



Pearson

The World's Learning Company

Education Bonds and an **Introduction to Sustainability**
at Pearson (*incorporates Pearson's Social Bond Framework*)

May 2020



Our story

Our purpose is to help people make progress in their lives through learning

We are the world's learning company with more than 22,500 employees operating in 70 countries. We provide content, assessment and digital services to learners, educational institutions, employers, governments and other partners globally.

We are committed to helping equip learners with the skills they need to enhance their employability prospects and to succeed in the changing world of work. We believe that wherever learning flourishes so do people.

Pearson has developed a Social Bond Framework in alignment with the ICMA Social Bond Principles 2018. The proceeds of eligible projects will be primarily used within our business to help achieve the United Nations' 4th Sustainable Development Goal (SDG) for a Quality Education.

The social bond framework is a natural progression of Pearson's long-standing commitment to integrating social and environmental sustainability into our business.

We have recently published our new 2030 Sustainability Strategy, building on our focus of identifying, supporting and developing people so they can reach their full potential and create a better world for us all.

The 2030 Sustainability Strategy can be viewed within our Annual Report and Accounts 2019.

➔ <https://www.pearson.com/content/dam/one-dot-com/one-dot-com/global/standalone/ar2019/2019-ar.pdf>

“ Pearson operates in **70 countries** and has more than **22,500 employees**. ”

Efficacy

Pearson were the first educational company to put efficacy at the heart of our business. We hold ourselves to account publicly for the learning outcomes we help enable, commissioning and publishing audited efficacy reports to evaluate the impact of our products on educational outcomes. All these reports are publicly available online.

➔ www.pearson.com/news-and-research/efficacy.html

Our focus on efficacy is critical to our Sustainability Strategy. Measuring the impact products have is one of the key means by which we align our business with the UN Sustainable Development Goals (SDGs), particularly goal 4 on quality education, goal 8 on decent jobs and economic growth, and goal 10 on reducing inequality.



About Pearson

Focused on digital, lifelong learning

Our **purpose** is to help people make progress in their lives through learning.

Our **vision** is to have a direct relationship with millions of lifelong learners and to link education to the way people aspire to live and work every day. To do that, we will collaborate with a wide group of partners to help shape the future of learning.

Our **capabilities** include combining world-class educational content and assessment, powered by services and technology, to enable more effective teaching and personalised learning at scale. Our capabilities are based on our deep expertise in how people learn.

Our strategic advantages



Insights and capabilities

We partner with world-class authors, institutions, government and regulatory bodies, as well as employers to develop our content, assessment and service capabilities. We take a data-driven approach to product design, based on proven learning science and pedagogy. This enables huge advancements in rich content, personalised learning and effective analytics.



Investing back into our business

Pearson's strong balance sheet supports the continuing investment in our digital transformation and structural growth markets. We are investing record levels to become the winners in digital education.



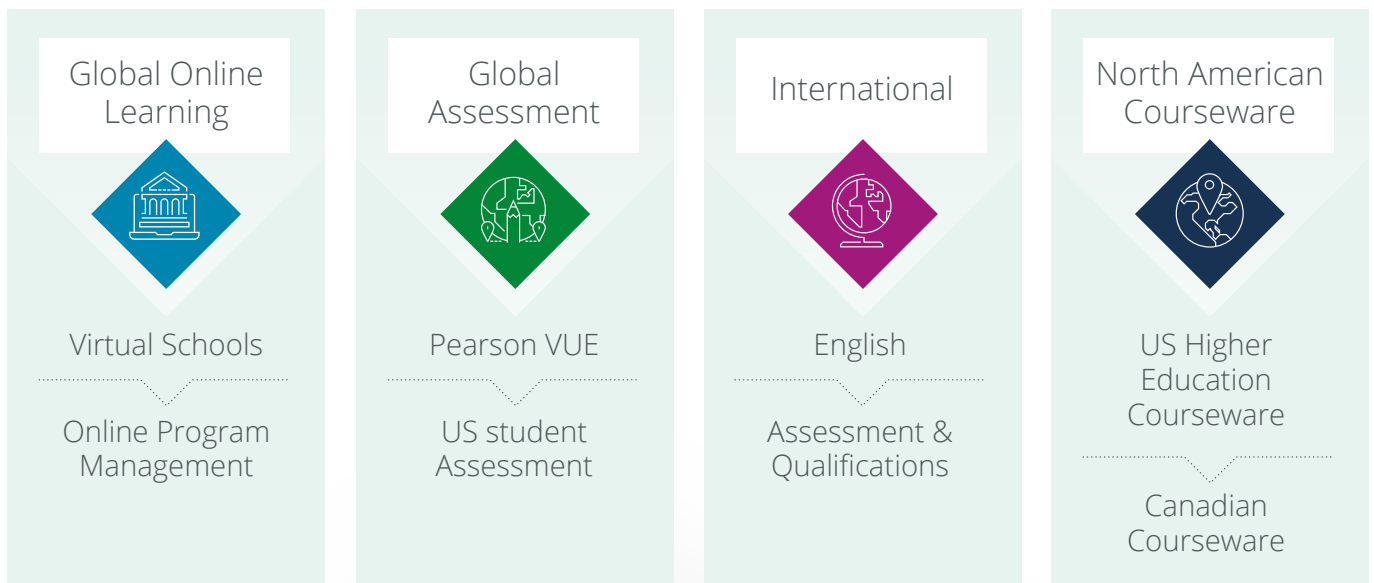
Global reach and scale

We have a truly global scale and focus. We operate in 70 markets worldwide. Our products and services benefit from being centrally developed and globally deployed, with local expertise and capabilities ensuring success.

“Ensuring **access** to quality education for all.”

About Pearson

Key businesses in our four segments



Sustainability

Talent is the world's most valuable resource – we're working to unleash it

Pearson has a long-standing commitment to sustainability. As our 2020 Sustainability Plan draws to a close, we have recently launched a new 2030 Sustainability Strategy focused on unleashing talent as the world's most valuable resource.

By leveraging our capabilities and partnering with others, we can help develop lifelong learning opportunities that enable people around the world to create better lives for themselves, their families and generations to come.

Our focus is identifying, supporting and developing people so they can reach their full potential and supporting the UN Sustainable Development Goals (SDGs) particularly goal 4 on quality education, goal 8 on decent jobs and economic growth, and goal 10 on reducing inequality.

The strategy supports our company's mission, business priorities and brand strategy with 3 pillars:

- Advance equity in learning for under-represented groups.
- Build skills for a sustainable future.
- Lead by example across our value chain.

2030 Sustainability Strategy

Pearson sees a world of talent

Talent is the world's most valuable resource. **We want to unleash it**

Our sustainability strategy has three main pillars:

Advanced equity in learning



We have the role and responsibility to help overcome barriers to lifelong learning, from socio-economic hurdles to equity and health challenges.

Our 2030 strategy will continue to focus on building the foundations for a sustainable business, such as our commitments to respect human rights and minimise environmental impacts across our value chain.



Lead by example

Build skills for sustainable futures



We will use our skills, assets and partnerships to equip people with the technical skills, knowledge, creativity and resilience needed to achieve the UN SDGs.

UN Sustainable Development Goals:



Sustainability

Taking stock of our 2020 plan

In 2016, we publicly launched our 2020 Sustainability Plan to integrate social and environmental issues more deeply into every aspect of the company, and help make greater contribution to some of the most intractable issues in education today.

We are approaching the end of Pearson's 2020 Sustainability Plan and we have successfully met our targets, including our goal to build strong foundations to support learners from disadvantaged backgrounds through products and services like Virtual Schools, Accelerated Pathways, BTEC and GED.

Examples include, expanding vocational education in target markets including our partnership with the Campaign for Female Education, where we have awarded 2,880 BTECs to young women from marginalised backgrounds in Zimbabwe, Tanzania, Ghana and Malawi.

We are better preparing students to progress in learning, work and life through a range of products and services. For example, 'Pearson's Career Success' programme, which has reached 135,000 learners since 2018, helps students set career

goals, fill skills gaps and prepare for employment.

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And we met our 2020 targets to **reduce our operational greenhouse gas emissions by 50%** (using 2009 as the base year) ”

2020 Sustainability Plan



1 Reach more learners

Improve access to and affordability of products and services

Collaborate to reach underserved learners



2 Shape the future of learning

Build skills that foster employability and inclusive economic growth

Promote education for sustainable development

Engage in multi-stakeholder research, dialogue, and collective action to solve global challenges



3 Be A Trusted Partner

Respect and support our people, customers, and communities

Protect our natural Environment

Build a sustainable supply chain

Sustainability

Sustainability Credentials

Our sustainable mission, methods of delivery and reporting on sustainability have resulted in recognition from a number of indices and awards:

Corporate Knights World's 100 Most Sustainable Companies (2014-2019)

Dow Jones Sustainability index (2014-2019)

FTSE4good (2012-2019)

Human Rights Campaign Corporate Equality Index (2013-2019)

Bloomberg Gender Equality Index

PwC's Building Public Trust Awards 2018, for transparency in tax reporting, our strong focus on societal impacts, as well as our efficacy reporting

Additionally, in February 2019, Pearson signed a **\$1.19bn Revolving Credit Facility (RCF) with a syndicate of 9 banks linked to supporting the UN SDG 4 – Quality Education.** This is believed to be the first RCF transaction in the world to be linked to SDG 4.

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The deeper we integrate sustainability into our business and strategy, the bigger and more positive will be the impact we have on society – and the more likely we are to prosper over time. ”

John Fallon
Chief Executive, Pearson



The Social Bond Framework

Education Bonds

Bonds issued under this Social Bond Framework (the “Framework”), and whose primary objective is advancing the UN’s SDG 4¹-Quality Education

This Social Bond Framework:

1. Aims to comply with ICMA Social Bond Principles 2018²
2. Sets out that any bonds issued under it will be spent on projects whose primary objective is to advance the UN’s SDG 4 –Quality Education

For each Education Bond issued under this Social Bond Framework, Pearson asserts that it will adopt the following as set out in this Framework:

- 1 Use of Proceeds**
- 2 Project Evaluation and Selection**
- 3 Management of Proceeds, and**
- 4 Reporting**

1 Use of Proceeds

Pearson has a very wide range of projects which would meet the criteria as our mission seeks to address many of the challenges which the UN’s SDG4 for quality education also seeks to address.

However, for this initial framework we have selected a small number of projects which comfortably exceed the amount which it is anticipated would need to be debt funded in the near term.

Connections Academy, our online K-12 education business provides high quality education to all, free to the user and those completing achieve as a minimum the required skills in maths and English.

GED, accelerated pathways and functional skills help learners over 16 to achieve the qualifications to progress in education or to be considered eligible for many roles (such as the required skill levels in maths and English).

BTEC provides high quality vocational education, free to the learner, enabling students to progress further through education or to make progress in their career.

“Connections Academy”

Online/distance-learning tuition offered free for US students from kindergarten to grade 12. Particularly aids students who are unable to get to school or who struggle in the traditional classroom environment.


¹ UN Sustainable Development Goals - <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

² Social Bond Principles 2018 - <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

The Social Bond Framework

Eligible Projects

The proceeds from any Pearson Education Bond will be applied, in part or in full, to finance or refinance internal projects and expenditures that meet the following Eligible Categories:

ICMA Social Bond Principles 2018 Project Category	Eligibility Criteria	Alignment with the UN SDG targets
 <p>Access to essential services – education</p>	<p>Teaching, technology, student materials and curriculum development for the provision of free online education services through the Connections Academy</p> <ul style="list-style-type: none"> Curriculum and product development for alternative secondary education credential and foundational learning to enable progress in post-secondary education, through GED program 	<p>Primary targets:</p> <ul style="list-style-type: none"> SDG 4.1: By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes SDG 4.3: Ensure increased equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university SDG 4.4: Increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship <p>Additional benefits include advancing:</p> <ul style="list-style-type: none"> SDG 8.6: By 2020, substantially reduce the proportion of youth not in employment, education or training
 <p>Socioeconomic Advancement and Empowerment</p>	<p>Development of vocational certification services for underserved and underemployed learners, through the BTEC vocational qualification</p> <ul style="list-style-type: none"> Teaching, technology, and curriculum development for the provision of free adult learning services, including the Accelerated Pathways product Curriculum and product adaptation in order to ensure accessibility of Pearson's products to people with disabilities 	<p>Primary targets:</p> <ul style="list-style-type: none"> SDG 4.1: By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and Goal-4 effective learning outcomes SDG 4.4: By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship <p>Additional benefits include advancing:</p> <ul style="list-style-type: none"> SDG 8.6: By 2020, substantially reduce the proportion of youth not in employment, education or training SDG 10.2: By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

The Social Bond Framework

2 Project evaluation and selection

Pearson's Responsible Business Leadership Council (RBLC)

This framework has been approved by Pearson's Responsible Business Leadership Council (RBLC), an internal governance group led by the Chief Corporate Affairs and Global Marketing Officer, which includes 20 of Pearson's Senior Management team³, representing all areas of the business.

The RBLC will be responsible for approving:

1. Annual updates to the framework
2. That any proposed social bond issue meets the necessary requirements in accordance with the framework
3. The selection of projects
4. Management of proceeds
5. Reporting on the use of proceeds and their impact

The process of identifying and monitoring projects and spend:



The shortlisting process for eligible projects to be approved by the RBLC will be undertaken by Pearson's Treasury Team in collaboration with the Pearson Sustainability Team. On an ongoing basis, potential eligible projects or expenditures will be submitted by the Pearson Treasury Team to the RBLC for review, who will screen them to ensure that they are in coherence with Pearson's sustainability policy as well as for any ESG risks through managing and mitigating risks for these businesses by screening under Pearson's existing policies on -Anti-Bribery and Corruption, Safeguarding, Data Privacy/Info Security and Health & Safety.



The RBLC is responsible for verifying that the expenditures comply with the eligibility criteria outlined in the Use of Proceeds and alignment with advancement of the UN SDG targets, in order to approve the allocation of proceeds.

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This framework **has been approved**, and includes

20

of Pearson's Senior Management team³... ”

³ Including senior executives from the human resources, legal, operations, product, audit and compliance, efficacy and research, and corporate affairs and marketing teams

The Social Bond Framework

Governance and the Process for the Evaluation and Selection of the Eligible Projects and Expenditures



If approved by the RBLC, any subsequent reporting on use of proceeds will outline how the expenditure advances SDG4 and how it meets the criteria for the use of proceeds.



Expenditure may be for direct operating expenses or capital expenditure provided the primary purpose is the provision of education.



As such, expenses which Pearson considers eligible include employment costs for teachers, curriculum development costs, expenditure required by law to provide education (such as certain insurances) and the cost of developing and maintaining digital content and IT platforms. Excluded costs include marketing costs and amortisation of capital expenditure incurred before the measurement period.



Each project or expenditure approved by the RBLC for inclusion in the Education Bond portfolio is recorded by the Treasury Team in an internal database, until allocation to outstanding Education Bonds. This use of proceeds will additionally be discussed and minuted at the RBLC on an annual basis.



The Social Bond Framework

Response to Potential Issues

As an organisation which works with children and vulnerable adults and holds sensitive data it is quite possible that over the multi-year period of a bond that issues may occur.

Pearson treats risk management extremely seriously and the Reputation and Responsibility committee of the Pearson plc board focus on risk reduction and response. Where events do occur which are identified as a "controversy" Pearson has well defined response protocols aimed at ensuring that the impact is

understood, that the problem is isolated to prevent any recurrence and that lessons are learned.

The sustainability team will monitor for any reported controversies and consider whether the impact directly affected learners on one of the projects funded using social bond proceeds during the period where funds were allocated to it. If that is the case, the sustainability team and local business teams will make a recommendation to the RBLC on whether it had a material impact on the project's ability to provide a quality education.

If the effect of any controversy was material, any spend during the affected period will be deemed ineligible until such time as the issue is resolved and the RBLC approve the re-eligibility of the project.

If further investigation is required, Pearson will deem the project ineligible (on a look forward basis) until the review is concluded and the issue considered resolved (subject to RBLC sign off as above). If a project is reapproved, proceeds can be re-allocated on a look forward basis from the date.

Ineligible Spend

If an approved project or expenditure ceases to meet the eligibility criteria or is involved in a material controversy, Pearson will remove the expenditure from the allocation (on a look forward basis) whilst a review is undertaken. During the review period, Pearson

will aim to allocate this expenditure towards other eligible expenditures as soon as possible.

Where an expenditure is identified to be eligible once again, or a controversy has been resolved, the project or

expenditure will be resubmitted to the RBLC for review and following the same governance process above. If a project is reapproved, proceeds can be re-allocated on a look forward basis from the date.

“The sustainability team will monitor for any reported controversies and consider whether the impact directly affected learners on one of the projects funded using social bond proceeds during the period where funds were allocated to it.”

The Social Bond Framework

Education Bonds

3 Rules for the Management of Proceeds

The proceeds of each Pearson Education Bond will be earmarked against the pool of eligible projects and expenditures, as identified on page 8.

The Treasury Team has set-up a dedicated tracking process in their internal information database to monitor and account for the allocation of the proceeds, and ensure that there is no double counting.

Pearson intends to allocate the proceeds of any Education Bond(s) issued under this Social Bond Framework to disbursements/ expenditures from the 24 months prior to the issuance and up to 24 months after the date of issuance.

In the event that funds cannot be immediately and fully allocated, or in the event of any early repayment, unutilised funds are likely to be

lent in the short term to operating companies to fund working capital and investment in our education business until such time as the funds are recalled for investment in eligible projects.

Any allocated expenditure that becomes unallocated due to a project or expenditure ceasing to meet the eligibility criteria or being involved in a controversy during the life of the bond, Pearson will aim to allocate it towards alternative eligible expenditures as soon as possible, and until then the funds will be lent to operating companies to fund working capital and investment in our education business.

4 Reporting

The RBLC are responsible for the accurate reporting of both the allocation of proceeds and the social benefits of the expenditure from the proceeds of Pearson's Education Bond, until the proceeds have been fully allocated.

The Social Bond Framework

Reporting

Allocation reporting

Pearson will monitor the use of proceeds and will report to investors annually on the allocation of the use of proceeds to date until the proceeds are fully allocated. The allocation report will set out:



Project details

Name

Location



Category

SBP Category

SDG alignment



Target population



Allocation

Absolute amount allocated

Refinancing or Financing

Share of total financing

This will be included in the Investor Relations website contained with [Pearson.com](https://www.pearson.com)

Impact reporting

For the period where funds are allocated to projects, Pearson will provide data on the number of learners taking each type of course (e.g. the number of learners in Connections virtual schools) as a measure of the output of the spend and as a measure of the impact of the spend we will show the percentage of learners who achieved the target level of achievement and completed the course.

Additionally, where feasible, Pearson will provide both audited efficacy reports focused on the impact of its products and services on learner outcomes and qualitative case studies on the observed impact of those products and services. Pearson's Treasury team will be responsible for the collection and validation of data for the reporting. The annual reporting will be reviewed internally by RBLC.

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Pearson will provide **data on the number of learners** taking each type of course as a measure of the output of the spend...

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External Review

Second-Party Opinion

Pearson will obtain a second party opinion from Vigeo Eiris to confirm the alignment of this Framework with the Social Bond Principles, and assessing its environmental / social added value. The second party opinion will be available on Pearson's Investor Relations website.



External verification

Pearson's annual reporting up to the point where the proceeds are fully allocated will also be subject to external verification for assurance that:



The compliance of assets financed by the Education Bond proceeds with eligibility criteria defined in the use of proceeds section in this Framework.



The amount allocated to each of the Eligibility Criteria defined under the Use of Proceeds.



The process described under the management of proceeds has been adhered to.

The external reviewer's report will be published on Investor Relations website contained with [Pearson.com](https://www.pearson.com)

“ Always **learning** ”