

Responsible business

Our purpose as a company is to help people all over the world make progress in their lives through learning.

In 2010, we identified three key issues as the focus of the responsibility strategy for our company: raising literacy levels; improving learning outcomes and contributing to competitiveness.

Last year, we signalled that 2013 would be a year of significant change for Pearson as we developed our global educational strategy and looked forward to the creation of Penguin Random House. We also made a commitment to look at our responsibility framework using four questions to guide us:

- › Are the three key issues still the right ones for us?
- › How should we measure and report the educational impact of our products and services?
- › What commitments and targets should we set ourselves?
- › What are the big unmet educational needs that we can help tackle?

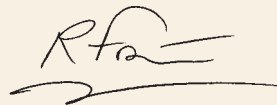
As our work on the global education strategy progressed, so a clear priority emerged – to deliver for the learner is the single most important contribution that Pearson can make to social and economic wellbeing. The tools and means by which we will deliver for the learner has become the efficacy agenda and this is central to our global education strategy.

To reflect the importance of learning outcomes, we have introduced a new efficacy section in our annual report (page 14). In that section we describe our commitments and targets on measurement and reporting as we go down the path towards efficacy. Our vision is that by 2018, we will report on learning outcomes alongside our financial results.

This section will now report on our wider responsible business agenda.

We welcome feedback on this aspect of the company as we do on any other. Please email our director of corporate responsibility at peter.hughes@pearson.com with any questions or comments you may have.

Together with sections one and two of this document, this section forms our strategic report, which was approved for issue by the board of directors on 10 March 2014 and signed on its behalf by:



Robin Freestone Chief financial officer
(and board member responsible for corporate responsibility)

Responsible business continued

Overview

Helping learners to learn and progress is both the focus of our business strategy and the single most significant social contribution we can make.

The section on efficacy (page 14) describes the approach we are taking to our responsibilities towards the learner.

In addition, Pearson has adopted a broad definition of responsible business reflecting priorities we share with many industry sectors and individual businesses. These include commitments across a broad range of social, community and human rights issues relevant to Pearson to:

- › Ensure that our products and services are inclusive, appropriate in content to the age and location of the learner and are safe to use and access.
- › Inform, support and equip colleagues to embrace and respond to new priorities and ways of working.
- › Provide a safe, healthy workplace where our employees and increasingly the learners we directly serve are able to realise their individual potential and there is respect for privacy, dignity and life outside work.
- › Extend our principles on labour standards, human rights and environmental responsibility to include suppliers and business partners.
- › Provide opportunities for Pearson people to be good citizens and to get involved in their local communities.
- › Deliver against stakeholder expectations on a response to climate change and in making better, more efficient use of resources.
- › Be open and transparent in how we share and engage with those with an interest and passion for education and learning.

We consider our policies relating to these matters to be effective.

Transforming our company – supporting our people through change

Last year, we announced our plans to transform Pearson into a single company driven by a focus on helping learners make measurable progress in their lives through learning.

A priority for 2013 was to design and put in place a new organisational structure that shifted the company from being a portfolio of businesses towards a single operating model with standard systems, clear accountability and quicker decision-making.

We recognised that change can be both inspiring and empowering but can also bring operational risks. To mitigate this, we:

- › Were clear about the purpose of the change to better focus on a shared single purpose of delivering for the learner.
 - › Held change management workshops for senior leadership teams to prepare for the new organisational structure and operating model supported by videos, blogs, emails and interactive materials.
 - › Introduced the new leadership team and their priorities for 2014, both virtually and in-person.
 - › Explained how the new operating model would work, focusing on better use of information, improved efficiency and cohesiveness in collaborating on strategic priorities.
 - › Supported the people that left the organisation as a result of the restructure.
 - › Continually tracked morale and reaction to change to inform and shape how we communicated and supported our people.
- At the same time, we continued to focus on our broader responsibilities as an employer. During the year, Pearson:
- › Launched Milo, a single global platform for all our people to access learning and development resources.
 - › Adopted a new consistent global health and safety policy and introduced a new set of common management and reporting procedures for our businesses globally.
 - › Reviewed and refreshed our code of conduct including emphasising our commitment to learners of all ages and types.

- › Continued to focus on how to meet our commitments to attract, recruit and retain the best people. We know that creating and sustaining an inclusive work environment is critically important, offering equal opportunity from the boardroom down regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation.

CASE STUDY

Gender diversity

During 2013, we continued with the development of the gender diversity strategy at Pearson. Pearson is a supporter of the 30% Club which brings together chairs and CEOs to work to encourage better gender balance across their companies. There was continued progress in advancing women and people from diverse backgrounds. An example of our work is the diversity toolkit introduced in the UK in 2012, and launched in the United States and made available globally in 2013. Designed for managers and business leaders across Pearson, it is made up of guides, tips, advice and employment law, to enable our leaders to successfully build, manage, and develop their diversity management skills.

We introduced a single global data collection process based on our new operating structure to help inform people management. This includes our first global view on the gender balance within the company. More work remains, in particular to incorporate gender data from countries with recent acquisitions. The gender balance based on the introduction of our new organisational structure was:

	MEN		WOMEN	
Board of directors	7	78%	2	22%
Senior managers (excluding executive board directors)*	61	69%	28	31%
All employees**	17,190	43%	22,774	57%

* For the purposes of this report, senior managers at Pearson are defined as the senior leadership team, namely those up to and including two reporting lines from the CEO. We believe this is the most meaningful way to illustrate the senior leaders and decision-makers at Pearson.

** Data for over 2,000 employees predominantly from China and Indonesia is not included in the all employees numbers above. Employee information can be found on page 142.

- › In the United States, Pearson received a perfect score of 100% in the 2014 Corporate Equality Index (CEI), a benchmarking survey and report on corporate policies and practices related to LGBT workplace equality, administered by the Human Rights Campaign (HRC) Foundation. We were also named as one of the 100 Best Adoption Friendly Workplaces by the Dave Thomas Foundation for Adoption.

Disability forms a part of our wider commitment to equal opportunity. We work to ensure that appropriate policies, procedures, training and support are available for disabled colleagues and their managers. A recent example is a guide on how to develop corporate videos, so that all our people, including those with disabilities, can access and benefit from these films.

Partnering and investing to extend access to learning

Extending access to quality education is a big challenge, particularly in the poorest countries in the world. Meeting the challenge requires a sustained commitment to partnership – international organisations like the UN and the World Bank, national governments, donor agencies and charities, businesses such as Pearson, education providers and suppliers all working together.

We are committed to playing our part. We do this through being active in helping shape and inform the global debate around education and learning policy as well as investing in projects that explore possible solutions to the most intractable learning needs.

In 2013, we:

- › Joined the board of the Global Partnership for Education (GPE) representing the private sector and private foundations. GPE brings together representatives from nearly 60 developing countries, donor governments, charitable foundations and private businesses to work together to help developing countries strengthen their education systems. www.globalpartnership.org/
- › Championed the role of the private sector in education and learning in developing countries as a founding member of the Global Business Coalition for Education. www.gbc-education.org/
- › Made a series of commitments during the UN General Assembly including to: invest \$30m in innovative education solutions; establish a multi-year flagship partnership to help overcome barriers to learning for marginalised children; work with the GPE to develop a private sector strategy that meets the goals of its strategic focus on fragile states; and by 2018, to help 20,000 new graduates from across sub-Saharan Africa to transition into employment.

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- › Continued to invest in models that provide access to affordable education through low-cost private schools. The \$15m Pearson Affordable Learning Fund has invested in projects in Ghana, Kenya and India. www.affordable-learning.com/
- › Continued to support the Education Zone on the Business Fights Poverty network. The zone is a platform for debate on the role of business in global education. www.businessfightspovetry.org/page/education-zone
- › Launched Pearson Catalyst, a new incubator programme to identify and back the most promising education start-up companies. Pearson provides mentors, seedcorn funding and access to resources and insight.

Our communities

Not-for-profit partners help us extend our reach and impact in ways that have a real impact on learning – especially for the most disadvantaged – and are complementary to our business objectives. We also believe that our stakeholders expect and value our efforts to work in partnership with charitable organisations.

We therefore partner and fund a number of charitable organisations with the Pearson Foundation being the largest of these. In 2013, our worldwide charitable giving was £11.8m or 1.5% of pre-tax profits.

Highlights this year include:

- › Booktime gave its ten millionth book. Booktime sees every child starting school in England and Wales receive a book pack containing two free books to take home and keep.
- › We were the largest book donor to Book Aid International in 2013. We have given 1.2 million books to the charity to support the development of libraries in schools and communities across sub-Saharan Africa.
- › The *Financial Times* seasonal appeal raised £1.4m for World Child Cancer, a charity helping treat sick children in some of the poorest countries. Since 2006, FT appeals have raised £14m for charity partners.

For 2014, we will look more broadly at our approach to community partnerships including the metrics we use.

CASE STUDY

Pearson Foundation

The Pearson Foundation is an independent charity that aims to make a difference by promoting literacy, learning and great teaching. Its programmes in 2013 included:

- › Helping Jumpstart's Read for the Record to set a new world record for reading the same book on one day as 2,462,860 adults and children read *Otis*, by Loren Long, in classrooms, libraries, and community centres across the United States.
- › Strong Performers and Successful Reformers in Education, developed in partnership with the Organisation for Economic Co-operation and Development (OECD) helps inform what works in education globally.
- › BridgelT has reached over one million children and their teachers using mobile technology to deliver professional development materials and educational resources to remote and underserved classrooms in ten countries around the world.

In 2011, the Pearson Foundation faced criticism on some of its programmes and the New York State Attorney General announced an investigation into the Foundation's governance, administration, and relationship with Pearson. We co-operated fully with the investigation. A settlement agreement with the Pearson Foundation and Pearson, Inc. has been concluded.

Pearson and the Foundation maintain we have always acted with the best intentions and complied with the law. However, we recognise there were times when the governance of the Foundation could have been clearer and more transparent. Over the past two years, the Foundation has taken several steps to strengthen its governance, beginning with the addition of independent directors to the board and the adoption of stronger operational systems. Under the settlement, these efforts will be further enhanced by the creation of a three-person audit committee.

The Foundation has also agreed to pay \$7.5m into a fund managed by the Attorney General that will support the work of 100Kin10, an organisation committed to placing 100,000 science and mathematics teachers into US schools in the next ten years.



Environment: climate change and avoiding deforestation

Extreme weather events continued in 2013, most notably Typhoon Haiyan in the Philippines which was one of the worst storms on record. Pearson has around 350 people in Manila with the majority working for the FT. Although our employees are all safe and our operations were not directly affected, many had anxious moments tracking family members.

Pearson matches contributions made by Pearson employees in countries and communities where we operate. Over 1,000 Pearson people around the world contributed to a special fund set up in the wake of Haiyan, which together with matching from Pearson meant that over \$150,000 was raised for charities working in the Philippines, primarily to help children get back into school and to rebuild their lives.

Typhoon Haiyan was a stark reminder on the importance of minimising environmental impact. Pearson continues to be climate neutral, a commitment we first achieved in 2009 and have maintained ever since.

This commitment was designed to encourage the company to focus on carbon reduction. Pearson was included in the media category as a Decoupling Leader in the Natural Capital Index developed by Trucost, a research firm focusing on sustainability metrics. Trucost looked at the environmental impact of 4,600 publicly traded companies and 34 were recognised as Decoupling Leaders having successfully separated growth from resource use over a sustained period.

Our second focus area is forests. As a purchaser of paper and newsprint for our books, magazines and newspapers, security and sustainability of supply are very important to us. We have focused on sustainability sourcing and being more efficient in how we use paper. Also, as our transition towards being an educational technology and solutions provider gathers pace, so this will change our environmental footprint.

Responsible business continued

Highlights of our activities include:

- › Pearson received a 2013 Green Power Leadership Award from the US Environmental Protection Agency (EPA) for its green power purchase. 100% of the electricity purchased by Pearson globally – over 215 MWh in 2013 – comes from green power.
- › We have invested in renewable energy generation at four sites and have 2.3 Megawatts of wind and solar assets installed.
- › Pearson was the second ever organisation to be certified globally against the Carbon Trust Standard. This recognises leadership in measuring, managing and reducing year-on-year carbon emissions.
- › Facilities in the United States also seek to secure LEED, an internationally-recognised mark of excellence by the US Green Building Council. Over 800,000 square feet across six of our buildings are LEED certified. Pearson is also certified against ISO14001, the environmental management standard in the UK and Australia.

Pearson invests in forest-based carbon offsets for any part of our climate footprint that we cannot reduce or avoid through other means. Since 2009, this programme has seen over 700 hectares of forest protected in Colombia, Costa Rica, the United States and the UK.

ENVIRONMENT	
Challenges	Climate change
Our commitment	To maintain our commitment to climate neutrality
How we measure progress	Through carbon reduction; purchase of renewable energy; renewable energy generation at our sites and the purchase of carbon offsets

GLOBAL GHG EMISSIONS DATA FOR CALENDAR YEAR 2013

Emissions from:	Metric tonnes of CO ₂ e
Combustion of fuel and operation of facilities (GHG Protocol Scope 1) natural gas, company owned/ leased vehicles, refrigerant gas loss and fuel oil	30,170
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	115,548
Total	145,718
Intensity metric (tonnes CO ₂ e/full time employee for scope 1 and 2)	3.19

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with the latest emission factors from recognised public sources including, but not limited to, Defra, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental panel on Climate Change.

We publish a separate report providing more information on our environmental impact and this includes some corporate value chain emissions data (GHG Protocol Scope 3).

External benchmarks

One way we assess how we are doing as a responsible business is to maintain our position in key indices and benchmarks of social responsibility.

	2013	2012	2011	2010
Dow Jones Sustainability Indexes*	Silver class	Gold class	Global sector leader	
BITC Corporate Responsibility Index	Platinum	Platinum (retained)	Platinum	Platinum (retained)
Inclusion in FTSE4Good	Yes			

*Gold class is within 1% of the sector leader, silver class is within 2% of the sector leader.

Our values, principles and behaviour

Although the structure and culture of the company is changing, values are what define us. Our values to be brave, imaginative and decent in everything we do are the foundation of the company.

Our values are underpinned by our Code of Conduct that covers, among other things, individual conduct, learners, employees, community, the environment and society.

We make sure everyone is aware of and understands the code and this forms part of our induction for new employees. Once a year, everyone working for Pearson gets a copy either electronically or on paper, and is asked to read it; to confirm to the Pearson CEO that they have read it and understood it; and in doing so, to provide a check that the company complies with it. If anyone has concerns, these can be raised with a line manager or through a free, confidential telephone line/website.

Pearson has a zero tolerance policy towards bribery and corruption. Our policy introduced in 2011 sets out our standards; we carry out risk assessments and have a network of designated managers across the business responsible for compliance with our policy.

We are committed to making sure our people understand how we are doing as a company, including how world trends might affect them and the business. We provide comprehensive, relevant information in a variety of ways, including regular presentations from senior executives and consulting where appropriate so that we can learn and take account of the views of our people.