Hong Kong University School of Journalism (sponsored by the British Consulate) reaching a total of 100 students to date.

Penguin

Since Allen Lane founded Penguin in 1935, the company has championed free speech, never afraid to court controversy along the way. Here are some examples of the way Penguin continues this tradition of bravery, freedom of expression and a commitment to raising awareness of social issues in 2006.

Penguin Group (UK)

- Stop Climate Chaos: Penguin published *I Count* with Stop Climate Chaos, the umbrella organisation for over 30 UK charities concerned about climate change. These charities include the RSPB, Oxfam and the Women's Institute. SCC approached Penguin for help with the launch of their new campaign and within three months, the *I Count* step-by-step guide to climate bliss was available for sale. The book was published on 100% recycled paper and, for every copy sold, a royalty goes to SCC charities.

- **Decibel Penguin Prize:** in November 2006 Penguin published *Volume 1: New Voices from a Diverse Culture*, a collection of ten stories from some of the UK's brightest new literary stars, discovered through the Decibel Penguin Prize for new writers from African, Caribbean and Asian backgrounds. These exciting writers take us around the world in their stories: from a department store in Tokyo; to the pressures on a woman to bear a son in Nigeria; to Liverpool's Chinatown in the 1960s; to a lunatic asylum in London. These diverse British writers were selected by a panel of judges including Shami Chakrabarti, Hari Kunzru and June Sarpong. Minister for Culture David Lammy MP is the patron of the project.
- **Rainforest:** In 2006 Dorling Kindersley published *Rainforest*, a photographic book celebrating the fascinating behaviour and incredible variety of rainforest animals and plants. DK worked in partnership with the Rainforest Foundation to support their work to protect the rainforest and made a royalty donation for every copy sold. While Penguin's paper sourcing policy is already very rigorous, the book was published on specially sourced paper from certified sustainable European forests.
- **Star Cooks:** DK worked with food charity FareShare to publish *Star Cooks*, a celebrity children's cookbook. FareShare, who received a royalty donation, redistribute unwanted food from supermarkets and food manufacturers to community groups all over the UK, and work to avoid landfill and educate people about nutrition.
- **World Book Day:** Penguin and other publishers and book retailers throughout the UK and Ireland support World Book Day by donating funds, creating special £1 books, working with authors to attend events and bearing the cost of redemption of the World Book Day Book Tokens. Penguin makes a yearly contribution of £35,000 to World Book Day. In 2006 *Here Comes Harry and His Bucketful of Dinosaurs* by Ian Whybrow and Adrian Reynolds was Puffin's £1 title. DK sponsored the World Book Day poster and book design competition.

- Quick Reads: Penguin supports Quick Reads. Quick Reads was launched by Prime Minister Tony Blair on World Book Day 2006 to provide fast-paced, bite-sized books by bestselling writers for emergent readers, anyone who had lost the reading habit or simply wanted a short, fast read. It was a remarkable collaboration between authors, publishers, book retailers, libraries, the education sector, and other partners and supporters.
- Dahl Day: 13 September 2006 was Dahl Day, in celebration of what would have been the bestselling children's author Roald Dahl's 90th birthday. Puffin made free resources available via the Dahl Day website including activities, ideas, print material for readers all over the country to run their own Dahl event and promote reading for pleasure across the UK.
- Anne Frank: Penguin supports the Anne Frank Trust every year by producing flyers to promote their mobile Anne Frank exhibition which thousands of children across the UK access to learn about Anne's story and tackling prejudice. Penguin runs promotions about the exhibition through the Puffin Book Club and continues to support the Anne Frank Trust Moral Courage Award (the award is now called 'Frankly I Couldn't Ignore It'). The Anne Frank Awards recognise young people and educators who have shown great personal strength, moral courage, and determination to stand up for what is right.
- Teacher of the Year Award: DK sponsored the regional heats of Teacher of the Year Award, part of The Teaching Awards managed by The Teaching Awards Trust to celebrate excellence and promote best practice in education. DK donated books to all regional heat winners.

- Peter Rabbit Naturally Better: Frederick Warne, publishers of Beatrix Potter, is working with licensees to develop products and services to offer consumers and retailers better ethical choices. Themes covered include ethical, environmental, health and packaging issues, with the aim of developing products which are: better for the environment, better for mothers and children and better for the people who make them. The initiative is backed by a Corporate Social Responsibility Charter.
- Green Penguin: in 2006 Penguin announced a series of initiatives to give Penguin a greener hue. As part of an ongoing commitment to responsible paper sourcing, Penguin in the UK secured Forest Stewardship Council (FSC) chain of custody certification allowing its books to carry the FSC label. It is also active in environmental industry initiatives such as PREPS, the Publishers database for Responsible Environmental Paper Sourcing. A highlight of 2006 was Penguin's partnership with The Woodland Trust to develop the Penguin Wood at Botany Bay, a 96 acre site of more than 40,000 trees. Penguin employees also played their part working with London charity Thames 21 with their effort to clean up the River Thames. For more information go to: www.greenpenguin.co.uk

Penguin Group (USA)

In 2006, Penguin continued its active support of literacy, human rights and freedom of expression throughout the world with significant contributions to:

- PEN, the world's oldest human rights organisation and the oldest international literary organisation. The PEN American Center works to advance literature, to defend free expression, and to foster international literary fellowship.
- Literacy Partners, a not-for-profit organisation, providing free community-based adult and family literacy programmes to ensure that all adults have the access to quality education needed to fully realise their potential as individuals, parents, and citizens.

- The National Book Foundation, which recognises books of exceptional merit written by Americans, with unique outreach programmes featuring National Book Award authors, and communities participating in the writing life of the nation by reading and writing together.
- Poets & Writers, Inc., the nation's largest non-profit literary organisation serving poets, fiction writers, and creative non-fiction writers. It functions as a primary source of information, support, and guidance for creative writers.
- The Authors Guild, the nation's leading advocate for writers' interests in effective copyright protection, fair contracts and free expression.
- The National Book Festival, presented by the Library of Congress and Laura Bush, which emphasises the joy of reading and lifelong literacy and supports both with its national events and programmes.
- Hurston Wright Foundation, the nation's resource centre for writers, readers, and supporters of black literature, with programmes that preserve the legacy and ensure the future of black writers and the literature they produce.

Penguin continued to be a major supporter of Pearson's community partner Jumpstart in 2006, raising more than \$111,000 at the annual Pearson Jumpstart Challenge benefit golf and tennis tournament, which featured book signings by John Berendt (author of the *New York Times* bestseller, *The City of Falling Angels*) and June Casagrande (author of *Grammar Snobs Are Big Meanies*).

Jumpstart's Read for the Record raised more than \$1m, featuring a special custom edition of Penguin Young Readers Group's *The Little Engine That Could* by Watty Piper, illustrated by Loren Long (Philomel Books) and setting a new Guinness World Record for the largest number of children reading a single book on the same day.

Penguin Group (USA)'s commitment to diversity was recognised in 2006 with New York City's CityKids Foundation Partnership Award. Penguin has ongoing internship programmes with Inroads, City University of New York and Prep for Prep – resulting in the placement of interns from diverse backgrounds throughout the company.

In 2006, our diversity policies were benchmarked against best practices through participation in surveys and studies by Diversity Inc., Catalyst and Working Mother Media.

Penguin Young Readers Group also made a number of significant book donations in 2006, including books for Broome County Department of Health (the county where Penguin's Kirkwood operations centre is located, with more than 1,000 assorted young readers' titles for children patients); Hawkwing (which assists a Native American reservation in South Dakota, www.hawkwing.org); the National Council of Jewish Women (distributed books to hospitals and agencies); and Friends of Karen (an organisation that assists terminally ill children, www.friendsofkaren.org)

A number of Penguin Group (USA) authors are actively involved in raising awareness of regional and global issues, including:

- Paul Rusesabagina, in his Viking Penguin book, *An Ordinary Man*, describes his significant role in saving over 1,200 Tutsis and moderate Hutus during the Rwandan genocide of 1994. His Hotel Rwanda Rusesabagina Foundation (www.hrrfoundation.org) provides support to children orphaned by the genocide, as well as to women who were abused during the genocide. Aside from providing financial, educational, health, and social support to those victims, the organisation also aims to assist other African nations in conflict. Its mission is to eliminate the conditions that lead to hatred and genocide. On 9 November 2006, Paul Rusesabagina was awarded the Presidential Medal of Freedom.

- Greg Mortenson and David Oliver Relin's Viking Penguin book, *Three Cups of Tea*, about a mountain climber who ended up building schools, which have helped educate over 24,000 kids, primarily for girls in Afghanistan and Pakistan, has raised awareness about the education of young people – and about finding ways to promote peace – in those countries. A former mountaineer and military veteran, Mortenson is the director of the non-profit Central Asia Institute and spends his time raising funds and awareness in building and establishing more schools in Pakistan and Afghanistan.
- Hill Harper, author of Gotham's *Letters to a Young Brother*, runs a non-profit youth organisation, MANifest Your Destiny, which is dedicated to empowering, encouraging, and inspiring underserved males to succeed.
- Penguin Group (USA) has a growing green publishing programme covering issues from global warming to food sourcing. *The Omnivore's Dilemma* by Michael Pollan, which spent 11 weeks on the *New York Times* hardcover bestseller list in 2006, is a good example of how Penguin authors are helping to shape national debate, in this case on American eating habits – even influencing food chain Whole Foods Market Inc. to commit \$10m of their annual budget to support locally grown food. The book explores why we eat what we do and encourages us to eat with a fuller consciousness of our food choices and the health of the environment.

In 2007 Viking (Penguin's young readers' imprint) will publish *An Inconvenient Truth: The Crisis of Global Warming* by Al Gore, an adaptation of his powerful message for a generation which will have to confront the crisis of global warming.

Penguin Group (India)

An element of Penguin India's publishing programme aims to further the discussion and debate of key issues, ranging from human rights to environmental issues. Penguin India's social responsibility initiatives largely centre around one of the country's core issues – literacy.

- Since 2002 when Penguin launched Ladybird India Favourite Tales, 2.5% of all royalties from the sale of the books go to CRY (Child Rights & You) towards its literacy programmes for under-privileged children.
- In 2006 Penguin India published *A Poem for CRY*, a collection of favourite poems chosen by more than 100 eminent Indians. Full royalties from the book go to CRY's educational and health programmes in some of India's most deprived areas.
- Every year Penguin India donates books to help disadvantaged schools start up their own libraries.

Penguin Group (South Africa)

- Penguin South Africa is a proud sponsor of the Rally To Read project which provides books and trains teachers for some of South Africa's most disadvantaged remote, rural schools. Since 2001 Penguin has donated over R700,000 in cash and books. Each school is visited for three consecutive years, and progress and advancement are clearly visible in the second and third year of their cycle. The basic need for books and improvement of literacy levels is a high priority for South Africa so Penguin plans to be a proud sponsor of the project in the future.

Penguin Group (Australia)

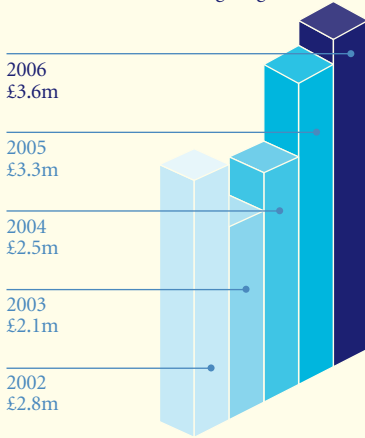
- Penguin Australia is a long-time supporter of The Smith Family, a national enterprise committed to unlocking opportunities for families with financial difficulties. Penguin supports their Learning for Life Programme which helps disadvantaged children stay in school and reach their full potential – currently more than 22,000 students from primary to tertiary have been assisted through this programme.

- Penguin is a key supporter of literacy development in Australia and has lent its voice to the Indigenous Literacy Project. In some indigenous communities in Far North Queensland illiteracy rates are as high as 93%. In 2007, The Indigenous Literacy Project will become the core fundraising project for the Australian book industry, with consumer publishers, booksellers, libraries and schools all helping to raise funds to support literacy work in these communities.

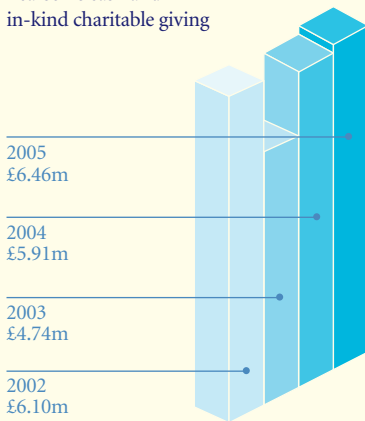
Penguin Group (Canada)

- In Canada, in partnership with Canada's major bookstore chain, Penguin held an online auction of the first book off the press of Guy Gavriel Kay's *Ysabel*. Both Penguin and the retailer matched the winning bid for the autographed book, and the entire proceeds of the auction went to the Love of Reading fund, which supports high-needs elementary literacy programmes across the country.
- Penguin also supports Sketch Studio, a downtown working art studio for street youth. Penguin provided some of the youth with cameras and held a photo contest. The winner of the contest received the equivalent to a professional photographer's fee, and their photo will become the cover image on the new novel by Eric Walters: *Sketches*, which is loosely based on the studio. There will also be, in partnership with a major literary festival and arts centre, two Penguin-sponsored photographic exhibits containing many of the photos taken by the street youth.

Pearson's cash charitable giving



Pearson's cash and in-kind charitable giving



Note: Per Cent Club submissions as reported in *The Guardian's* Giving List. 2006 numbers to be reported later this year.

The Pearson Foundation

The Pearson Foundation, our charitable arm, extends our commitment to education in partnership with non-profit and public interest organisations. We partner with leading businesses and civic organisations to support students and teachers and to sponsor community-based education programmes across the globe.

In 2006 we donated £3.6m in cash donations and gave additional in-kind support, such as employees' time, advertising space, publishing expertise and book donations. Our total charitable giving (cash and in-kind donations in 2005) was £6.46m, as reported in the Giving List in *The Guardian* newspaper in November 2005. 2006 numbers for cash and in-kind support will be reported later this year.

Pearson has a proud history of corporate giving and supporting projects in our communities. Through the Pearson Foundation – and through the efforts of our businesses and employees – we focus our charitable giving on education and literacy projects around the world. In a brain-powered world, we believe that no job is more important than helping people to learn. Here are some of the projects we're involved in around the world:

- **Jumpstart:** in 2006 we continued our flagship programme with US not-for-profit Jumpstart and extended our Pearson Teacher Fellowship programme, which has now trained and launched the careers of more than 140 talented college graduates to become pre-school teachers in under-served areas across the US. Pearson Teacher Fellows receive a stipend, intensive training, mentoring from a Pearson professional, and the resources needed for school success and professional development. For more information go to: www.jstart.org/pearson
- **Booktime:** in 2006 we rolled out our UK community programme Booktime in partnership with independent charity Booktrust. Booktime aims to promote the pleasure of books and encourage parents and carers to read aloud with their children. Following a successful pilot earlier in the year, Booktime delivered 250,000 book packs to children starting school. The Booktime pack contained a free Puffin

book, *Hairy Maclary's Bone*, whose author generously waived all royalties in support of the programme, along with a booklet for parents and carers on the value of shared reading. In 2007 Booktime will reach every child in England and up to 50% of children in Scotland and Northern Ireland. We are delighted to be working with the Department for Education and Skills who are providing funding to support the roll-out in England. For more information go to: www.booktime.pearson.com

- **Book Aid International:** in 2006, we hosted hundreds of schools and thousands of young readers across East Africa in special reading tent events offered together with Book Aid International and the East Africa Book Development Association. Stocked with books, the tents serve as the site of two-day reading events designed to promote literacy and reading enjoyment. In addition to donating more than 22,000 Longman books to the effort, we also funded training sessions for teacher librarians to ensure that reading promotion techniques are incorporated into the school day, and that new book collections are widely used. Over a three year period, Pearson has invested £200,000 in the programme helping to provide more than 70,000 books to local schools and community libraries benefiting hundreds of thousands of children.

Also in 2006, Dorling Kindersley and Longman jointly funded a fundraising and activity poster which went to every UK school in time for World Book Day in March. In response, schools raised £73,000 – enough to provide 60,000 books for disadvantaged readers. Hundreds of Pearson employees took part in ‘Bring a Book to Work Week’ donating books to share with readers overseas. For more information go to: www.bookaid.org

- **National Academy Foundation:** in 2006, we sponsored new digital-arts-based workshop programmes for National Academy Foundation students and teachers. These ‘Digital Storytelling’ programmes bring together two important tools for learning and instruction – project-based learning and the effective development of key 21st century skills young people need to succeed in class and at work. In addition to providing these we also sponsored and hosted a series of professional development workshops with Academy teachers

around the US and provided in-class curriculum and support to Academy instructors as they began extending these principles to their classrooms.

- **Family Book Nights:** in 2006, we brought the Pearson Foundation's own Family Book Nights to more than 8,000 young people and their families in classrooms and community organisations across the US. These family-focused celebrations bring families and Pearson employees together to share in the joy of reading. In the process, parents learn simple reading techniques they can employ to help their children and learn first hand about the long-term importance that active, repeated family reading can have in a child's personal and cognitive development.
- **The Digital Arts Alliance:** in 2006, we brought, together with our corporate and non-profit partners, digital arts programming to more than 10,000 young people and their teachers across the US in 2006. The Digital Arts Alliance makes it possible for young people in their middle-school and high-school years to experience first hand how laptop computers, digital video equipment, and the latest mobile-phone technologies are changing the ways they can organise, present, and share information and issues that matter to them. The programme also trains teachers to make use of their classroom technology in a way that directly supports their curricular objectives.

In addition, the Pearson Foundation continued to supply publishing and operational support to a number of youth and education-focused efforts, including Bridgeit, the Jordan Education Initiative, the Mobile Learning Institute, and Make a Connection Thru Art.

In 2006, the Pearson Foundation also inaugurated two ongoing scholarship programmes – one in honour of former Pearson Education chairman and chief executive Peter Jovanovich; and another in memoriam of the late Pearson Education author Neil Campbell.

2007 will see the launch of our Pearson Foundation Development Fund, a \$1m fund available for our businesses around the world to invest in local community-based projects. For further information go to: www.pearsonfoundation.org

Our employees

We encourage our employees to play a part in their local communities, supporting their involvement with time, money and Pearson products where appropriate. For example, we match employee fundraising around the world and also invite employees to apply for our Pearson Community Awards, which recognise employees' commitment to local communities with donations to their charities.

We run a number of volunteer schemes which encourage employees to give time in the working day to community programmes. For example, in the UK our employees give their time to local primary schools to read one-on-one with school children as part of our Booktime programme which gives the gift of a free Puffin book to children when they start school.

In 2006 more than 1,500 employees in 17 US States 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. In addition, on 24 August more than 1,000 volunteers from 40 Pearson businesses across the US participated in Jumpstart's Read for the Record Campaign, the largest shared reading experience ever on a single day. Pearson people took part in Read for the Record celebrations helping to set a new Guinness World Record for the largest number of children reading a single book on the same day by organising readings, visiting local schools and youth centres with their colleagues, and in many locations helping young people create their own personalised ABC books based on the Pearson Foundation's Family Book Nights programme. In the weeks leading up to the one-day event, Pearson also helped to raise more than \$1m to support Jumpstart, thanks to Penguin's custom, limited edition of *The Little Engine That Could*, which was sold at US Starbucks Coffee Company stores. All proceeds benefited the campaign.

Our People

It's easy 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.

We contact Pearson employees each year to ask them to verify that they have understood and complied with the Code of Business Conduct, and to invite them to report any concerns or breaches of the Code to our group internal audit team or via our confidential whistle-blowing helpline. The head of internal audit 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 2006 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 e-mail employees with important news. Employees are encouraged to e-mail 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 around 200 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. We have introduced a number of new ways for people to get a taste of a different country or operating company to encourage them to apply for longer term or permanent assignments. These have worked well and have given a range of people doing quite different jobs a new insight into a new market or country. As a result, we have created new business opportunities and transferred valuable skills and expertise from one part of the world to another.

Balancing life and work

For our people to be most effective at work they need flexibility, tools and resources to also manage their lives outside of work. We continue to provide programmes and introduce initiatives throughout the company to help people find the balance they seek. Each employee has unique needs and we offer a variety of programmes to enable individuals to be effective in all aspects of their life. Some examples include flexible work arrangements, employee assistance programmes, back-up care for children and adult dependants, sabbaticals, summer hours, and convenience services. In addition, Pearson Education US has been recognised for the seventh consecutive year by *Working Mother* magazine as one of the '100 Best Companies for Working Mothers'.

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. Last year, we refreshed our senior leadership programme, the Senior Leadership Masterclasses, to reflect our business priorities. These classes address leadership and commercial skills to help fuel the company's innovation and growth. In 2006, over 160 senior leaders attended a class with their senior leadership team and this included executives from UK, US, Australia, China, India, South Africa and South America.

Once a year, we bring together around 100 of our senior managers to think about the world inside and outside the company and to consider how we can make both a better place. As part of this year's meeting, most of our top 100 senior executives visited one of Pearson's developing markets which has led to a number of new business opportunities. 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 around 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.

Reward

We follow a set of global principles to guide the way we reward our people that goes beyond the issue of salary. These principles include providing locally competitive pay; using incentives to drive performance; recognising the contribution of all employees; encouraging share ownership irrespective of seniority; providing compelling benefits for all employees that engage them in making the right choices for themselves and their families, not only for today, but for tomorrow; and treating all employees fairly taking into account the balance of life and work. Individual packages are set with reference to the relevant recruitment market, business sector and geographic region but aim to include incentives, health, welfare and retirement plans and opportunities to acquire company stock.

We have worked hard to make these packages clear and easy to understand. We have internal websites where employees can check their personal details and see the value of their total package.

Employee ownership

We believe that the best way for people to profit from the success of the company is for them to become shareholders. Pearson operates worldwide share plans taking account of local country tax and securities regulations. With most of our people based in the US, we have taken special care to make it easy for them to acquire shares in Pearson. The listing of our shares on the New York Stock Exchange allows us to operate a US Employee Stock Purchase Plan that makes share ownership in Pearson accessible to the majority of our employees.

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.

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. When we say ‘diversity’, we mean we have a workforce and client base where differences are valued and respected as an essential part of a successful future at Pearson. To be the best we can be, we need the widest range of minds and imaginations from the widest range of backgrounds right across the company: in every business; in every country; in every job. That’s why diversity within the company is a high priority. And the more global we become the more essential it is that we value, and understand, what makes us different.

Since our 2005 report, we have made progress in the following areas:

- **Measurement:** we have developed quarterly reports to executives focusing on key retention and promotion measures in their business. Our global employee survey was analysed for differences in response patterns. We have benchmarked our programmes against best practices through participation in surveys and studies by Diversity Inc., Catalyst and Working Mother Media.

- 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 maintained our summer internship programme as a visible commitment to our goals on diversity. This resulted in 30% more interns from diverse backgrounds during 2006. The vast majority are keen to work for Pearson in the future and in 2006 we retained four interns in the UK from the scheme.
- Recruitment: we continue to focus on recruiting talented candidates from diverse backgrounds by holding open days, attending university careers fairs, working with student societies and university careers services as well as reaching out to professional organisations in major markets to cast the broadest net for talent.
- 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>. The Pearson Education careers online site in the US was relaunched with a new focus on diversity and cultural programmes. This site attracted over 71,000 job candidates last year during 2006.
- Training: we have a solid diversity training programme at induction level for our recruiters, managers and our sales staff. We have added modules focusing on topics varying from 'Microinequities' to 'MultiGenerations'.
- 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.
- Executive compensation: progress in diversity is now a component of discretionary pay for the Pearson Management Team reporting directly to Marjorie Scardino.

- 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 Kiran Desai's, *The Inheritance of Loss* (2006 winner of the MAN Booker prize) and Zadie Smith's, Orange Prize winning novel, *On Beauty*.

Awards

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

- Race for Opportunity Gold Award – we moved from ninth place in 2005 to seventh place in 2006.
- In New York City, Penguin was honoured with the CityKids Foundation Partnership Award.
- In the UK, Pearson Education won the Diversity Employer of the Year award from the University of Westminster particularly due to the company's commitment to the Pearson Ethnic Minority Internship Programme.

Data

We now have quarterly reporting in place across Pearson which enables us to track the success of our diversity policies. We report the following data quarterly:

- The proportion of women and people from diverse backgrounds in management.
- The proportion of women and people from diverse backgrounds participating in development programmes.
- The proportion of women and people from diverse backgrounds leaving the organisation.

For more information on diversity at Pearson go to:
<http://diversity.pearson.com>

Labour Standards and Human Rights

In 2005 Pearson employed 34,000 people around the world and many more people are engaged by our main suppliers. 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 ten 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 as a minimum with the relevant laws relating to employment and employment conditions in each country where we operate. 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, work 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 ensuring 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.

Five years ago, 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 2006 survey covered 92 business operations in 48 countries. Together, the business operations surveyed employ over 30,300 people out of a universe of over 34,000 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, and our Code of Business Conduct.
- Included specific contractual commitments relating to labour standards and human rights in our key contracts, particularly those that relate to paper supply, printing and distribution.
- Managed 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.

We set a number of business targets in this area for 2006. Here is how we performed against them:

Business targets	How we performed
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.	Achieved
To meet our commitment to PRELIMS to only use suppliers who are committed to attain accreditation and meet social accountability standards by January 2007.	Achieved
To review the opportunity to extend the work of PRELIMS to our North American operations.	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.	Ongoing

For 2007, our targets in this area are:

To continue our programme of supplier visits with a particular focus on Asia, the Far East and continental Europe.
To review how Pearson standards can be communicated to employees of our suppliers.
To consider with 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 2006, 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 have added to our environmental register of major printers which now covers 169 printers in 22 countries.
- We use our database of the sources of wood, certification methods to set improvement targets.
- For a second year we were ranked top of our sector by Business in The Community in the Environment Index.
- We reported on our progress to the UN as part of our commitment to the Global Compact.
- We communicated to our staff the actions being taken by Pearson companies to lessen the impact of climate change.
- Our businesses introduced initiatives to report, explain and engage our stakeholders to lessen the impact of climate change.

We are on 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 a number of our key suppliers and manufacturers of paper to discuss and review environmental issues including certification and increasing the recycled content in the paper we use in our books. We will report on the volume of paper that we used that was independently certified in our 2006 paper report which will be published in April 2007. We expect this to rise from 42% in 2005.

A particular highlight for 2006 is that Penguin in the UK has secured Forest Stewardship Council (FSC) chain of custody certification which will allow its books to carry the FSC logo. Penguin has researched and sourced FSC certified paper, jackets and covers where these are available.

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, so 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 our internal audit function – 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.

Consistent with prior years, our 2006 risk assessments did not identify any significant under-managed SEE risks. Nor did any of our most important SEE risks, many concerned with reputational risk, change year on year, however, we have identified data privacy as an increasing risk.

- 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.
- Freedom of speech: 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, including fraud, can be reported. All incidents are investigated by the head of internal audit and reported to the relevant senior management and audit committee.

- 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. In 2006 we wrote to our top 850 global vendors re-emphasising our commitment to the UN Global Compact and our Code of Business Conduct.
- 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.
- Data privacy: the protection of an individual's data, whether for customers or employees, is becoming increasingly challenging as legislators and industry governance standards, e.g. PCI credit card requirements, look for increased protection and absolute assurance that an individual's data is protected. This is an area that poses increasing reputational and financial risks as more of our business moves to digital and online formats. We have always taken our responsibilities in this area seriously. We have initiated programmes to further enhance the security of our systems to ensure that we are compliant with data privacy requirements.

Rating our Performance

In 2006 we set out to improve further in the key indices of social responsibility. Here are some highlights:

- Significantly improved our position in the Top 100 table of companies in the last Business in The Community Corporate Responsibility Index from 57th to 24th.
- Maintained our position in the Dow Jones Sustainability Indices.
- FTSE4Good member.
- Ranked as a Top 100 company in the Most Sustainable Companies in the World listing by Innovest for a third year.
- Improved our position in the BiTC Race for Opportunity rankings, and was ranked seventh overall, up from ninth the previous year.

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 2005, Pearson rose in the rankings of the top 100 'Companies that Count' with the company score rising from 58% in 2002 to 94.5% in 2005. Results for 2006 will be released in May 2007.

Dow Jones Sustainability Indices

Pearson was 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 representing 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

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 five years ago.

Innovest Strategic Value Advisors

Pearson has been included for the third year in a ranking of the most Sustainable Corporations in the World, released at the World Economic Forum in Davos in January 2007. 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.

Race for Opportunity

Pearson was ranked seventh in the UK’s Business in The Community Race for Opportunity 2006 rankings, up from ninth the previous year. 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.



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