



Our strategy in action^s

Pearson's strategy is to combine world-class capabilities in content and assessment with technology and services, to enable more effective teaching and personalised learning at scale.

Over time, this strategy will provide us with a larger market opportunity, a sharper focus on faster-growing markets, and stronger financial returns.

In this section

12 Our business model

14 Develop digital & services

16 Build market presence

18 Deliver measurable outcomes

20 Sustainability plan 2020

Our business model

Our inputs

Our business model

Financial

- › Free cash flow from prior periods
- › Financial resources allocated for investment

People and culture

- › Talented team
- › Experience and skills
- › History and values
- › Ways of working

Intellectual

- › Intellectual property
- › Content and systems
- › Innovative technologies
- › Market and customer insight
- › Brand

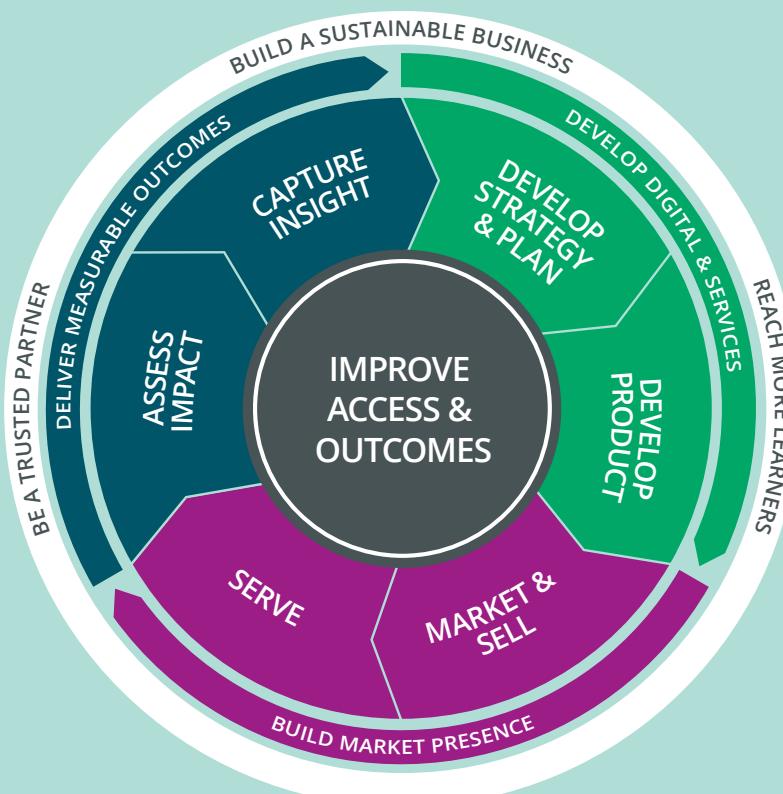
Global infrastructure

- › Products and services
- › Technology platforms
- › Property and facilities
- › Materials and equipment
- › Market presence

External relationships

- › Supply chain and strategic partners
- › Customers, teachers and learners
- › Regulators
- › Communities

We believe that a company must deliver value for society in order to be successful in the long term. We create sustainable value by developing products and services that meet learner needs most effectively. As a result, our business makes an important contribution to generating inclusive economic growth.



Strategic growth drivers S

See p14-19

Develop digital & services

Our goal is to improve access and outcomes in education through our world-class capabilities in content and assessment, powered by services and technology.

Build market presence

Our aim is to build our market-leading presence in North America, the UK and other key markets.

Deliver measurable outcomes

Our efficacy programme is our long-term commitment to delivering measurable impact. It informs all strategic decision-making across Pearson.

Sustainability plan 2020 S

See p20-27

Our outcomes

Value-creating activities We create value for stakeholders by developing innovative products and services that enable people to make progress in their lives through learning. Below we explain how our ‘inputs’ connect across our business to create long-term value.

DEVELOP DIGITAL & SERVICES

See p14-15 →



Creating value: Product and market strategy set our priorities for greatest growth and impact. To create value, this is dependent on our people, our relationships with world-class authors and researchers, and our intellectual capital insights gained from educators.

Creating value: Products are developed with insight from markets, to best meet local needs and opportunities. This depends on investment, insights and our ability to scale.

BUILD MARKET PRESENCE

See p16-17 →



Creating value: Sales, branding and marketing functions build on our presence and reputation. This is dependent on our global infrastructure, our relationships and our people to create value, and financial investment to create growth.

Creating value: Customer service and support creates valuable long-term relationships. This depends on our global infrastructure, people, content and our relationships to create value and sustained growth.

DELIVER MEASURABLE OUTCOMES

See p18-19 →



Creating value: Measuring and improving impact informs all strategic decisions, targeting areas with greatest potential need. To create value, this depends on investment in people, global infrastructure and systems that measure product efficacy.

Creating value: Understanding customer and learner needs focuses investment on growth and impact opportunities. This depends on our people and intellectual capital to deliver insights that shape strategic capital allocation which will drive long-term value.

Financial

- › Revenue and earnings
- › More efficient operations
- › Dividends to shareholders
- › Taxes to the government
- › Free cash flow (for investment)

People and culture

- › Employee engagement
- › Employee development and retention
- › Health and wellness
- › Diversity and equality

Intellectual

- › More effective and scalable learning solutions
- › Improved content and systems
- › Measurable effects of our products and services
- › New products and services

Global infrastructure

- › Sustainable production
- › Expanded product reach
- › Improved technologies
- › Lower global greenhouse gas (GHG) emissions
- › Climate awareness and action

External relationships

- › More accessible and affordable education
- › Employability, 21st Century skills and job creation
- › Stronger reputation and relationships
- › Cultural diversity and gender empowerment
- › Social cohesion

Our strategy in action

STRATEGIC GROWTH DRIVER

Develop digital & services

Our strategy is to improve access and outcomes in education through our world-class capabilities in educational content and assessment, and services *powered by technology*. This will be focused on where we see the greatest potential for growth and scalability, and increasingly *driven by our expertise in adaptive and personalised learning*, enabling educators to be even more effective in reaching their students.

Strategy in action

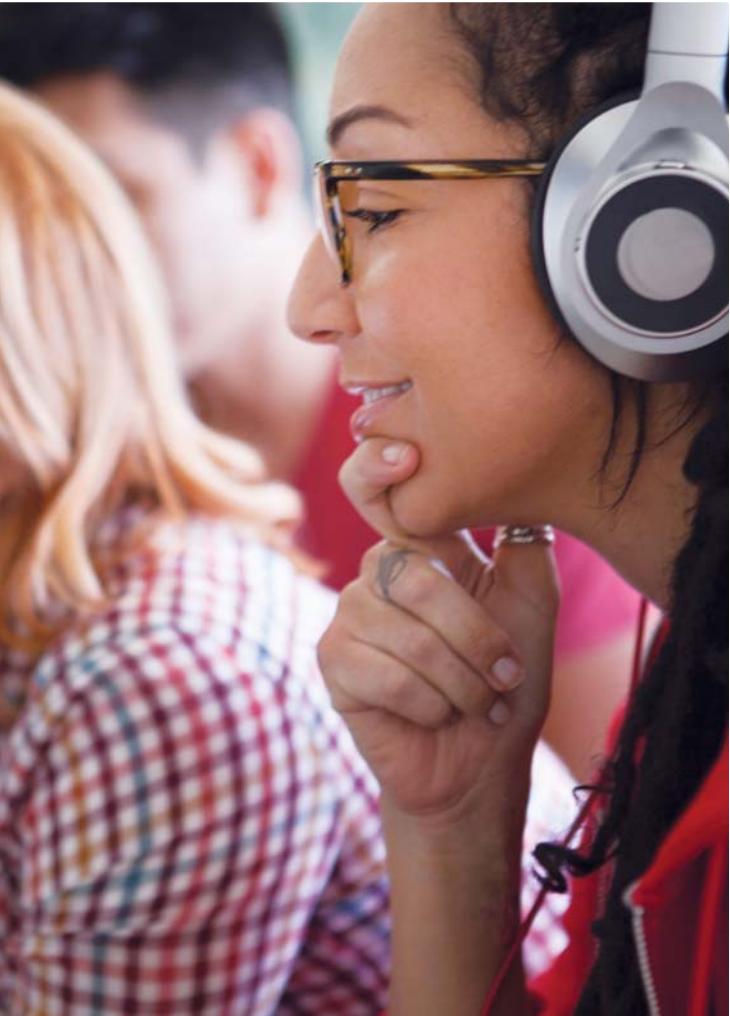
Direct digital access partnership with Kentucky State University

In 2016, Pearson partnered with Kentucky State University (KSU) to launch an eTextbook initiative to improve student success and increase affordability. The partnership identified Pearson digital course materials that supported 85–90% of KSU's undergraduate courses. The University now purchases direct digital access to Pearson content for all of its students to use on those courses, from day one of class.

<p>148 digital direct access contracts signed by Pearson across North America in 2016 with strong pipeline in place for 2017</p>	<p>1,736 students served at Kentucky State University</p>
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"If students are prepared for class, they begin the semester with a good foundation and are more successful than students who are not prepared. It also reduces the time it takes for students to earn a degree as well as their debt rates."

Dr Candice Love Jackson Acting Vice President, Academic Affairs, Kentucky State University



KENTUCKY STATE UNIVERSITY

Digital & services revenue growth

Digital & services revenues (% of sales)



Purpose

The demand for accessible, affordable and effective education is greater than ever. Globally, more than a billion children and adults are held back by inadequate learning resources, unemployment or illiteracy.

Meanwhile the costs of learning continue to rise, governments find it harder than ever to deliver high-quality education fairly to all, and nearly half of employers struggle to find the qualified candidates they need.

We already have the expertise and the market insights, and we are investing in innovative learning services and assessment tools that can have a positive impact on the lives of the greatest number of people.

One of the biggest opportunities for Pearson – and for our customers and learners – is the ongoing digital revolution, which offers profoundly new and innovative ways to address the biggest challenges in education. Pearson is embracing this digital revolution with next generation technology applied to the production of our future product offerings. We will be able to respond to market needs quicker than ever before with our global learning platform allowing us to innovate and integrate our solutions with a platform-powered approach, and offering a world class experience to our learners. We are building an environment that makes our products and services ever more accessible, secure and stable.

Progress and priorities

The transition to digital has its challenges – as we experienced in 2016 in Pearson's largest market, US higher education courseware. We are increasing investment in our service capabilities and our global learning platform, which will remove barriers to faster product innovation, accelerate our product roadmap and drive faster adoption of institution-wide digital direct access for Pearson courseware. We are also pricing our digital content for rental far more competitively – cutting the prices of around 2,000 eText works – and piloting our own print rental programme. As a result, by 2020, our goal for our US higher education courseware business is to be 75% digital and we should have not just a growing business again but a much better quality one.

As well as creating challenges, digital enables Pearson to partner with educational institutions in order to scale online through new and exciting services. Our online programme management business, which partners with universities to take courses 100% online demonstrates this trend, and is the fastest-growing part of Pearson. In 2016, our individual course enrolments for online programmes reached almost 315,000 – up from over 265,000 in 2015. We also grew our total student base by 10% to over 70,000.

Digital is also making our assessment businesses more efficient and better able to serve institutions, teachers and students.

In 2016, we delivered 23.6 million online summative tests to school age students in the US, and a further 14.9 million computer-based tests around the world for professional certification through Pearson VUE. Applying digital technologies makes the setting and marking of our assessments quicker, more secure and more reliable.

Pearson partners with IBM Watson to provide virtual tutor tutoring capabilities



In 2016, IBM Watson and Pearson announced a new global education alliance to make Watson's cognitive capabilities available to millions of college students and professors. Combining IBM's cognitive capabilities with Pearson's digital learning products will give students a more immersive learning experience with their college courses, an easy way to get help and insights when they need it and provide instructors with insights about how well their students are learning.

Learn more at www.ibm.com/watson/education/announcements/pearson/ 

Our strategy in action

STRATEGIC GROWTH DRIVER

Build market presence

One of our key strategic drivers is to build our *market-leading presence in North America, the UK and other key markets*. We also aim to build *our leading presence in select developing markets* to meet the growing global demand for education, while reducing the geographical complexity of Pearson in order to focus on *fewer, bigger opportunities in education*.

Strategy in action

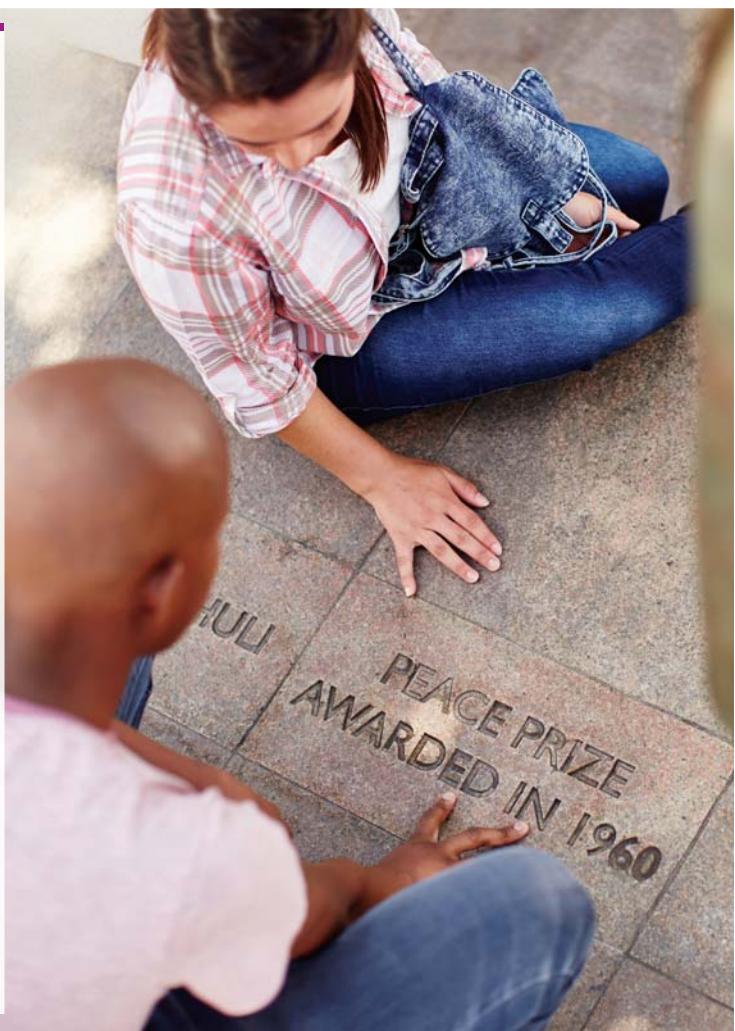
International growth in online programme management

We're building sustainable, lasting partnerships with top academic institutions in the US and, increasingly, internationally. We have over 45 partners and support more than 250 online degree programmes in the US. In Australia, we partner with Monash University and Griffith University and our UK online programme management business is growing rapidly with a strong 2017 pipeline in place following the launch of our first partnership with King's College London in 2016.

Total course enrolments	Total US students
2016 315,000	2016 70,400
2015: 265,000	2015: 62,592

"We are delighted to be partnering with Pearson which has a global reputation for online education provision. The partnership will help us grow our international student base by offering more programmes to a wider student community across a technology-enabled world."

Professor Ed Byrne AC, President & Principal,
King's College London



Leading positions in key markets

We hold strong market positions across our major products and services. Select examples outlined include our US higher education courseware business; UK qualifications; and the fastest growing part of Pearson, online programme management.

UK qualifications
A level – 2016 market share

24.3%

GCSE – 2016 market share

28.7%

Source: Ofqual

US higher education courseware
12 month market share to January 2017

40.4%

Online programme management (OPM)
2016 market share (gross revenue)

26%

Source: MPI, BMO

Source: Deutsche Bank Online Higher Education report, Capital IQ, company websites, Eduventures, Pearson

Purpose

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

We do this through providing content and assessment powered by services and technology. Our educational materials in print, blended and digital format, combined with learning design and technology, lead to better user experiences and learning outcomes. Our assessment capabilities ensure we capture information and insights about learners' achievements, abilities and progressions.

Over time, this leads to better outcomes, larger opportunities in our markets, a sharper focus on fewer bigger opportunities and stronger financial returns for shareholders.

We are fully focused on executing our corporate strategy, and holding and gaining market share in all our major markets.

Progress and priorities

Pearson continues to make progress on holding or gaining market share in our major markets and in 2017 our priorities are clear.

In our largest market, US higher education courseware, we will defend this business through increased investment in our digital

capabilities, product development and roll-out; focus on expanding direct digital access contracts; and through the roll-out of our ebook rental programme and print textbook rental pilot. We will also optimise our US K-12 learning portfolio.

We will continue the stabilisation of our US assessment business, where we secured some key wins in 2016, including winning back a one-year contract to score School Assessment Tests in Tennessee.

Outside of North America, we will look to win share in the stabilising UK assessment business. At a time of ongoing structural change, teachers and students value the quality and stability that Pearson can provide.

In Growth markets, we will continue the turnaround of our key geographies – among them Brazil, China and South Africa – which returned to profit.

We will be building our clinical assessment business and looking for continued growth in Pearson VUE, our professional assessment business that secured strong wins in 2016 including being awarded a contract extension to administer the UK driving theory test for the Driver and Vehicle Standards Agency (DVSA).

English remains a key focus and we will be driving growth in English Language Testing and Pearson Test of Academic English – a business that saw the number of test-takers almost double in 2016.

Equally, we will be focused on expanding our virtual schools business, Connections, and our online programme management business – one of the fastest-growing parts of the company. This is a business that has seen double-digit growth in recent years and we expect this to continue as more universities see the benefits of scaling online.

PTE Academic

The English test trusted by universities, colleges and governments around the world.



www.pearsonPTE.com

Connections Academy

Fully accredited online public schools for students in grades K-12.



www.connectionsacademy.com

Pearson VUE

The leader in computer-based testing and certification.



www.pearsonVUE.com

Our strategy in action

STRATEGIC GROWTH DRIVER

Deliver measurable outcomes

Our strategy is to *improve access and outcomes in education*. In other words, we want to help more learners learn more. Efficacy is becoming more deeply embedded into our strategy and is *helping drive faster improvement* in our content, assessment, services and technology. We are the only education company committed to efficacy with such rigour and at such scale and depth.

Strategy in action



How efficacy supports strategy

Since we launched our commitment to report on the efficacy of our products back in 2013, efficacy has grown from a framework and an initiative to a core operating principle and practice. Our efficacy and research work influences our products and approach to customers, and, ultimately, through measurable impact will enable us to achieve our mission – to help people make progress in their lives through learning. Our efficacy strategy can be broken down into three areas.

- › **Product improvement** – Our work, including efficacy reviews, impact evaluations, product analytics and educational research, helps product teams to identify areas where improvements benefiting learners can be made.
- › **Efficacy reporting** – We have continued to increase the breadth and depth of our public efficacy reporting; we are reporting on more products and looking in more detail at the impact those products are having.
- › **Efficacy growth and impact goals** – We launched these goals last year, stating our commitment to reaching and positively impacting 200 million learners annually with increasingly effective products. Put simply we want to help more learners, learn more.



Efficacy progress

As we work towards meeting our 2018 commitment, to report publicly on the learner outcomes delivered by our products and to audit those efficacy reports in the same fashion that we audit our financials, this year we are increasing the number of reports and depth of those reports as well as subjecting those reports to a mock audit to make sure we are prepared for the real thing next year.



94%

of product improvements identified by efficacy reviews are being implemented on track with plans.

82%

of product impact evaluations are progressing in line with study plans.

Purpose

Our mission as a company is to help people make progress in their lives through learning. To achieve this, we must define the outcomes that those people want to achieve; measure the impact that our products and services have in reaching those outcomes; and use those insights to continuously improve our products and services and customer relationships. Having a positive impact on the outcomes of learners is what motivates us and it is through demonstrating this impact that we will be commercially successful.

Progress and priorities

Product improvement

We have gathered more robust evidence of impact than ever before as can be seen in our efficacy reports (for more information visit www.pearson.com/efficacy-and-research.html). We are now starting new product development with a stronger foundation in educational research basing our product designs on best practice highlighted by research. We are also embracing the concept of continuous improvement in product and service development leading to meaningful improvements in outcomes.

In 2017, we will continue to gather evidence of the impact that an increasingly large number of our products have on learner outcomes. We will ensure that insights generated by educational research or analytics are built into product development roadmaps. We will also aim to increase the consistency of the implementation of our products and services. Our aim is to eventually cover all products with this approach positioning more of our portfolio for sustainable growth.

Efficacy reporting

We have built on our efficacy reports from 2015 to 2016 to create nine new reports that illustrate how our products impact learner outcomes, with more to follow across 2017. This year's reports are the most rigorous and insightful we have produced. They serve as the final dry run in preparation for next year's fully audited efficacy reports.

Next year we will further increase the number of products that we are providing public efficacy reports for and for the first time we will subject all of our efficacy reports to a third-party external audit.

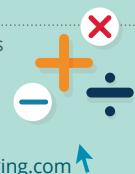
Efficacy growth and impact goals

We have set annual targets for both the impact our products and services will have and the number of learners that they will reach. We are measuring the success of our businesses against their progress on these targets to help more learners learn more.

Moving forward, we will track our progress against the targets that we have set for both the impact our products and services are having and how many learners those products and services are reaching. We will also continue to embed these goals within our business processes so that they are progressively used to influence management decisions.

MyLab Math

Evidence suggests that learners double their odds of passing math if they use MyLab Math for developmental math.



www.pearsonmylabandmastering.com

Bug Club

After 5.5 months, students are three months ahead in spelling compared with their peers

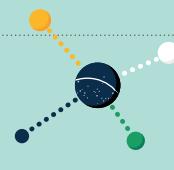


www.pearsonglobalschools.com

Sistemas

Learners out-performed their peers in similar schools on every subject tested.

<http://br.pearson.com>



Our strategy in action

SUSTAINABILITY PLAN 2020

Sustainability

Sustainability is *critical to achieving our mission* to help people make progress in their lives through learning. It is also *critical to our long-term competitiveness*. Being ethical and embracing sustainability is fundamental to our commercial success. In turn, a stronger and more sustainable Pearson will allow us to help people progress.

Strategy in action: Reach more learners



Every Child Learning

Every Child Learning is a partnership between Pearson and Save the Children to research and develop solutions for delivering education in emergencies. Starting with Syrian refugees and vulnerable children in Jordan, the ambition is to adapt, scale and use these solutions to deliver effective education in other emergency situations. We are also working to raise awareness of the urgency around improving education for children affected by conflict.

£500,000 donated to fund two educational centres in Amman, Jordan	£1 million invested by Pearson in research and product development
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› Ethnography and local research phase completed
› £2m: Pearson helped raise for Save the Children's work through *The Sunday Times* Christmas Appeals in 2015 and 2016

Image: Children play at the Save the Children "Rainbow Kindergarten". Photography: Hannah Maule-Finch/Save the Children.

Sustainability plan

Building a sustainable business is critical to achieving our mission and ensuring our long-term competitiveness. Our customers, employees, partners and learners expect us to uphold the highest business standards, to continuously enhance the quality of our products, and to contribute to their communities.

To help achieve this, we have three sustainability pillars:

1 Be a trusted partner



Strategic intent

- › Operate responsibly, ethically and transparently
- › Treat learners, customers and partners with integrity and honesty
- › Respect and progress our employees
- › Contribute to our communities
- › Consult our stakeholders
- › Progressively improve environmental stewardship

2 Reach more learners



Strategic intent

- › Innovate to improve access to quality education
- › Enhance affordability and accessibility of our offerings
- › Collaborate to improve access to quality education

3 Shape the future of education



Strategic intent

- › Measurably improve learning outcomes
- › Foster 21st Century skills and competencies
- › Contribute to research and knowledge
- › Engage with others to promote quality education

Our plan aligns with the United Nations Sustainable Development Goals (SDGs) creating better outcomes for customers and society, and stronger financial returns for shareholders.



4 – Quality education



8 – Decent work and economic growth



10 – Reduced inequalities

Sustainability plan

Last year we adopted our new sustainability plan – our five-year vision to create value for our customers, shareholders and society. The sustainability plan is built around three pillars, shown above, and is aligned to the United Nations SDGs.

We are working to integrate the sustainability plan into our commercial strategy. This provides a foundation for continuing to build sustainability into Pearson's business functions.

We will again disclose a detailed review of our 2016 performance when we publish our sustainability report later this year.

In the rest of this section, we will report on our material issues, how those issues relate to our Group risk management process at Pearson, sustainability governance, aspects of the three pillars and our performance in sustainability rankings.

Our material issues

Based on an analysis of the areas of most concern to our external stakeholders and a review of our company policies, activities and priorities, we identified 19 issues that are most relevant to the sustainability of the business. Through further consultation with senior leaders at Pearson, we narrowed these down to nine issues we believe are most material at this time. We consulted with external experts to confirm our prioritisation.

These issues, which represent a mix of both opportunities for growth as well as risks to revenue, are shown on the matrix on p22, plotting stakeholder concern and business impact. We have mapped all 19 issues that are the focus of our sustainability plan against the risks being monitored through our enterprise risk management process. You can read more about our risk management process and details of principal risks on p44-55.

As some material issues are business opportunities, not all 19 are included in the alignment mapping.

Our approach to these issues will also be described in more detail when we publish our Sustainability Report.

Sustainability governance

The reputation & responsibility committee, a formal committee of the board, provides ongoing oversight, scrutiny and challenge on matters relating to our sustainability strategy and our corporate reputation. Learn more on p78.

The Pearson executive drives implementation of business strategy, including responding to our sustainability issues. The responsible business leadership council oversees the development of the strategy on behalf of the board. It is chaired by our chief corporate affairs and global marketing officer and comprises senior leaders from across the business.

Our strategy in action: sustainability

Our material issues

Materiality matrix

The following matrix shows how we mapped our 19 issues, and highlights the nine that we have deemed to be the most material for the purpose of our sustainability strategy.

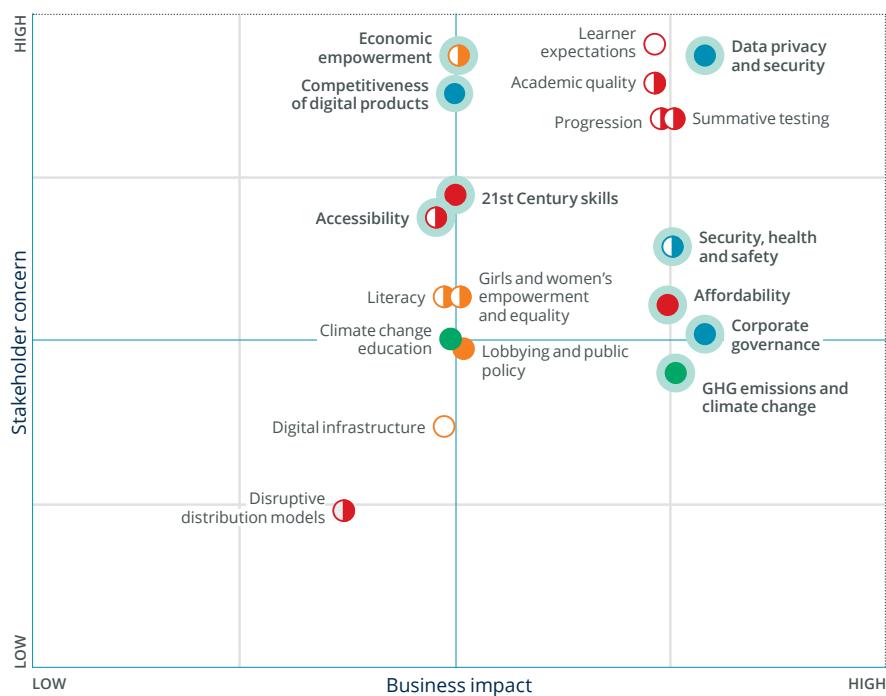
We will evaluate, refine and talk with stakeholders about our material issues on an ongoing basis, in the spirit of continuous iteration and improvement.

Key to material issues

- Nine material issues in our sustainability plan and reporting
- Corporate functions
- Societal issues
- Education industry
- Environmental issues

Degree of control

- High
- Medium
- Low



Alignment of material issues to principal and other Pearson risks

Sustainability report 2015 Material issues	Annual report 2016 Principal risk	Group risk	Business area risk monitoring		
● Disruptive distribution models	2	YES	> Global Product	> North America	
● Competitiveness of digital products	2		> Core	> Social, Environmental and Ethical (SEE)	
● Affordability	2		> Growth		
○ Learner expectations	2				
● Academic quality	2				
● Summative testing	5	YES	> Assessment	> Core	
● Lobbying and public policy	4	YES	> Core	> North America	> Assessment
● Data privacy and security	12	YES	> Growth	> Assessment	> Legal
● Digital infrastructure	8	YES	> North America	> Global Product	> Tech & Ops
● Security, health and safety	6	YES	> Core	> HR	> Assessment*
● Accessibility	-	-	> Growth	> SEE	
● GHG emissions and climate change	-	-	> Assessment*	> Legal*	> SEE
			> SEE		

See Principal risks and uncertainties, p47 ➔

As part of our risk management process, Group risks are tracked across all business areas, geographies and functions.

* Emerging risk

1 Be a trusted partner



Value our customers and partners

Pearson has a set of commitments across a range of social, community and human rights principles that defines responsible business for us:

- › Ensure that our products and services are inclusive, appropriate in content to the age, location and ability of the learner and are easy and safe to use and access
- › Respect and protect how we use and share data entrusted to us by learners and our customers. More information on our approach to data privacy and security can be found in the Principal risks and uncertainties section (p47-55)
- › Extend our commitments on labour standards, human rights and environmental responsibility to include our suppliers, franchisees and other business partners. This includes a concern across the value chain for ensuring our activities are free from slavery, servitude, forced or compulsory labour and human trafficking. A statement on the steps taken by Pearson to combat modern slavery was approved by the board and can be viewed on the Pearson website (www.pearson.com)

› Provide opportunities for Pearson people to be good citizens and to get involved in their local communities and to contribute to social impact causes

› Deliver against our targets to make more efficient use of resources and on our response to climate change.

Pearson has in place policies to support recognised human rights principles. These include safeguarding, non-discrimination and health and safety. As a founder signatory to the UN Global Compact, we have also made a series of commitments to the Universal Declaration of Human Rights, the International Labour Organization declaration on the fundamental principles and rights at work, the Rio Declaration on Environment and Development and to reflect a zero tolerance approach to bribery and corruption.

Our primary responsibility to learners is through the products and services we sell and how we extend our reach. Our work on improving learning outcomes (p18-19) describes the progress we have made.

Respect our employees and help them to progress

Our commitments to our people as a responsible employer are to:

- › Inform, support and equip colleagues to work collaboratively. As part of our commitment to internal learning and development, we have launched Pearson U,

designed for employees to take charge of their career growth through learning. This complements Milo, our global platform for learning and development, which saw employees complete over 160,000 courses in 2016

› Encourage and reward high performance, nurturing talent and creating a culture where all are able to realise their individual potential

› Provide a safe and healthy work environment for our employees and the learners we serve. In 2016, Pearson secured the RoSPA Silver Award for our health and safety performance. See the Principal risks and uncertainties section on p47-55 for more detail on how we manage this issue

› Help our employees understand how we are performing as a company, including how global and sector trends might affect them. During 2016, we undertook our restructuring plan which reduced the total Pearson employee base by around 10%. We provided comprehensive information on the trends behind that decision, regular communication with comprehensive detail on process for affected teams, consultation and support for colleagues leaving the company.

This year has seen Pearson manage considerable amounts of change. Through this, we've increased our investment in new platforms and digital products, and continued to simplify the way we work.

Employee engagement survey

Our 2016 engagement survey confirmed that our employees:

- › Share a strong belief in our mission and purpose, and feel proud of what we do. They're committed to improving learning outcomes
- › Value Pearson's commitment to diversity and social impact, and feel supported by the company on these issues
- › Respect their colleagues and feel supported by their managers.



Actions

Our employees called for	Pearson response
More opportunities within Pearson to learn new skills and to develop careers	We have launched Pearson U, bringing together people, programmes and activities to help employees grow their careers with additional focused learning opportunities to come in 2017
More clarity on Pearson's overall strategy	We have set our strategy as being to combine world class capabilities in content and assessment with technology and services, to enable more effective teaching and personalised learning at scale
A greater focus on workload	We committed to employees to focus on doing fewer things, better
Our leaders to do a better job of communicating simply, openly and working together better	We will more closely align performance goals of senior leaders to ensure there is transparency and accountability for all to drive success for the company

Our strategy in action: sustainability

In this period of change, employee engagement remains a priority.

Our values are underpinned by the Pearson Code of Conduct which sets out the legal, ethical, social and environmental standards of behaviour we expect from our employees.

We make sure everyone is aware of the Code and to confirm they have read it, understood it and to affirm they will comply with it. The Code was last circulated in April 2015 and it is a mandatory part of our onboarding process for all new Pearson employees to similarly certify to abide by the Code. During 2016, we introduced a new Code of Conduct e-learning course which was the centrepiece of a month-long focus on the Code of Conduct. The Code was refreshed in 2016 as part of a regular annual review and will again be circulated to every Pearson employee in 2017. We have maintained our aim for 99% of employees to sign up to the Code.

Many of the areas covered by the Code of Conduct are supported by detailed policies and procedures. For example, anti-bribery and corruption, health and safety, and safeguarding. Learn more about these in our section on Principal risks and uncertainties (p47-55).

We operate a free, independent, confidential telephone helpline and website available to anyone who wants to raise a concern. We have a clear non-retaliation policy in place to encourage people to share the issues they have and we ask about how comfortable people are in raising concerns in our annual employee engagement survey.

In 2016, we had 107 concerns (119 in 2015). These were investigated and where possible, the outcome shared with the reporter. As with previous years, the majority of the concerns related to HR practices. Material concerns are reported to the Pearson audit committee.

Respect and progress our employees: Diversity, equality and inclusion

At Pearson, we value the power of difference. The unique skills, perspectives and backgrounds of each employee are integral to our success, helping us be more innovative and to create effective solutions for learners around the world. Our aim is to foster a work environment that is inclusive, diverse, and where people can be themselves.

	2015	2016
Work in an environment that values diversity	76%	79%

Highlights of our activity include:

- › Launch of a new global diversity & inclusion (D&I) team
- › Involved over 4,000 employees in seven global employee resource networks. The seven networks are for women, parents, veterans, Latinos, the LGBT community, people with disabilities and employees of black and/or African ancestry along with their allies
- › Over 1,200 people completed D&I related training courses on topics such as unconscious bias, gender intelligence and harassment prevention
- › For a fourth year, achieved a perfect score of 100% in the 2016 Corporate Equality Index run by LGBT advocacy group, the Human Rights Campaign
- › We work to ensure that appropriate procedures, training and support are in place for people with disabilities to ensure fair access to career progression opportunities. One of our seven employee resource groups is Pearson Able – its remit is to improve company practice for learners and employees.

Values

Our values continue to be embedded into performance management, which means all employees are assessed and rewarded for acting consistently with them. They are also the foundation for our leadership learning programmes.

Values	Behaviour
Brave  Takes bold and decisive action to deliver ambitious outcomes, and champions a culture of high performance	<ul style="list-style-type: none"> › Shows determination and courage in the face of obstacles and setbacks › Offers ideas or opinions without fear of criticism or professional risk › Sets high standards for own and others' performance
Imaginative  Looks beyond their immediate job both inside and outside of Pearson and introduces new ways of seeing, thinking and working	<ul style="list-style-type: none"> › Assesses complex issues from multiple angles and addresses problems that don't have clear solutions or outcomes › Offers creative ideas and innovative solutions to solve problems and address opportunities › Takes a broad perspective, to identify opportunities and solutions
Decent  Listens, encourages and respects difference; treats all people fairly, with honesty and transparency	<ul style="list-style-type: none"> › Is honest, transparent and straightforward when working with others › Builds trusting relationships with a broad range of people inside and outside Pearson › Looks for and includes diverse viewpoints and talents of others
Accountable  Drives results by owning the solution, getting the right people involved and delivering on promises	<ul style="list-style-type: none"> › Takes ownership of own work, and drives to successful completion and closure › Identifies and involves others to accomplish individual and Group outcomes › Follows through on commitments

Progressively improve environmental stewardship

Climate change remains a focus for us as one of the most serious issues facing the planet, and GHG emissions is one of our material issues. Minimising our environmental impact is not just the right thing to do; it helps deliver cost savings.

We maintained our climate neutral status for our directly controlled operations – a commitment first introduced in 2009.

Our strategy focuses on:

- **Reduction:** We achieved a 40% reduction in operational emissions as at the end of 2016 compared with a 2009 base year
- **Renewables:** We maintained our record of purchasing 100% of the electricity we use from renewable sources and generate our own renewable electricity at six of our sites
- **Offset:** Since 2009, we have now protected over 1,450 hectares of forest. One of our offset providers – the Woodland Trust – has provided offsets equivalent to those generated by the printing of this annual report.

During 2016, Pearson was again recertified against the Carbon Trust Standard for our global operations. We were the second ever organisation to secure the standard which recognises leadership in measuring, managing and reducing year-on-year carbon emissions. We also continue to be certified against ISO 14001, the environmental management standard in the UK and Australia.

Paper use in textbooks remains an important environmental issue for us. We focus on sustainability of supply, being efficient in how we use paper and on promoting responsible forest management.

Our paper use management includes:

- A policy on environmental sourcing of paper
- Discussing our approach with suppliers, customers, environmental groups and investors
- Active membership of industry bodies dedicated to responsible forest management
- Holding Forest Stewardship Council (FSC) chain of custody in the UK, as does LSC Communications, our outsource partner in North America, allowing books in those markets to carry the FSC label.

We will publish full details of our environmental performance including other important emissions such as water use and embedded carbon dioxide in purchased raw materials in our 2016 environment report.

Actively contribute to the communities where we work

In 2016, our investment in social impact was £6.8m or 1.2% of pre-tax profits.

The Pearson approach to social impact is to invest in a small number of social impact campaigns as well as to help our employees to get involved in local communities and to support good causes.

Our award-winning flagship campaign is Project Literacy. Founded and convened by Pearson, the global campaign brings together not for profits and companies with a shared aim of bringing the power of words to the world, by building partnerships and driving action. Pearson is also working with the America's Promise Alliance to increase the number of students who graduate from high school in the United States.

Our people are our best ambassadors and advocates. We support them to give time and money to invest in communities where they work as well as in social impact causes around the world.

Key performance indicators P

Gender diversity

Women in Pearson %

	2014	2015	2016	No.
Board of Directors	30%	33%	30%	3
Senior leadership*	35%	34%	32%	38
All employees	58%	59%	60%	21,420

* Two reporting lines from the chief executive

30% of our board members are female, a higher percentage than the 25% target set by Lord Davies in 2015. We are a founder member of the 30% Club and also participate in its cross-company mentoring programme which helps the development of talented mid-career women. Women in Learning and Leadership (Will) is our largest global employee resource network.

Key performance indicators P

GHG emissions

Metric tonnes of CO₂e

Emissions from	2014	2015	2016
Combustion of fuel and operation of facilities (GHG Protocol Scope 1)	25,027	22,343	19,093
Electricity, heat, steam and cooling purchased for own use (GHG Protocol Scope 2)	104,715	88,831	77,579
Emissions relating to air and rail travel, electricity transmission, waste and water (GHG Protocol scope 3)	32,668	35,644	29,714
Total	162,410	146,368	126,385
Intensity ratios	2014	2015	2016
Scope 1 and 2/sales revenue	26.6	24.8	21.2
Scope 1 and 2/FTE	3.17	2.7	2.95

Methodology 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), using the location-based scope 2 calculation method, 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. The data in the tables has been independently verified by Corporate Citizenship.

Our strategy in action: sustainability

2 Reach more learners

Objectives

We have a long-term growth objective to reach 200 million learners annually by 2025 outlined on p18.

Achieving this will require innovation in all aspects of our business. For example, we have:

- › Adopted the Pearson product lifecycle – a consistent approach and set of tools to help product development teams focus on the needs of the learner and on improving learner outcomes
- › Continued to invest in innovative education start-ups through the Pearson Affordable Learning Fund; the fund targets students from low-income families and has investments in South Africa, Nigeria, Ghana, India and the Philippines



- › Mapped the investment needs to integrate accessibility standards into existing products while committing to apply those into new product development
- › Launched the Tomorrow's Markets Incubator, a £1m initiative to help Pearson bring new products and services to low-income learners in an affordable and accessible way
- › Worked to expand access to quality education for girls and women. We continue to partner with international non-governmental organisation (NGO) Camfed, in a project funded by the UK Department of International Development and supported by relevant national Ministries of Education, to transform educational opportunities for girls from low-income communities in Zimbabwe and Tanzania. The Camfed Learner Guide programme, developed in partnership with Pearson, trains young women graduates to return to their local schools to deliver vital life skills lessons to marginalised children. To complement this, Pearson is now awarding BTEC vocational qualifications for Camfed's Learner Guide alumnae.



In schools in England, we are leading a programme funded by the UK Government that helps teachers to deliver effective teaching and learning about development and global issues. Targeting children aged 8 to 14, the GLP offers resources and guidance for teachers aimed at helping children to understand their place in the world and to develop an ethos encouraging empathy, fairness and respect.

Project Literacy

Project Literacy is Pearson's flagship social impact campaign and supports all three of the company's sustainability pillars – be a trusted partner, reach more learners, and shape the future of education.

Project Literacy has one overarching ambition: to make significant and sustainable advances in the fight against illiteracy by 2030 so that all people – regardless of geography, language, race, class or gender – have the opportunity to fulfil their potential through the power of words.

Being a trusted partner

Partnerships are essential to achieving the campaign's ambition to close the global literacy gap. Through Project Literacy, we have demonstrated Pearson's capacity to convene partners across business, civil society and government – and from sectors that we may think have little in common with each other, from economists to healthcare practitioners to gender activists to teachers. We have teamed up with more than 90 partners to date – partners as diverse as Room to Read, Doctors of the World, The Hunger Project, Microsoft,

the Unreasonable Group and the United Nations Educational, Scientific and Cultural organization (UNESCO).

Together, we are working to: raise awareness and mobilise action; advance best practice; and innovate for new solutions to combat illiteracy.

Reaching more learners

Since we launched the campaign in early 2015, we have facilitated more than 15,000 volunteer referrals to partner organisations, and contributed \$8.7 million in funding for solutions, with a primary focus on the US, UK, Brazil and India. Overall, through our current partners and programming, an estimated 700,000 adults, parents and children will benefit from Pearson's support.

Shaping the future of education

As a cross-sector movement representing diverse communities and interests around the world, Project Literacy has an opportunity to use the power of its collective voice to push for change at the local, national and multi-national levels – whether it's through organised petitions or by participating in forums and advisory bodies to influence policy. Pearson, on behalf of Project Literacy, was invited by

the UNESCO to join a 30-member committee – the Global Alliance for Literacy – to advise the UN on its implementation strategy on literacy within the Sustainable Development Goals framework.

In addition to influencing policy, Project Literacy is also helping enrich the body of knowledge through targeted research and sector analyses with partners like UNESCO and Results for Development to help advance global best practices.



Campaign highlights (2015 & 2016)

\$8.7million **700,000**

in funding for solutions beneficiaries (adults, parents & children)

5 prestigious awards

including Cannes Lion Grand Prix

3 Shape the future of education



Objectives

We are constantly working to develop better, more effective approaches to learning and we actively engage with diverse stakeholders to share our insights and learn from others. Our work in these areas focuses on: improving learning outcomes, fostering 21st Century skills and competencies, contributing to research and knowledge and promoting collective action on global education and development challenges.

We are committed to researching, measuring and reporting on the efficacy of our products and services to ensure that they are helping to achieve and improve learning outcomes (see p18-19 for more).

Our employability initiatives aim to equip learners with the 21st Century skills they need to obtain decent work and build their careers. In addition to core academic competencies, we help learners develop and demonstrate relevant vocational skills by offering industry-recognised certifications and developing training programmes with partner organisations like Cisco, Adobe and Microsoft.

Our efforts to foster cross-sector collaboration include:

- › Helping to strengthen education systems through leadership roles and active engagement with the Global Partnership for Education and the World Economic Forum
- › Advancing the role of the private sector in global education and development through the Global Business Coalition for Education and Business Fights Poverty
- › Promoting and accelerating the UN Sustainable Development Goals agenda with the Business and Sustainable Development Commission.

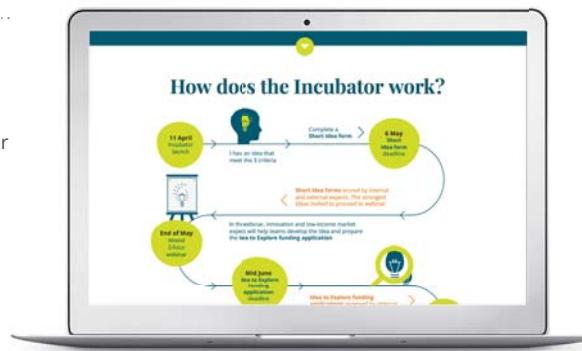
Tomorrow's Markets Incubator

Last year, we launched the Tomorrow's Markets Incubator. Starting with a £1m investment, the incubator is designed to help Pearson employees bring new product ideas to market, which have the potential to profitably serve learners in low-income or underserved communities at scale. The incubator supports employees in developing and testing their business models, while also helping them build and widen their own product development expertise.

The response from employees exceeded expectations and the incubator is currently supporting 17 teams globally to explore their ideas further. These ideas are digital and blended solutions and the diverse focus areas include programmes to help prison inmates in the US gain jobs upon release, language learning for refugees, and improving the mathematics skills of low-income students in South Africa.

17 teams funded

by the Tomorrow's Markets Incubator to explore their ideas further



Our performance sustainability rankings

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



Dow Jones Sustainability Indexes

2016	Silver Class
2015	Bronze Class
2014	Bronze Class
2013	Silver Class
2012	Gold Class



2016 was the final year of the CR Index *retained

2016	94%
2015	95%
2014	Platinum*
2013	Platinum
2012	Platinum*



FTSE4Good

2016	Yes
2015	Yes
2014	Yes
2013	Yes
2012	Yes

Yes signifies inclusion in FTSE4Good

World's 100 Most Sustainable Companies

2016	Yes
2015	Yes
2014	Yes

