

From business to education to books, our products last a lifetime.

In a world where the prosperity of individuals and countries increasingly depends on their knowledge and skills, our products matter more than ever.

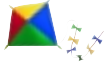
1 We're a publishing company: whether data or images on paper or screens; whether in real time or from another century. Our customers trust us to make the right calls on which authors to sign up, which news stories to put up front, or how best to illustrate a science experiment. That takes good judgement in thousands of decisions about what's true, what's important, what's entertaining and what's inspiring.



2 We mix services with our publishing to make the content more valuable and introduce us to new markets. We combine textbooks with tests, so a teacher can diagnose how a child is learning, and prescribe an individual programme to help him along. We blend today's company news and analysis with historic data, so an investor has the information he needs to manage his money.



3 We're one company. Our special mix of assets is generating some wonderful opportunities – both to save costs and to grow revenues. We're realising the scale advantages of being the world's biggest book publisher, and we're creating new products that are more useful and more appealing because our businesses are working together.




4 Our most important advantage is our people. Everything we create – ideas, stories, newspapers, images, books, websites – is only as good as their minds and imaginations. They're responsible for helping children learn and for testing them to check that they have; for helping business people to make the right choices; for telling stories that help people understand the world or bring a smile to their face. So our company extends beyond newsrooms, design studios and warehouses and into classrooms, colleges, businesses, trading floors and homes.




Pearson is one of the world's great publishers. We publish more books than any other company and our news and analysis reach millions of people every day, in print and online. Over many years our publishing brands – Penguin, the Financial Times, Scott Foresman, Dorling Kindersley, Prentice Hall, Longman and many others – have earned the trust of readers because of their commitment to accuracy, integrity, and independence of thought. Our journalists, authors and editors are constantly seeking out the next scoop, blockbuster author, compelling story, innovative format or distinctive design.

 **Penguin's best Christmas:** In a year when the global consumer publishing industry was flat, Penguin grew its underlying revenues by 5%. Much of that performance was down to our strongest publishing schedule yet. Penguin topped the Christmas bestseller lists on both sides of the Atlantic, thanks to authors like Jamie Oliver, Roy Keane, Zadie Smith, William Trevor, Tom Clancy, Patricia Cornwell, Nora Roberts and Jan Karon.

 **A publishing revolution:** For many years, Dorling Kindersley's unique style of illustrated reference books has brought learning to life. Acquired by Pearson in 2000, DK has been working hard to turn around its commercial performance and unlock its creative magic. Those efforts paid off in 2002, as DK returned to profit and to its publishing best with a new generation of beautiful books including Bill Wyman's *Rolling with the Stones* and Judith Miller's *Antiques Guide*. DK's progress is set to continue in 2003 as it strengthens its partnerships with world-renowned institutions including The Smithsonian and The Royal Horticultural Society and prepares to publish new titles from leading experts such as Peter Ackroyd in history, Monty Don in gardening and Tom Peters in business.

Publishing

that educates,

 **Rethinking the Classics:** For more than 50 years, the Penguin Classics have provided the most authoritative and informative editions of classic literature for students and general readers. Launched in 1946 with a paperback translation of Homer's *The Odyssey*, the Classics were described as 'the greatest educative force of the Twentieth Century'. This year we're relaunching the entire list of 1,000 Classics, with new introductions and prefaces, up-to-date suggestions for further reading and a fresh new design.

FT **The web of life:** In colleges and schools across the US, we are moving our teaching materials from pure textbooks to a blend of printed and online content. Working with leading biology expert, Neil Campbell, Pearson Education applied content and technology from its college business to develop a slimmed-down core school textbook. We moved much of the detailed content online, enhancing lessons with tests, simulations, experiments and rich data.

FT **Head of the class:** It's statistically impossible to graduate from college in the US without studying one of our textbooks. Our college authors define the way future generations view the world, and many are the world's leading authorities on their subjects. They include Philip Kotler in marketing, Neil Campbell in biology, James Watson in microbiology, Robin Bade and Michael Parkin in economics, X J Kennedy in literature and Donald Knuth in computer programming.

FT **Barons of Bankruptcy:** Corporate greed was among the biggest business stories of 2002, and executives being led away in handcuffs provided the defining images. The *FT* looked behind the headlines and analysed how much money company directors made as their companies went bankrupt. After a six-week investigation, the *FT* revealed that executives who presided over the 25 largest bankruptcies in the US amassed personal fortunes totalling \$3.3bn. The story touched a popular nerve in the US and helped set the agenda for the debate on corporate governance that followed.

FT **Making history:** Though Penguin is famous for the classics of literature and for contemporary fiction, it is also home to some of the most critically acclaimed – and commercially successful – non-fiction. Three history titles stood out in 2002. Antony Beevor's *Berlin*, with its story of the human misery of the defining battle of the Second World War, topped the bestseller charts and won rich critical acclaim. Claire Tomalin's funny and irreverent biography *Samuel Pepys, The Unequalled Self*, which revealed the personal side of Pepys, won the prestigious Whitbread Book of the Year prize. In the US, Penguin editors approached Dennis Smith, a retired NY fireman and writer, to tell the story of his colleagues who ran into the World Trade Center on September 11, when others were running out. His book, *Report from Ground Zero*, stayed on the bestsellers list for many weeks. These books will inform and inspire for a long time to come.

entertains and informs...

FT **Playing to win:** When *Marca*, Spain's leading sports newspaper, was faced with a tough competitor who began to reduce its cover price sharply, it was faced with a dilemma: fight a price war, as many newspapers have in Europe, or compete on the quality of the product. It opted for publishing quality – supporting the editorial team, investing in the brand and expanding into new media formats. As a result *Marca* gained share during the year, despite the price competition, with its circulation bouncing back to growth.

FT **English lessons:** There are more than a billion people worldwide learning English as a second language. Through the world-famous Longman imprint, we teach more than 40 million of them every year.

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foot-ball /'fʊtbɔːl/noun



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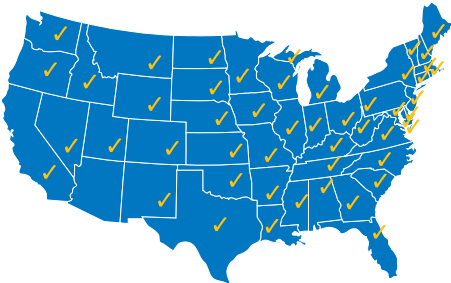
FT **Award-winning journalism:** The *Financial Times* stole the show at the World Leadership Forum's Business Journalist of the Year Awards:

- Decade of Excellence Award: Martin Wolf.
- Business Journalist of the Year Award: Richard Tomkins.
- Management and Business Education Award: John-Paul Flintoff.
- Service Industry Award: Juliette Jowitt.

Great publishing isn't just about great ideas and stories. It's also about making them available in the way customers want them and making the content special and useful. Much of our future depends upon being able to customise the things we make. Our books, newspapers and websites all have mass audiences, but our customers often want something unique, too.

Our customer may be a teacher who wants to give one student special practice to get his reading skills up to speed with the rest of the class. He may be a college professor who wants to build an economics course out of his own notes, lectures, assignments and tests, and deliver them online to his students. She may be an investor who wants to track the news and share price performance of her own unique portfolio of stocks.

PEARS P&W **Making its mark:** Millions of students depend on Pearson as they sit their school tests and exams. In 2002, our educational testing business renewed two of its largest statewide contracts – California and Ohio – and won six new state contracts and the Department of Education's nationwide test of student progress. This business is poised to benefit further as the US Government has passed a law requiring all 50 states to test every 8-13 year-old in reading and maths every year.



PEARS P&W **Adding up:** Pearson's Higher Education publishing business took the emergence of the internet as an opportunity to extend its leadership and attack one of its big competitors – the market for second-hand textbooks. *My Math Lab*, an online learning environment dedicated to improving student performance in mathematics, is a good example. It provides homework in multi-media instructions for 66 of our Higher Education maths titles and we're adding more. Students are able to log on using access codes, which they only receive when they buy a new textbook. Professors use the site to tailor material to their particular teaching needs. This leading-edge technology helped the Higher Education publishing business to grow well ahead of its market. We're launching similar products in economics, psychology, anatomy and physiology in 2003.



...services that make our publishing more personal, more...

FT **A fair deal for investors:** The FT's asset pricing business, IDC, is set to benefit from one of its most exciting new products. IDC discovered that a structural inefficiency within US mutual funds was costing the funds \$4bn a year. Their investments in overseas markets like Japan were valued at the end-of-day prices – even though there were circumstances in which, if stock markets elsewhere in the world rose sharply while Japan was sleeping, it was a statistical certainty that Japan would re-open higher too. Arbitrageurs were taking advantage of these 'stale' prices and making significant profits.

So IDC created a service called Fair Value Pricing – to come up with more accurate values for overseas securities. The product is being trialled with 50 of the world's largest financial institutions and we're helping the industry solve a problem that they weren't even aware of. We're now developing a range of follow-on products and ideas that our methodology can be applied to.



**Working for the government: NCS**

Pearson's Government Solutions business was Pearson's fastest-growing division in 2002, winning more than \$500m of new US Government contracts. The US federal Government is keen to outsource non-core operations to private companies, and NCS is using its expertise in testing, training, HR support and data management to take advantage of the opportunity.

In March NCS Pearson was hired by the Transportation Security Administration to help

it recruit and train 64,000 security personnel for US airports, in the biggest recruitment drive in US peacetime history.

We're also providing an online college education for US Navy personnel onboard ships and submarines; processing student grant applications for the Department of Education; helping the US Army, Navy and Air Force to administer their HR systems; and operating a national customer service centre for the US Department of Justice.



The fourth edition: FT.com, the online expression of the *Financial Times*, is the world's most popular audited business website. Since its launch in 2000, we've been steadily growing its audience – now a record 3.5 million users every month – and earning revenues through the sale of advertising and content. In 2002 FT.com took another big step forward as it launched a new range of services and began to convert those users into paying customers.

We re-designed the site and added new content, making the most of the FT's unique comment and analysis. Paid-for services such as Lex Live and the Brussels Briefing are among the most popular areas of the site. By the end of 2002 we had 45,000 paying subscribers, helping FT.com to break even. It's now well established as the leader in online business journalism and is set fair to pay its way as the newspaper's fourth edition.



...valuable, and take us into new

markets ...

**Testing the professionals:** This year, 200 Pearson professional testing

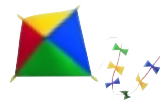
centres opened for business across the US. Each year 150,000 aspiring nurses will take their professional examinations in our centres, which provide an accessible and secure environment for online testing. Now the centres are open, we're aiming to make them the testing home for many other professions.



Made-to-order: In colleges up and down America, we're helping professors to create their own unique textbooks. We custom-build books and online programmes for a professor's individual course – taking in his own course plan and lecture notes, chapters from our books, newspaper articles, and tests and assignments he wants his students to take along the way.

So now we can make a curriculum that teaches his course the way he wants it. This business has trebled in size over the past three years, and is a model of personalised publishing that many other parts of Pearson can follow.

Over the past few years we've spent a lot of time and effort transforming Pearson from a disparate group into a more coherent company. We are a large family of businesses that are a lot alike and all share the same aim – to help our customers get on in, and make the most of, their lives. Pearson is the world's leading publisher and we want to make the most of it. Where it makes sense to share assets – such as intellectual property, content, design, brands and back offices – we are doing it more and more. Collaboration across Pearson isn't just about reducing costs, it's also helping us to create new products with some fantastic results.



Four corners: For the first time, children in the world's largest English-language markets – Australia, Canada, the US and UK – will learn to read from the same series of books in a new collaborative production between Pearson Education and Dorling Kindersley. An international team of researchers, designers and editors from across the two companies have been working since 2001 to create 2,400 pages and 140 books to be launched at the end of 2003.

Each book has been compiled to match curriculum standards in each of the four countries and written locally to reflect cultural differences. They will look dramatically different from any other reading book with beautiful DK designs that bring the pages to life. This collaboration is one of a number of cross-Pearson projects spearheaded by a new division, DK Designs, created specifically to spread DK's design magic across the company.



Painting campuses pink: Our college publisher

Prentice Hall has sales teams on the campus of every business school and every college across America. With the *FT*, we're now offering business, finance and economics professors a weekly online service from the *FT*'s top writers. They report and analyse the major business and economics stories, and highlight the big issues to look out for in the week ahead. Professors use this commentary to prepare topical lessons and assignments. The partnership is helping our college business sell more books, and introducing the *FT* to its next generation of readers.



Sharing assets: As the world's largest publisher, we own millions of digital assets. We've pooled these resources to create the Pearson Asset Library. Not only is this saving costs on image licensing fees but it is also streamlining our production processes across the company. In 2002 we combined our two biggest libraries – 2.7 million images from our commercial DK image library and more than 800,000 from Pearson Education. The *Financial Times* photo library, a vast collection of news photographs and images, will be added in 2003.





The power of one: Together, Pearson Education and Penguin are the world's largest book publisher. We are starting to make that scale count in our favour.

Last year, we combined these book publishing businesses into single companies in Australia and Canada. They already shared many customers in the form of the major bookstores, and they now share warehouses, distribution centres, technology, salesforces and back office functions, too. In the UK, we are combining Penguin's and Pearson Education's warehousing and distribution into a new centre.

These are big investments – we plan to spend a total of £50m in 2002 and 2003 combined – but we expect to save £20m a year from 2005 and provide a better service to our customers.



CONTENT, PROCESSES, PEOPLE AND VALUES.



The books business: The FT is trusted the world over for its authoritative business news and analysis. Now it's our brand for business books, too.

The FT and Prentice Hall, one of our imprints for college students and business people, have joined forces to publish the best titles in management, finance and business.

Recent titles include the history of telecommunications giant Nokia; a biography of Bernard Arnault, head of the LVMH luxury goods empire; and the *Financial Times* guides to marketing, investment and strategy.



A Texas-sized opportunity: In 2003 the state of Texas plans to buy new social studies textbooks for all its school children. Pearson Education expects to take a decent share of that opportunity as it launches a new social studies programme.

The new programme consists of 27 books, some in English, some in Spanish and some for advanced study, all aligned to the state's specific standards. The elementary texts feature specially designed spreads from Dorling Kindersley that radically transform the traditional look and feel of a social studies textbook. And scanners from our education testing business will enable teachers, for the first time, to test their students on-the-spot to see if they've learned the lessons the state requires them to.

We publish educational programmes that help teachers teach and students learn; news and analysis that help business people, politicians and investors make decisions; and fiction and non-fiction books that entertain and inform.

In all that publishing, we are unusually dependent on our people: the reporters, authors, designers, editors, educators and sales people who create our products and make them successful. Our work is underpinned by some basic principles. They are about being a company that is brave, imaginative and decent; about being committed to education in the broadest sense of the word; and about having a fundamental commitment to editorial integrity and freedom of speech.

...a company that is entirely reliant on our people and counts on the

a great place to work

Everything we create – ideas, stories, newspapers, images, books, websites – depends on the minds and imagination of our people. We're home to some of the best in the business, and we've set ourselves the goal of being the best place to work in the world. Of course we're nowhere near there yet, but that's where we're aiming.

Employee survey: This year we completed our first company-wide employee survey, and compared our results with 6,000 other companies. Pearson scored reasonably well as a place to work. We enjoy our work, we're happy with our working conditions, we think we have good benefits, we like to think we help each other. More than 60% of us think that being part of Pearson is important, and more than 80% think we're doing a good job of communicating what Pearson is about. But there are also real concerns over job security, stress and lack of opportunity for promotion. These are concerns that you expect at this stage in the economic cycle and we take them seriously. We're making a big effort to improve the feedback and career planning we provide to everyone at Pearson, and to improve the information we give people about their benefits. We'll repeat the survey this year, too, so we can see how we're doing.

Code of conduct: One of our basic principles is to be a decent company, that does the right thing by its people, its customers, its shareholders and everyone we do business with. This year we published a code of business conduct, setting out what that

means to us – and really putting down on paper the standards of what we already believe and do.

Pearson careers: Across Pearson, we run a series of programmes to develop our people at all stages of their careers. Each of our businesses runs training programmes for graduates, exposing them to various roles across different functions and countries. Every year, we hold forums for managers from around the world to focus on company strategy and generating new ideas. And in 2002 we introduced a Pearson-wide placement programme to give people the chance to work for a short period with colleagues in other businesses or another country.

Diversity: We aim to be a diverse and inclusive company. We've appointed people in each of our businesses to spearhead our diversity programme and this is going to be a priority for us over the next few years.



our products

We provide education in the broadest sense of the word. Our products help children to succeed at school or adults to succeed at work; they help politicians consider different points of view or business people to divine markets; they inspire people to take a fresh look at the world. In 2002, we invested some £250m on new products and services.

Learning to read at your own speed: A great deal of scientific research suggests that very young children who aren't read to at home enter school at a significant disadvantage.



After nearly a decade of intensive study by top educators and researchers, the Waterford Early Reading Program was developed by the Waterford Institute, a non-profit organisation whose mission is to deliver superior education through technology.

The programme, sold across the US by Pearson Education, has a unique computer-based instruction that adapts to an individual user's learning pace, regardless of primary language or pre-literacy exposure. It gives each child 15 minutes of individual attention and assistance each day, with a rich multi-media mix of books, poems, songs and other literacy activities.

The programme has been formally assessed, comparing the achievements of students who used the programme with those who did not. The research shows the programme to be very effective in preparing young children to read, with particular strength in bringing the lowest performers in a class to



DAVID BELL • DIRECTOR FOR PEOPLE, PEARSON



fact that culture and conduct have a great deal to do with success...

reading competency and helping non-English speaking children to assimilate English language skills more quickly.

We've recently launched the Waterford Early Maths and Science programmes, using the same innovative self-paced software to provide students with a solid foundation in basic maths skills, science content and creative problem-solving.



MORE ABOUT THE WATERFORD PROGRAMME
AND THE RESEARCH FINDINGS AT
www.pearsondigital.com

Leaving no child behind: Teachers and schools getting ready for America's most sweeping education reforms for 25 years now have a helping hand. Concert, a new online application, will allow teachers to tailor learning for each student and help schools to monitor and report their students' performance. These are new requirements for schools as part of President Bush's 'No Child Left Behind' education act.



MORE INFORMATION AT
www.pearsonedtech.com

Putting reading first: The US federal Government has created a \$1bn annual budget to boost literacy levels for young children. The money can only be spent on programmes that are scientifically proven to boost language and literacy skills.

Pearson Education has partnered with eminent researchers to bring their work in scientifically-based reading instruction to benefit young children across America. Teaming up with the National Center for Learning Disabilities, Pearson Early Learning published their research-based screening tool, *Get Ready to Read!*, which helps parents and teachers know if a child is ready to learn how to read. To engage parent, child, and teacher in the active development

of reading skills, we published their scientifically-based programme *Read Together, Talk Together*. It is founded on the principle that children gain dramatic growth in reading and language skills when there is an integrated dialogue between the adult and the child who is learning to read. The programme includes new picture books designed by Dorling Kindersley, classic children's books from Penguin, and support materials for teachers and parents designed to stimulate conversations with children about books.

publishing power

Our editorial judgements – what authors we publish, the stories we feature, the comment we make – can have a big impact on both broad social issues and specific community organisations. That's why we employ the best authors, editors and journalists, and vigorously protect their editorial integrity and freedom.

Editorial integrity: Freedom of speech and editorial independence are fundamental principles of our publishing. Penguin has long championed these causes. Over the years, it has been the publisher (and defender in the courts) of controversial titles and the *Financial Times* has an equally strong reputation for incisive and objective news and analysis.

Corporate ethics and responsibility: While our newspapers have helped to shape the debate on corporate ethics and responsibility, our book publishers are creating the leading practical guides for business schools and companies.

Our higher education imprint Prentice Hall leads the publishing market in business ethics – a market which is growing rapidly as more college and MBA students choose business ethics courses as one of their electives towards a degree in business.

Everybody's Business: For the past ten years, the *FT* has been lending its publishing skills to campaigning organisations such as Business in the Community and The Prince of Wales Business Leaders Forum, bringing their publications to a much wider audience of business leaders and publishing indices of corporate responsibility and environmental management. Last year the *FT* teamed up with Dorling Kindersley to publish *Everybody's Business*, a handbook for companies who are trying to meet changing expectations from customers, employees, communities and investors.

A life like mine: In 2002 Dorling Kindersley and the United Nations Children's Fund (UNICEF) extended a long-term publishing partnership that gives a unique insight into the lives children lead around the world. Nearly 11 million children under five die each year, mostly from preventable diseases, and more than 100 million children aged 5-14 are in full-time or dangerous work. The UN's Convention on the Rights of the Child sets out what every child needs, from the basics of food, water and shelter, through education and health care and protection from wars, abuse and exploitation. To celebrate the anniversary of the UN Convention, DK and UNICEF published *A life like mine*, exploring the Rights of the Child through the eyes of twenty children from all corners of the world.





...in everything we do, we aspire to be brave, imaginative and decent.

community programmes

We've focused our business on helping people of all ages get on in their lives and we've focused our community support around organisations that help them do that too.



In 2002, we invested some £2.8m in community programmes. That investment is centred on two things. We want to support our employees who are active in their communities, providing them with time, money and products that encourage and extend their commitment. And we want to forge long-term partnerships with a small number of not-for-profit organisations that make a sustainable difference to education, teachers and literacy.



A jump-start for pre-schoolers: In 2001 we made a \$2.5m, three-year commitment to Jumpstart, a US non-profit organisation. Jumpstart recruits and trains college students to work one-to-one with disadvantaged pre-school children. The process can measurably improve the children's performance, and often inspires the college students to take up careers as pre-school teachers. This year, the Pearson Teacher Fellowship is sponsoring 28 Jumpstart alumni to become full-time early education teachers. Pearson Teacher Fellows receive stipends, on-going training, plus individual mentoring from our employees to support them in the first two years of their teaching careers. Our US businesses are using their expertise and resources creatively to further assist the Jumpstart programme with books, technology and staff time. We plan to launch a flagship UK community programme during 2003.



 MORE INFORMATION AT www.jstart.org

Employee volunteering: We encourage employees to offer their services as volunteers – to read to children in local primary schools, paint classrooms or tidy up playgrounds.

We run a matching scheme for employee fundraising so that they can double the money they raise for their chosen organisations. Our payroll-giving schemes make it easier for employees to make tax-free donations to their favourite causes.

Spreading the word: We partner with various organisations which promote literacy and increase access to books. Our children's publisher Puffin works with Bookstart in the UK, which provides every baby in the country with a pack of free books and learning materials for parents. In the US, Penguin has partnered with Literacy Partners, which focuses on adult and family literacy programmes.

We also work closely with Book Aid International, which helps schools and libraries in the developing world to make books and educational materials available where they are most needed.

our policies

Environment: Every day, our people travel to work and for business, use electricity to keep warm or cool and to power their computers and consume water. Our books and newspapers use paper and ink and are packaged around the world. While most of our products are based on intellectual property, we recognise that our day to day operations have an effect on the world around us and that we have a responsibility to manage and measure this impact.

Efficiency is not just about capital. It is also about making sure that we and our supplier partners do not use up more natural resources than we really need to.

Pearson has had an environmental policy since 1992. We reviewed this policy in 2000 and put a benchmarking procedure in place in 2001 to measure our progress. We have now surveyed all of our wholly owned businesses. We have set targets and report on our performance on our website. There is more to do, but we are committed to continue this work.

 MORE INFORMATION AT www.pearson.com/community/envr.htm

Labour standards and human rights:

A commitment to labour standards and human rights is one of the basic building blocks on what being a good corporate citizen means to us.

We realise that these are not always easy issues. One practical way to make real our concern for labour standards and human rights was by becoming a founder signatory to the United Nations Global Compact. The Compact sets out nine principles in the areas of human rights, labour standards and the environment. Its purpose is to provide a framework for companies to consider and manage their impact on global society and the environment – ideal for an international company with customers all over the world.

In our 2000 Annual Report and Accounts, we codified the UN principles into a series of guidelines that formed the key commitments against which we would judge ourselves. Each year, we report in our Annual Report and Accounts and on our website on the progress made against our guidelines.

In 2001 we began a process to ensure that we live up to these commitments by surveying our workforce. We completed this process in 2002 and the survey now covers 82 business operations in 41 countries. We are confident that for all the businesses that we own we meet or exceed the standards we have set ourselves on equal employment opportunities and conditions. In 2003 we plan to extend our survey to include our major sub-contractors.

 MORE INFORMATION AT www.pearson.com/community/ethics.htm

