

# Chief executive's strategic overview



John Fallon  
Chief executive

“For education to really work it needs to not only provide access, but ensure progress... by standing at the intersection of new technology and good teaching practices, we can help to make learning more accessible and more relevant for more people around the world.”

Dear shareholders,

Pearson's purpose is to empower people to progress in their lives through learning, and that means we put the learner at the heart of everything we do. Through this review, you'll see five stories from students that illustrate how we've been doing over the last year.

Each story demonstrates the commitment and ability of the young woman involved, each a great source of inspiration to all of us. Each showcases one of Pearson's most commercially successful products (MGI, BTEC, Connections, Wall Street English, MyLabs) of recent years. And they all illustrate that the bigger Pearson's social impact – in improving access to good quality education and ensuring that translates into meaningful learning outcomes for far more people – the more we can create a faster growing and more profitable company, and do so in a sustainable manner.

Last October Malala Yousafzai accepted her Nobel Peace Prize on behalf of the 66 million girls around the world who don't go to school. In this same spirit, I've chosen five stories that are about the achievements of young women around the world. You'll find more stories reflecting the full diversity of what we do at [www.pearson.com](http://www.pearson.com)

## Positioned to make a greater impact

The transformation programme we launched in February of 2013 is now complete. Over the course of two years, we carried out as much restructuring, in terms of activity and costs incurred, as we'd carried out in the previous six.

## Short stories of impact

### Rozanna's story



Rozanna has beaten overwhelming odds. Born into a family in Zimbabwe in which neither parent had taken A-levels, let alone attended university, she was not a typical candidate for higher education. Insecurity, lack of access to technology, and fear about personal safety were some of the barriers she faced. But her thirst for education led her to enrol in Pearson's Midrand Graduate Institute (MGI) in South Africa. Rozanna is now a third-year psychology major with a drive for achievement that has inspired us all at Pearson. She praises her lecturers, and credits much of her success with the personalised learning technology she uses at MGI.

That programme has been all about setting Pearson up to be able to demonstrate the impact of what we do in education around the world. It is about enabling us to do right across Pearson the thing that we have done increasingly well in many parts of the company, and which our stories of people learning all help to demonstrate. That is, we stand at the intersection of new technology (with its ability to engage, personalise and diagnose) and new, more effective, ways of teaching. This position allows us to develop products and services that enable the benefits of richer, deeper learning to be more widely felt.

We've had to conduct this accelerated programme of change whilst dealing with cyclical and policy related forces in our biggest markets, which I described in last year's report, and which continued to hurt us in 2014. In spite of these challenges, I'm pleased to report that we did meet the financial expectations that we set publicly for the company at the start of the year. Overall, at a time of much internal disruption and upheaval, we put in a generally good competitive performance. There were a couple of areas of under-performance, too, and we're working hard to do better in these activities in 2015. It wasn't just Pearson's education related businesses that performed well through this period of change. Penguin Random House, the company we own with Bertelsmann, turned in a best-selling performance whilst integrating the two companies. And the *Financial Times*, now part of our professional education business, continued to deliver the world's best news and information to its audiences whilst accelerating its own digital transition.

In 2015, we expect Pearson's profits to start to grow again, as the forces that have been working against us over the last two years start to ease, and as we benefit from the cost savings achieved by our restructuring and the revenues generated by our new investments.

### A growing global demand

We'll be working hard with our customers to tackle what we think is one of the most important challenges in the world today. For globalisation and the disruptive powers of technology mean we live in a 'Second Machine Age' in which, as my colleague, Lionel Barber (editor of the *Financial Times*) puts it, "leverage in the workplace is best achieved through knowledge." This means that equipping every global citizen with what are sometimes described as '21st century skills' is more important than ever. In other words, for education to really work, it needs to not only provide access, but ensure progress.

To prosper in career and college, all young people need to leave school literate and numerate, with good knowledge of science, technology and the liberal arts, and being able to apply that knowledge to solve real world problems. They also need to be proficient in the kinds of less tangible skills that will help them succeed in the workplace – critical thinking, adaptability, team-working, and digital fluency.

They need the grit, resilience and determination to persevere and succeed – and, most of all, they need the capacity to carry on learning throughout their lives. These are all things that can be taught.

### Short stories of impact

#### Bethany's story



Bethany is a UK student who did not take A-levels, but instead went after a BTEC qualification. She, like so many recent BTEC applicants, applied to university with a different skillset, but not with any less determination or ability. Her hard work and credentials were recognised when she was accepted to study Psychology and Linguistics at Oxford University. Bethany's story highlights that a skills-based qualification like a BTEC is not a 'lesser' credential, but one that can set a student up for success in higher education and a career.



## Chief executive's strategic overview continued

### Meeting the need

For the two billion people learning English as a foreign language, or the 300-400 million more people enrolling in higher education over the next 30 years, and all the other students of all ages around the world, the need for effective and relevant teaching and learning will continue to grow.

Of course, there are challenges to meeting this need. Fragmented and siloed approaches to education, changes in government policy and regulations, and widely diverse economic and social conditions, make our work, and that of educators worldwide, much more complex. But we are confident that by standing at the intersection of new technology and good teaching practices, we can help to make learning more accessible and more relevant for more people around the world.

In 2015, five priorities, outlined here, are guiding our work.

### Education revenues 2013 (\$bn)

Pearson (Education)	\$7.4bn
Laureate*	\$4.0bn
Apollo Group	\$3.5bn
Benesse Education	\$3.4bn
Kaplan (Graham Holdings)	\$2.1bn
Cengage Learnings	\$1.8bn
Corinthian Colleges	\$1.5bn
Houghton Mifflin Harcourt	\$1.4bn
McGraw-Hill Global Education	\$1.2bn
New Oriental Education & Technology	\$1.1bn

\* Estimate

### 2015 priorities

#### A business model focused on helping more people achieve better learning outcomes

Our efficacy initiative, first outlined in last year's report, is no longer just a framework. Efficacy is now at the centre of our business model and a major part of how we create value. This year, we'll embed it even more deeply into the fabric of everything we do so that it reaches more products, influences more people and transforms more processes. As our customers become ever more focused on achieving better returns on education related spending, Pearson is at the forefront of a great global growth opportunity. And it enables us to put our social impact at the very heart of our business. This applies to our Project Literacy campaign (page 54) and the renewed investment in our Pearson Affordable Learning Fund (page 56), just as it does to the research and development of new products and services and the way we engage with our customers each day. It is the means by which we ensure that education is more accessible, impactful and affordable, and delivers those outcomes to people regardless of location.

### Our business model



Our efficacy programme, assessing and improving the impact of our products, is crucial to our value creation model

### Short stories of impact

#### Zuriel's story



Zuriel is an ambitious 12-year old documentary filmmaker, originally from Nigeria, who now lives in California. She is enrolled in Pearson's entirely online Connections Academy, which she says allows her to "do extracurricular activities even when travelling overseas, creating documentaries, and interviewing African leaders," without missing important schoolwork. Zuriel recently launched the "Speak Up, Stand Up" project to inspire girls on the African continent to "stay in school, get a good education, and also to accomplish their dreams." We can safely say she is leading by example.

## 2 New digital products

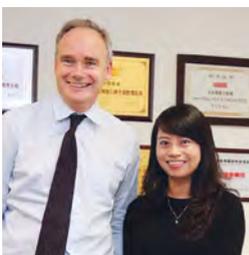
To further this work, we'll be launching new global products to meet the need for much better learning outcomes. They connect content with assessment and feedback. They use analytics and big data to personalise learning – making it a far more collaborative and effective experience for students and teachers. They all draw on world-class research into the science of teaching and learning. In the end they'll all be mobile first and device neutral. And they are all designed to take full account of just how 'messy' education can be, how important it is to deliver large and complex projects, and how to deal with 'last mile' issues. Our customers all know that the real problem in education is not finding a great teacher or a really good school, but being able to replicate that excellence at scale. All our new digital products are focused on meeting that need.

### Our priorities

School	Higher Ed	Professional
Blended and virtual schools (e.g. Connections Education)	Blended and virtual higher education learning (e.g. CTI)	Blended and virtual English language learning (e.g. Wall Street English)
Sistemas (e.g. COC)	Online programme management (e.g. our partnership with Arizona State University – ASU Online)	Pearson VUE
Large-scale assessment services (e.g. TestNav)	Next-generation courseware (e.g. REVEL)	Global Scale of English and Progress
World-class qualifications (e.g. Edexcel, BTEC)		Next-generation courseware (e.g. MyEnglish Lab, ELT World, Top Notch)
Digital clinical portfolio (e.g. Q-Interactive)		
Next-generation courseware (e.g. enVisionMATH, Pearson System of Courses, Realize)		

### Short stories of impact

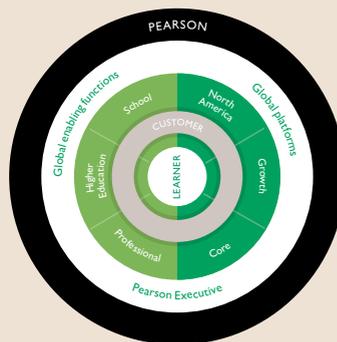
#### Julia's story



## 3 A more focused company

We're building these products in a modular and scalable way, and deploying them on a smaller number of global platforms. This improves the customer experience, makes it much easier to share assets and resources across the whole company, and is also much more cost effective. It is one example of how we are simplifying our company. We've already reduced the number of applications and systems used across the company by 10%, and we will continue that work this year. We have already sold a number of businesses where either we lacked scale or we saw limited scope for us to have a more direct impact on learning outcomes. This work will continue, as we focus our resources and energy on the biggest education challenges we see around the world. It is where we can make the biggest impact, and where, by running Pearson as one company, we see the biggest opportunity.

### Our operating structure



We operate a global model, focused on learner need at different ages and stages, locally adapted and delivered, and always with the learner at the centre

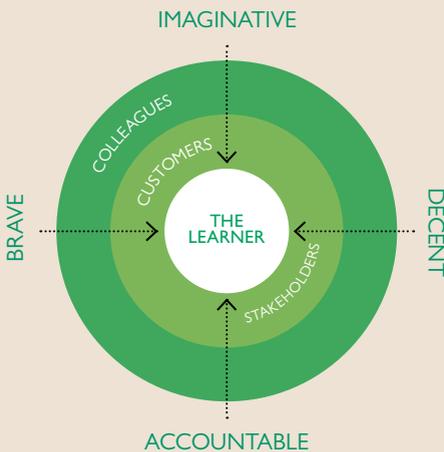
Julia is learning English at one of Pearson's Wall Street English centres in Shanghai. I met with her during my visit there and was inspired by her drive. She now lives far from her parents' farm in south China, and far from the norms of rural life. Julia's decision to leave home to continue in higher education might have come as a shock to her family, but she is determined to improve her English language capabilities in order to further her career prospects and, one day, find work with a global company. She likes to engage on social media with friends she's met virtually around the world – and she wants to use her English language skills to spread the word that, as she puts it, "there's more to my country than air pollution."

## Chief executive's strategic overview continued

2015 priorities continued

### 4 A more consistently high performing culture

At its best, Pearson has always championed high performance; we're now taking a whole series of actions (including how we recruit, appraise and reward everyone who works for Pearson) to make this a feature of everything we do. We've reaffirmed, and amplified, our long held values of 'brave, imaginative and decent', which are particularly important at a time of great change. (Of the top 100 executives in the company, 70 are, in the last two years, new to their roles or to the company.) We've also added 'accountable' as a fourth core value. This is important to ensure that, in our new more 'matrix' style organisation, we all actively help each other to achieve our collective goals. It also recognises how important it is to be accountable to the public trust for all we do in education around the world.



### 5 A stronger brand

This accountability extends to our willingness to engage in the public debate. Education is one of the most important areas of public life and evokes strong emotions and opinions in a field where data and evidence as to 'what works' can be difficult to come by. Our focus on educational impact and learning outcomes – and our openness and transparency in holding ourselves to account in achieving these goals – is vital to address these concerns. Today, public awareness of Pearson as the world's leading learning company, is still relatively limited. If we are going to achieve our full potential, we need to build Pearson, as a global education brand that is known for our work in empowering more people to progress in their lives through learning. This means, for example, that we need to be much less muted in our engagement in the circa 78 million-voice strong 'global conversation' that our research tells us is currently taking place around the topics of 'education' and 'learning'. And we also need to organise our product marketing so that we position Pearson, especially online and through social media, in a much more coherent way.

## Short stories of impact

### Taylor's story



**MyStatsLab**  
& online tools

Taylor is a student at the University of North Texas who was not thrilled that Statistics was a required course for her major. She lacked confidence in math and nearly let that fear cause her to change course and quit her degree programme altogether. 'I thought I didn't have the ability to do maths,' she told us. Taylor was then introduced to Pearson's MyStatsLab and decided to push through her fear. Instead of failure, she found success through using the tool to reinforce learning and practice in difficult areas. She completed her Statistics class with the highest possible grade.

## Looking ahead

In accepting her Nobel Peace Prize, Malala Yousafzai said: 'I am many...I am not raising my voice, it is the voice of those 66 million girls.' At the same event, her fellow recipient, Kailash Satyarthi set us all the task of 'universalising knowledge'.

All 40,000 Pearson colleagues are tackling these priorities in that spirit of 'I am many,' working with each other and with the millions of students, teachers and schools we serve. We'll grow by helping more of our fellow citizens to grow, by universalising the knowledge (and the skills) they'll need to succeed in this increasingly human capital driven world. Working with the communities in which we operate, we'll combine new technology and new teaching to enable the world to earn a far greater return on the \$5 trillion and more that is spent on education each year. As we succeed, we'll grow our market opportunity and help many more people make progress in their lives through learning. As a result, we'll start to grow again in 2015, and more importantly, it will set us up to be a faster-growing, leaner, more profitable and cash-generative company for years to come. We'll be a company deploying less capital, and capable of earning higher returns.

I thank all my colleagues for their hard work and commitment. And I thank our shareholders for their support and patience. We are already better placed to help more learners around the world to achieve their own personal aspirations.



John Fallon Chief executive

## My executive team

### Lines of Business

Doug Kubach, President, School  
Tim Bozik, President, Higher Education  
John Ridding, President, Professional

### Geographies

Don Kilburn, President, North America  
Rod Bristow, President, Core  
Tamara Minick-Scokalo, President, Growth

### Enabling functions

Robin Freestone, Chief financial officer  
*Coram Williams, Chief financial officer from 1st August 2015*  
Michael Barber, Chief education adviser  
Kate James, Chief corporate affairs officer  
Luyen Chou, Chief product officer  
Albert Hitchcock, Chief information officer  
Melinda Wolfe, Chief human resources officer  
Phil Hoffman, Chief corporate finance & strategic development officer