

North American Education

KEY PERFORMANCE INDICATORS

North American Education is Pearson's largest business, with 2012 sales of £2.7bn and operating profit of £536m.

Sales		Adjusted operating profit	
2012	£2,658m	2012	£536m
2011	£2,584m	2011	£493m
Headline growth	3%	Headline growth	9%
CER growth	2%	CER growth	8%
Underlying growth	(4)%	Underlying growth	3%

CASE STUDY

Online learning

Pearson's pioneering 'MyLab' digital learning, homework and assessment programmes grew well with student registrations in North America up 11% to almost 10 million, with graded submissions up 12% to almost 320 million across the globe. Evaluation studies show that the use of MyLab programmes can significantly improve student test scores and institutional efficiency. <http://bit.ly/ymMMAi>

Total number of MyLab registrations



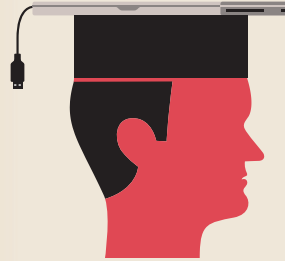
In 2012, our strength in digital and services businesses and tight cost control enabled us to perform ahead of our more traditional print publishing markets, which declined by 10% for the industry as a whole and were adversely affected by state budget pressures and declines in college enrolments.

Higher Education highlights in 2012 include:

- › In Higher Education, the publishing market declined by 6% net in 2012, according to the Association of American Publishers. Total US College enrolments were 2% lower in 2012 than in 2011, affected by rising employment rates, state budget pressures and regulatory change affecting the for-profit sector. In a difficult trading environment Pearson gained share for the 14th consecutive year, again benefiting from our lead in technology and customisation.
- › We launched Pearson Workforce Education which delivers more than 60 online courses in high demand occupational training areas from IT and Healthcare to management and soft skills courses; and Propero, which combines on-demand tutoring, student support and online courses to expand access to higher education and support degree completion.
- › We announced the acquisition of a 5% stake in NOOK Media for \$89.5m in December 2012 with the option to purchase up to an additional 5%, subject to certain conditions. This strategic investment will help accelerate customer access to digital content by pairing the company's leading expertise in online learning with NOOK Media's expertise in online distribution and customer service. This will facilitate improved discovery of available digital content and services, as well as seamless access.

CASE STUDY

eCollege registrations



Student registrations at eCollege grew 3% to 8.7 million, despite pressure in the for-profit college market. We won new online enterprise learning contracts with California State University and Rutgers University. Our strong managed enrolment services and student marketing product offering, coupled with continued strong growth at Arizona State University, helped our online enterprise learning business to grow 150% to almost 44,000 enrolments. In November 2012, we acquired EmbanetCompass for \$650 million which provides a full range of services targeted towards online graduate programmes.

North American Education continued

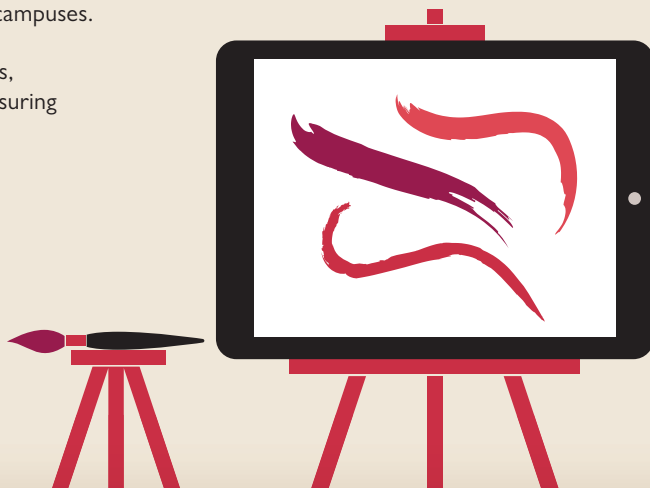
Assessment and Information highlights in 2012 include:

- › At our Assessment and Information business, revenues were flat in 2012. State funding pressures and the transition to Common Core assessments continued to make market conditions tough for our state assessment and teacher testing businesses.
- › The Partnership for Assessment of Readiness for College and Careers (PARCC), a consortium of 23 states, awarded Pearson and Educational Testing Service (ETS) the contract to develop test items that will be part of the new English and mathematics assessments to be administered from the 2014–2015 school year. The assessments will be based on what students need to be ready for college and careers, and will measure and track their progress along the way.
- › We continued to produce strong growth in secure online testing, an important market for the future. We increased online testing volumes by more than 10%, delivering 6.5 million state accountability tests, 4.5 million constructed response items and 21 million spoken tests. We now assess oral proficiency in English, Spanish, French, Dutch, Arabic and Chinese. We also launched the Online Assessment Readiness Tool for the PARCC and the Smarter Balance Assessment Consortium (SBAC) Common Core consortia to help 45 states prepare for the transition to online assessments.
- › We won new state contracts in Colorado and Missouri and a new contract with the College Board to deliver ReditStep, a middle school assessment that measures and tracks college readiness skills. We extended our contract with the College Board to deliver the ACCUPLACER assessment, a computer-adaptive diagnostic, placement and online intervention system that supports 1,300 institutions and 7 million students annually.

CASE STUDY

Connections Education

Connections Education, which operates online K-12 schools in 22 states and a nationwide charter school programme, served more than 43,000 students in 2012, up 31% from 2011 and broadened its product offering to include virtual classrooms for public school campuses. Connections Academy Schools have consistently high performance ratings, particularly in states focused on measuring growth in student learning.



- › We won five Race To The Top (RTTT) state deals (Kentucky, Florida, Colorado, North Carolina and New York) led by Schoolnet. PowerSchool won three state/province-level contracts (North Carolina, New Brunswick and Northwest Territories). We launched our mobile PowerSchool applications and grew our third-party partner ecosystem to over 50 partners. PowerSchool supports more than 12 million students, up more than 20% on 2011 while Schoolnet supports 8.3 million students, up almost 160% on 2011.
- › Our clinical assessment business was boosted by strong growth at AIMSweb, our progress monitoring service which enables early intervention and remediation for struggling students. AIMSweb delivered 58 million assessments in 2012, up 12%.

School highlights in 2012 include:

- › In School, the textbook publishing market declined 15% in 2012, according to the Association of American Publishers. There were several pressures on the industry including weakness in state budgets, a lower new adoption opportunity (total opportunity of \$380m in 2012 against \$650m in 2011) and delays in purchasing decisions during the transition to the new Common Core standards.

CASE STUDY



OpenClass

OpenClass, Pearson's free learning management system, has been installed by almost 1,300 K-12 and college institutions in the US and now serves approximately 100,000 users. In November 2012, we launched Project Blue Sky, a cloud-based content service that allows college instructors to combine Open Educational Resources (OER) with instructor-created and Pearson content.

International Education

KEY PERFORMANCE INDICATORS

Our businesses in emerging markets continued to perform strongly, supported by good enrolment trends and sustained investment.

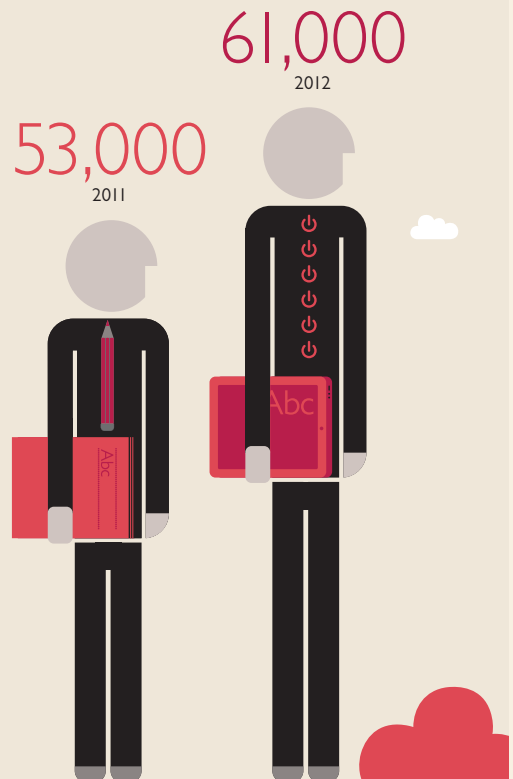
Sales		Adjusted operating profit	
2012	£1,568m	2012	£216m
2011	£1,424m	2011	£196m
Headline growth	10%	Headline growth	10%
CER growth	13%	CER growth	16%
Underlying growth	7%	Underlying growth	11%

CASE STUDY

Businesses in China

In China, student enrolments at Wall Street English increased 15% to almost 61,000, boosted by good underlying demand and the launch of ten new centres taking the total to 66. Our students rapidly acquired high-level English skills with average grade levels achieved rising by 8% during 2012. Enrolments at Global Education, our test preparation services for English language qualifications, increased 16% to more than 1 million, through 73 owned and 372 franchised learning centres.

Wall Street English student enrolments in China



Our businesses in emerging markets continued to perform strongly, supported by good enrolment trends and sustained investment. Our UK business was resilient during the year despite significant regulatory and policy changes across vocational and general qualifications, apprenticeships and higher education. In the rest of the world, a recovery in Japan following the 2011 tsunami and a strong competitive performance in Italy more than offset weak market conditions in Spain.

Key highlights in 2012 include:

- › In English Language Learning, Wall Street English (WSE), Pearson's worldwide chain of English language centres for professionals, opened a net of 11 new centres around the world, bringing the total number to 460. Student numbers fell by 2% to more than 191,000, primarily due to the closure of a large franchise centre in Chile with approximately 7,000 students. MyEnglishLabs enrolments grew 60% to 263,000 supported by the launch of our next generation platform which supports 13 languages and 43 new courses. We acquired GlobalEnglish, a leading provider of cloud-based, on-demand Business English learning, assessment and performance support software, for \$90m in cash in July 2012.

- › More than 1.1 million students registered for our MyLab digital learning, homework and assessment programmes, an increase of 18%, with good growth in school, ELT and institutional selling in higher education.

United Kingdom highlights in 2012 include:

- › In the United Kingdom, we marked more than 6.3 million GCSE, A/AS Level and other examinations with 90% using onscreen technology and more than 3.8 million test scripts for over half a million pupils taking National Curriculum Tests at Key Stage Two in 2012. We launched our Next Generation BTECs which are now the leading vocational qualification on the new funding and accountability frameworks in schools. Our vocational qualifications business grew well with the continued popularity of BTEC amongst employers and universities and a strong performance in work-based learning (with registrations now up to 170,000) further boosted by a good performance from EDI.

CASE STUDY

Sistema success in Brazil

In Brazil, we ended 2012 with 533,000 students in our public and private sistemas (or learning systems) and added 24,000 students in our two largest private sistemas, COC and Dom Bosco, up 8% on 2011. Our public sistema, NAME, includes the top performing lower secondary school in Brazil and test scores for all our public school students are, on average, 20% above the 2011 national IDEB standard for 4th and 8th grade students.



International Education continued

- › In South Africa we held share in school publishing in market conditions which were tougher than expected despite a year of major curriculum reform. Student enrolments grew strongly at CTI, up 19% to more than 10,000. We partnered with UNISA, South Africa's largest university and the largest distance learning provider in Africa, to provide 30,000 students with access to our MyLabs software, digital resources and customised eBooks.
- › In India, TutorVista is now managing 35 schools and its multimedia teaching solution Digiclass is installed in approximately 17,000 classrooms. ActiveTeach, our digital learning platform for schools, was adopted by 200 schools serving approximately 100,000 students.
- › In the Middle East, the Abu Dhabi Education Council purchased our print and digital Maths and Science resources for all schools from grades 6 to 10, the American University of Sharjah adopted MyLabs for four mathematics courses and three science courses, and we are providing access to digital course content for 5,000 students at Abu Dhabi's Higher Colleges of Technology through our Pearson e-texts iPad app.

CASE STUDY

New online university launch in Mexico

In Mexico, we partnered with local curriculum and technology experts INITE to launch UTEL, a new university enabling Mexicans to enrol in online degree courses in management, IT, marketing, engineering and computer science. UTEL enrolled 2,500 undergraduate students and 4,000 learners in shorter corporate training or continuing professional education courses. UTEL's services arm, Scala, signed its first contract to provide online learning services to an existing higher education institution.



Professional Education

KEY PERFORMANCE INDICATORS

Our Professional Education business is focused on publishing, training, testing and certification for professionals.

Sales		Adjusted operating profit	
2012	£390m	2012	£37m
2011	£382m	2011	£66m
Headline growth	2%	Headline growth	(44)%
CER growth	2%	CER growth	(44)%
Underlying growth	(9)%	Underlying growth	(54)%

Our Professional Education business is focused on publishing, training, testing and certification for professionals. The weakness in our UK training business, Pearson in Practice, had a significant negative impact on our 2012 performance and resulted in our decision to exit the business. Other parts of the Professional division performed well.

Professional testing highlights in 2012 include:

- › Professional testing continued to see good revenue and profit growth with test volumes at Pearson VUE up 7% on 2011 to almost 8 million with Certiport adding an additional 2.3 million tests, up 13% on 2011. There were key renewals of the National Council of State Boards of Nursing contract running until 2019 and the Computing Technology Industry Association contract was secured with Pearson VUE as the single vendor running through to 2017.

- › We won a number of new contracts including a ten-year contract to administer all computer and paper-based tests for the Australia CPA Professional exams and five-year contracts with the National Center for Assessment in Saudi Arabia and the National Council of State Boards of Nursing to provide the NCLEX-RN in Canada beginning in 2015 for ten Canadian registered nurse (RN) regulatory bodies.

- › The partnership with the American Council on Education to develop an online General Educational Development (GED) test aligned with new Common Core standards has now launched computer-based testing in 37 jurisdictions.

- › Continuing our digital transformation, we adapted our booking service for the Driving Standards Agency (DSA) to work on mobile devices. We also introduced one-to-many biometric matching technology into testing centres to enhance fraud detection.

Professional training

- › Professional training was very weak with our UK adult training business, Pearson in Practice, facing a dramatic fall in demand as a result of changes to the apprenticeships programme. We believe this business no longer has a sustainable model and announced in January that we are to exit Pearson in Practice. The cost of exit and impairment is £113m and is reported as a loss on closure in Pearson's 2012 statutory accounts.

- › TQ continues to make significant progress in the direct delivery of training services overseas. In Saudi Arabia, we extended the contract to operate the Saudi Petroleum Services Institute for five years and won a five-year contract to run a new Institute at Al Khafji. In Oman, a TQ-led consortium won the bid to provide training to BP, including a wide range of technical and English language training for BP workers as they prepare to open up the Khazzan oilfield for full scale production in 2016.

Professional publishing highlights in 2012 include:

- › Professional publishing grew modestly with good profit growth. In the US, growth of eBook sales and other digital products and services continued to outpace ongoing challenges in the traditional retail channel.