Board of directors

Pearson's board brings a wide range of experience, skills and backgrounds.

CHAIRMAN

Glen Moreno Chairman
aged 69, appointed 1 October 2005

Chairman of the nomination committee and member of the remuneration committee

Glen has more than three decades of experience in business and finance, and is currently deputy chairman of The Financial Reporting Council Limited in the UK and non-executive director of Fidelity International Limited. Previously, Glen was deputy chairman and senior independent director at Lloyds Banking Group plc, senior independent director of Man Group plc and acting chairman of UK Financial Investments Limited, the company set up by HM Treasury to manage the government's shareholdings in British banks.

EXECUTIVE DIRECTORS

John Fallon Chief executive
aged 50, appointed 3 October 2012

Member of the nomination committee

John became Pearson's chief executive on 1 January 2013. Since 2008 he had been responsible for the company's education businesses outside North America, and a member of the Pearson management committee. He joined Pearson in 1997 as director of communications and was appointed president of Pearson Inc., a role he combined with his communications responsibilities, in 2000. In 2003, he was appointed CEO of Pearson's educational publishing businesses for Europe, Middle East & Africa (EMA) and gradually took on a broader international education brief. Prior to joining Pearson, John was director of corporate affairs at Powergen plc, where he was also a member of the company's executive committee. Earlier in his career, John held senior public policy and communications roles in UK local government.

Will Ethridge Chief executive, Pearson North American Education
aged 61, appointed 1 May 2008

Will has three decades of experience in education and educational publishing, including a decade and a half at Pearson where he formerly headed our Higher Education, International and Professional Publishing business. Prior to joining Pearson in 1998, Will was a senior executive at Prentice Hall and Addison-Wesley, and before that an editor at Little, Brown and Co. where he published in the fields of economics and politics. Will is a board member and former chairman of the Association of American Publishers (AAP) and board chairman of CourseSmart, a consortium of electronic textbook publishers.

Rona Fairhead Chairman of the Financial Times Group
aged 51, appointed 1 June 2002

Rona, who has headed the Financial Times Group since 2006 and is a former finance director of Pearson, will step down from the Pearson board and leave the company at the annual general meeting in April 2013. She previously held senior management roles at specialty chemicals company ICI plc, and in aerospace with Bombardier/Shorts. She has an MBA from Harvard Business School. Rona currently serves as non-executive director of The Cabinet Office of UK government and of HSBC Holdings plc, where she chairs the risk committee. She is also a member of the Cambridge University Library Visiting Committee. She was made a Commander of the British Empire in 2012.

Robin Freestone Chief financial officer
aged 54, appointed 12 June 2006

Robin's experience in management and accounting includes a previous role as group financial controller of Amersham plc (now part of General Electric) and senior financial positions with ICI plc, Zeneca and Henkel UK. He joined Pearson in 2004 as deputy chief financial officer and became chief financial officer in June 2006. Robin qualified as a chartered accountant with Touche Ross (now Deloitte), and is currently a non-executive director and founder shareholder of eChem Limited. Robin sits on the Advisory Group of the ICAEW's Financial Reporting Faculty and is chairman of The Hundred Group of Finance Directors.

John Makinson Chairman and chief executive of The Penguin Group
aged 58, appointed 15 March 1996

John's diverse background spans business, consultancy, financial journalism and publishing. He was finance director of Pearson before heading Penguin, and previously served as managing director of the *Financial Times* newspaper, where he had earlier served as editor of the popular Lex column. John co-founded Makinson Cowell, an international financial consultancy, and was vice chairman of the US holding company of advertising firm Saatchi & Saatchi. John is chairman of the National Theatre and has been named chairman-designate of Penguin Random House, the consumer publishing venture planned by Pearson and Bertelsmann.

Board of directors
continued

NON-EXECUTIVE DIRECTORS

David Arculus Non-executive director
aged 66, appointed 28 February 2006

Chairman of the remuneration committee and member of the audit and nomination committees

David has experience in banking, telecommunications and publishing in a long career in business. Currently he is chairman of Aldermore Bank plc, Numis Corporation plc and the Advisory Board of the British Library. David's previous roles include the chairmanship of O_2 plc, Severn Trent plc and IPC Group, as well as chief operating officer of United Business Media plc, group managing director of EMAP plc and a non-executive director of Telefonica S.A. David served from 2002 to 2006 as chairman of the British government's Better Regulation Task Force, which worked on reducing burdens on business.

Vivienne Cox Senior independent director
aged 53, appointed 1 January 2012

Member of the audit, remuneration and nomination committees

Vivienne has wide experience in energy, natural resources and business innovation. She worked for BP plc for 28 years, in Britain and continental Europe, in posts including executive vice president and chief executive of BP's Gas, Power & Renewables business and its Alternative Energy unit. She is non-executive director of mining company Rio Tinto plc, energy company BG Group plc, and Vallourec, which supplies tubular systems for the energy industry. She is also lead independent director at the UK Department for International Development. Vivienne sits on the board of INSEAD and is a commissioner of the Airports Commission, which was set up by the UK government to examine any requirements for additional UK airport capacity.

Susan Fuhrman Non-executive director
aged 68, appointed 27 July 2004

Member of the audit and nomination committees

Susan's extensive experience in education includes her current role as president of Teachers College at Columbia University, America's oldest and largest graduate school of education. She is president of the National Academy of Education, and was previously dean of the Graduate School of Education at the University of Pennsylvania and on the board of trustees of the Carnegie Foundation for the Advancement of Teaching.

Ken Hydon Non-executive director
aged 68, appointed 28 February 2006

Chairman of the audit committee and member of the remuneration and nomination committees

Ken's experience in finance and business includes roles in electronics, consumer products and healthcare. He is a non-executive director of Reckitt Benckiser Group plc, one of the world's leading manufacturers and marketers of branded products in household cleaning and health and personal care. From 2004 to 2013 he was a non-executive director of Tesco plc. Previously, Ken was chief financial officer of Vodafone Group plc and financial director of subsidiaries of Racal Electronics.

Josh Lewis Non-executive director
aged 50, appointed 1 March 2011

Member of the audit and nomination committees

Josh's experience spans finance, education and the development of digital enterprises. He is founder of Salmon River Capital LLC, a New York-based private equity/venture capital firm focused on technology-enabled businesses in education, financial services and other sectors. Over a 25 year career in active, principal investing, he has been involved in a broad range of successful companies, including several pioneering enterprises in the education sector.
In addition, he has long been active in the non-profit education sector, with associations including New Leaders, New Classrooms, and the Bill & Melinda Gates Foundation.
He is also a non-executive director of eVestment and Axioma, both financial technology companies, Parchment, an education data company, and PeriGen, a healthcare information technology provider.

Chairman's letter

Dear shareholders

This year, we are reporting, as is required, against the 2010 edition of the UK Corporate Governance Code (the Code). We have endeavoured, where possible, to report in the spirit of the 2012 Code which will only apply for reporting periods beginning on or after 1 October 2012.

As I have highlighted elsewhere within this report, Pearson is currently undergoing a period of transition in its leadership following the appointment of John Fallon as our new chief executive, and I would like to take this opportunity to share with you further details of the recent and forthcoming changes to our board as well as providing an insight into how the board operates.

The Pearson board consists of senior executive management alongside a strong group of non-executive directors drawn from successful international businesses and education institutions with experience of corporate strategy, education, consumer marketing and technology.

We are continually assessing and refreshing the board to ensure we maintain an appropriate balance and diversity of skills and experience.

In addition to Marjorie Scardino's departure as chief executive, at the end of 2012 we also said goodbye to Patrick Cescau, who served on the board for over ten years, including three years as our senior independent director. The board joins me in thanking Patrick for his commitment and invaluable contribution to Pearson as we have navigated our international expansion.

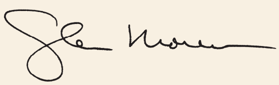
Following Patrick's departure, we are pleased to confirm that Vivienne Cox has been appointed as senior independent director. We welcome Vivienne to the role and believe that her broad commercial knowledge and experience both as an executive and non-executive director make her highly suitable for this position.

As announced late last year, Rona Fairhead will be stepping down from the board, and from her role as chairman of The Financial Times Group, to pursue other opportunities. Rona handed over her responsibilities as chief executive of the FT to John Ridding at the end of 2012. Rona has played an important role during her 12-year career at Pearson having held a number of senior roles within the group, and we wish her continued success in the next phase of her career.

Pearson has a wealth of talent within its workforce with a diverse and experienced senior management team heading the company's operations. To complement our strong management structure, we believe that the most effective board is one which maximises the contributions of non-executive directors, adding a wide range of valuable external perspectives and encouraging robust, open debate over significant business issues. Our goal is to improve the balance of independent non-executive directors on the board, while retaining an overall board size which is manageable and effective. To this end, we are actively seeking additional non-executive directors who bring expertise in education, emerging markets and digital technologies to continue to drive our strategy and vision, whilst ensuring the board adheres to Pearson's core values. We are keen to maintain the gender diversity of the board in light of recent and forthcoming departures and, consequently, the nomination committee is actively seeking to identify suitable female candidates.

The board is deeply engaged in developing and measuring the company's long-term strategy, performance and value. We organise our work around four major themes where we believe the board can add value: governance, strategy, business performance and people. Our board calendar and agenda provide ample time to focus on these themes and we have set out some examples of the business considered by the board, as well as the governance practices to which we adhere, on the pages that follow.

We hope this report clearly sets out how your company is run, and how we align governance and our board agenda with the strategic direction of Pearson. We always welcome questions or comments from shareholders, either via our website (www.pearson.com) or in person at our annual shareholders' meeting.



Glen Moreno Chairman

Board governance

Corporate governance

Introduction
The board believes that during 2012 the company was in full compliance with the UK Corporate Governance Code (the Code). A detailed account of the provisions of the Code can be found on the FRC's website at www.frc.org.uk and we encourage readers to view our compliance schedule on the company website at www.pearson.com/investors/shareholder-information/governance

The board embraces the Code's underlying principles with regard to board balance and diversity and the nomination committee, led by the chairman, is actively seeking additional suitable candidates who possess the right mix of knowledge, skills and experience to enhance debate and decision-making.

Composition of the board
The board currently consists of the chairman, Glen Moreno, five executive directors including the chief executive, John Fallon, and five independent non-executive directors.

As reported, Rona Fairhead will step down from the board at the forthcoming AGM. Additionally, subject to completion of the Penguin Random House venture, John Makinson will be appointed as chairman of Penguin Random House and it is intended that he will step down from the Pearson board at that time.

Chairman and chief executive
There is a defined split of responsibilities between the chairman and the chief executive. The chairman is primarily responsible for the leadership of the board and ensuring its effectiveness; the chief executive is responsible for the operational management of the business and for the development and implementation of the company's strategy as agreed by the board. The roles and responsibilities of the chairman and chief executive are clearly defined, set out in writing and reviewed and agreed by the board annually.

Chairman
In May 2012, Glen Moreno stood down from his role as deputy chairman and senior independent director of Lloyds Banking Group. Apart from this, there were no changes to the chairman's significant commitments during the course of 2012.

Senior independent director
Vivienne Cox is the company's senior independent director, having been appointed to the role on 1 January 2013 following Patrick Cescau's resignation from the board.

Vivienne's role will include meeting regularly with the chairman and chief executive to discuss specific issues, e.g. strategy, attending meetings with major shareholders to understand any issues or concerns they may have, as well as being available to shareholders generally if they should have concerns that have not been addressed through the normal channels. In her first year with Pearson, Vivienne has been instrumental in the introduction of the board's reputation and responsibility committee, which she chairs, and in improving the quality of health and safety reporting to the board.

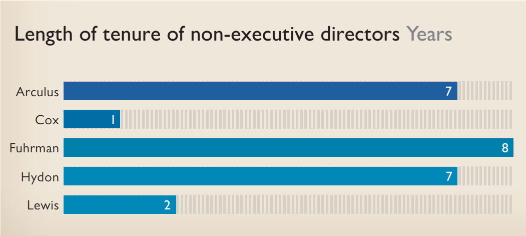
During 2012, Patrick Cescau held separate sessions with the other non-executive directors and the chief executive to appraise the performance of the chairman, including in relation to the effectiveness of the nomination committee. Following his departure in December, Patrick was invited back in February 2013 to conduct similar sessions in respect of the chairman's performance during 2012 as part of the annual board evaluation process. Vivienne, as senior independent director, will then take responsibility for appraising the chairman's performance during 2013 and beyond.

The senior independent director would be expected to chair the nomination committee in the event that it was considering succession to the role of chairman of the board.

Independence of directors
All of the non-executive directors were considered by the board to be independent for the purposes of the Code during the year ended 31 December 2012.

The board reviews the independence of each of the non-executive directors annually. This includes reviewing their external appointments and any potential conflicts of interest as well as assessing their individual circumstances in order to ensure that there are no relationships or circumstances likely to affect their character or judgement.

Susan Fuhrman has now served on the board for more than eight years. Throughout that time, Susan, as a leader in educational reform and efficacy, has made a very positive contribution to our board and committee work. Susan has indicated that she intends to stand down from the board at the 2014 AGM.



Conflicts of interest

Since October 2008, directors have had a statutory duty under the Companies Act 2006 (the Act) to avoid conflicts of interest with the company. The company's Articles of Association (Articles) allow the directors to authorise conflicts of interest. The company has established a procedure to identify actual and potential conflicts of interest, including all directorships or other appointments to, or relationships with, companies which are not part of the Pearson Group and which could give rise to actual or potential conflicts of interest. Once notified to the chairman or company secretary, such conflicts are considered for authorisation by the board at its next scheduled meeting. The relevant director cannot vote on an authorisation resolution, or be counted in the quorum, in relation to the resolution relating to his/her conflict or potential conflict. The board reviews any authorisations granted on an annual basis.

Board meetings

The board held six scheduled meetings in 2012, with some meetings taking place over two or more days. In recent years, we have developed our board meeting agenda to ensure that board discussion and debate is centred on the key strategic issues facing the company. Over the course of 2012 the major items covered by the board included:

BUSINESS PERFORMANCE: 23 FEBRUARY 2012, LONDON

- 2011 report and accounts and dividend recommendation
- 2012 operating plan
- Risk assessment and review of mitigating actions
- Annual review of authorised conflicts
- Review of division of responsibilities between chairman and chief executive
- Review of treasury policy
- Presentation by Sir Michael Barber on efficacy, research and educational reform

GOVERNANCE AND SHAREHOLDER MATTERS: 26 AND 27 APRIL 2012, LONDON

- Focus on forthcoming AGM and review of shareholder issues
- Findings of external report on shareholders' views
- Review of corporate social responsibility
- Board effectiveness review
- Acquisition of Certiport
- Acquisition of Global English

STRATEGY: 4, 5 AND 6 JUNE 2012, SÃO PAULO

- Strategy discussions – review of Brazilian education business
- Review of Pearson's 'Leading on Standards' publication on the future of examinations in Britain
- Acquisition of Author Solutions, Inc.

BUSINESS PERFORMANCE: 25 AND 26 JULY 2012, LONDON

- Interim results and dividend approval
- Post-acquisition reviews
- Discussion on formation of reputation and responsibility committee
- Acquisition of Inframation Group

STRATEGY: 4 OCTOBER 2012, LONDON

- Trading update
- Five-year strategic plan
- Review of standing committee terms of reference
- Acquisition of EmbanetCompass
- Discussion of Penguin Random House venture
- John Fallon's first meeting following his appointment to the board

STRATEGIC PLAN: 6 DECEMBER 2012, NEW YORK

- Strategic plan – India business
- Options for Pearson in Practice business
- Risk assessment and review of mitigating actions
- Triennial valuation of UK defined benefit pension fund
- Annual review of chief executive authorisation limits and procedures
- Review of chief executive transition

In addition to the six scheduled meetings, the board held one further full meeting to approve the Penguin Random House venture and undertook discussions as required to consider the terms of corporate transactions.

Board governance continued

The following table sets out the attendance of the company's directors at board and committee meetings during 2012:

	Board meetings (max 6)	Audit committee meetings (max 4)	Rem. committee meetings (max 6)	Nom. committee meetings (max 6)
Chairman				
Glen Moreno	6	–	6	6
Executive directors				
Marjorie Scardino	6	–	–	6
Will Ethridge	6	–	–	–
John Fallon*	2	–	–	–
Rona Fairhead	5	–	–	–
Robin Freestone	6	–	–	–
John Makinson	6	–	–	–
Non-executive directors				
David Arculus	6	4	6	6
Patrick Cescau**	6	2	3	6
Vivienne Cox	5	4	5	5
Susan Fuhrman	6	4	–	6
Ken Hydon	6	4	6	6
Josh Lewis	6	4	–	6

*appointed to the board on 3 October 2012.

**stood down from audit and remuneration committees on 30 April 2012.

The role and business of the board

The board is deeply engaged in developing and measuring the company's long-term strategy, performance and value. We believe that it adds a valuable and diverse set of external perspectives and that robust, open debate about significant business issues brings a valuable additional discipline to major decisions.

A schedule of formal matters reserved for the board's decision and approval is available on our website, at www.pearson.com/investors/shareholder-information/governance

A standing committee of the board has been established to approve certain ordinary course of business items such as banking matters, guarantees, intra-group transactions and employee share plan matters. The committee has written terms of reference, reviewed and approved annually, which clearly set out its authority and duties. These can be found on the company website at www.pearson.com/investors/shareholder-information/governance

The board receives timely, regular and necessary financial, management and other information to fulfil its duties. Comprehensive board papers are circulated to the board and committee members at least one week in advance of each meeting and the board receives monthly reports from the chief executive. In addition to meeting papers, a library of current and historic corporate information is made available to directors electronically to support the board's decision-making process. Directors can obtain independent professional advice, at the company's expense, in the performance of their duties as directors. All directors have access to the advice and services of the company secretary.

Non-executive directors meet with local senior management every time board and committee meetings are held at the locations of operating companies. This allows the non-executive directors to share their experience and expertise with senior managers and also enables the non-executive directors to better understand the abilities of senior management, which in turn will help them assess the company's prospects and plans for succession.

Succession planning

The board views succession planning – not only at board and executive committee level but for all key positions throughout the business – as one of its prime responsibilities. This is especially the case in a creative business like Pearson which is heavily dependent on talented people.

It is our intention to devote one full meeting each year to organisation structure and succession planning, and how they support the delivery of our strategic goals. During 2012, the board's succession planning activities focused on the role of chief executive. In a typical year however, we look in detail at 20 to 30 of the most senior roles in Pearson, ensuring that there are several credible candidates for each role. Those candidates will be well known to the board – who spend considerable time visiting our businesses and people outside the regular schedule of board meetings – and will have development plans in place to round out their experience and skills and give them every possible chance of progressing their careers.

Board evaluation

The board conducts an annual review of its effectiveness. For the review of 2011, conducted during the early part of 2012, the chairman met with each of the directors, executive and non-executive, on a one-to-one basis to discuss the board's effectiveness and progress made against objectives. He also took the opportunity to discuss with each director their individual training and development needs.

Following that review, the chairman presented his findings at the April 2012 board meeting. He noted that from his one-to-one sessions with each of the directors he was able to conclude that the board members believe that they work well together, that the board culture is good, that they add value as a board, focus on the right things and that they have a good mix of both people and skills. He also detailed how the board might improve its effectiveness, and explained that a common theme in his discussions related to the board's understanding of reputational and other risks.

Following that review the senior management team was tasked with thinking about how the board might gain a deeper understanding of the reputational risks that affect the business, and later in the year, as a direct result of their recommendation, the board formed the reputation and responsibility committee. The purpose of this committee is to have oversight of Pearson's strategy and our plans to build and protect our corporate reputation, and the reputation of our major brands. The committee membership includes two non-executive directors, the chief executive and the director of communications; it reports regularly to the board and meets on a quarterly basis. The committee held its first meeting in December 2012, and the agenda for that meeting included a consideration of Pearson's major reputational risks, and a focus on the public affairs team in North America.

During the course of the year the executive directors were also evaluated by the chief executive on their performance against personal objectives under the company's appraisal mechanism. A proportion (which for 2012 may be up to 20%) of the total annual incentive opportunity is based on functional, operational, strategic and non-financial objectives relevant to the executives' specific area of responsibility. The chairman leads the assessment of the chief executive and the non-executive directors, led by the senior independent director, conduct a review of the chairman's performance.

In addition to the review of the board and individual directors, the audit and remuneration committees each undergo an annual evaluation process to review their performance and effectiveness. The process covers areas such as roles and responsibilities, quality and timeliness of meeting materials, opportunity for discussion and debate, dialogue with management and access to independent advice.

For the board effectiveness review of 2012, the chairman is planning to spend time with the senior independent director talking about their plans for the board in terms of structure and focus for the coming year as well as reviewing the previous board evaluation to ensure that recommendations have been followed through. They will also start to plan a more structured, external evaluation of 2013.

Last year, we reported that the board's evaluation process had highlighted a need to deepen the board's knowledge of emerging markets. Building on this, the board visited Brazil in 2012 to learn first hand about the Group's Latin American operations and strategy.

CASE STUDY

Brazil

In June 2012, the Pearson board held a three day meeting in São Paulo, Brazil. The purpose of this board meeting was to review our businesses in Brazil, and to better understand the opportunities in the Latin American education market. During their three day stay, the board met with key local management of all our businesses operating in Brazil, including the recently acquired Companhia das Letras business (Pearson acquired 45% in January 2012), as well as with senior executives and the regional heads of Pearson's Latin America operation.
The board also met with former President Lula to discuss Brazilian education policy. Whilst in Brazil, the board visited a school to learn first-hand about the benefits of the Brazilian sistema method of education, and a university where an interactive panel session was held involving university professors, business students and certain board members. During 2013 the board plans to have similar meetings with local businesses in South Africa and the US.

Board governance continued

Directors' training and induction

Directors receive a significant bespoke induction programme and a range of information about Pearson when they join the board. This includes background information on Pearson and details of board procedures, directors' responsibilities and various governance-related issues, including procedures for dealing in Pearson shares and their legal obligations as directors. The induction also includes a series of meetings with members of the board, presentations regarding the business from senior executives and a briefing on Pearson's investor relations programme.

The directors' training is supplemented with presentations about the company's operations, by holding board meetings at the locations of operating companies and by encouraging the directors to visit operating companies and local management as and when their schedule allows. The company secretary monitors developments in governance and directors' fiduciary duties and updates the board on such matters as agreed with the chairman. Directors can also make use of external courses.

Directors' indemnities

In accordance with section 232 of the Act, the company grants an indemnity to all of its directors. The indemnity relates to costs incurred by them in defending any civil or criminal proceedings and in connection with an application for relief under sections 661(3) and (4) or sections 1157(1)-(3) of the Act, so long as monies are repaid not later than when the outcome becomes final if: (i) they are convicted in the proceedings; (ii) judgment is given against them; or (iii) the court refuses to grant the relief sought.

The company has purchased and maintains directors' and officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such directors and officers in the execution of their duties.

Shareholder engagement

Pearson has an extensive programme of communication with all of its shareholders – large and small, institutional and private.

In 2012, we continued with our shareholder outreach programme, seeing approximately 650 institutional and private investors at more than 350 different institutions in Australia, Canada, China, Continental Europe, Japan, Malaysia, Singapore, South Korea, the UK and the US.

There are five trading updates each year and the chief executive and chief financial officer present our preliminary and interim results updates. They also attend regular meetings throughout the year with investors both in the UK and around the world, tailored to investor requirements, to discuss the performance of the company, the company's strategy, structural changes in our markets and risks and opportunities for the future.

The chairman meets regularly with significant shareholders to understand any issues and concerns they may have. This is in accordance with both the Code and the UK Stewardship Code. The non-executive directors meet informally with shareholders both before and after the AGM and respond to shareholder queries and requests as necessary. The chairman ensures that the board is kept informed of principal investors' and advisers' views on strategy and corporate governance.

We also have an established programme of educational seminars for our institutional shareholders focusing on individual parts of Pearson. These seminars are available to all shareholders via webcast on www.pearson.com

Private investors represent over 80% of the shareholders on our register and we make a concerted effort to engage with them regularly. Shareholders who cannot attend the AGM are invited to email questions to the chairman in advance at glenmoreno-agm@pearson.com

We encourage our private shareholders to become more informed investors and have provided a wealth of information on our website about managing Pearson shareholdings, see www.pearson.com/investors/shareholder-information for further information, or turn to p181 of this report. We also encourage all shareholders, who have not already done so, to register their email addresses through our website and with our registrar. This enables them to receive email alerts when trading updates and other important announcements are added to our website.

We post all company announcements on our website, www.pearson.com, as soon as they are released, and major shareholder presentations are made accessible via webcast or conference call. Our website contains a dedicated investor relations section with an extensive archive of past announcements and presentations, historical financial performance, share price data and a calendar of events. It also includes information about all of our businesses, links to their websites and details of our corporate responsibility policies and activities.

We are committed to ensuring that all our shareholders receive their dividends and during 2012 we informed any shareholder who had outstanding unclaimed dividends of the amounts owed to them and how they could claim these. To this end, during the year, we also reminded shareholders of our dividend mandate service which enables UK and many overseas shareholders to receive dividends directly into their nominated bank account, and we invite any shareholders who have not yet done so to consider using this method for dividend payments.

We recently provided shareholders with smaller holdings the opportunity to use our registrar's low-cost share dealing service, giving them the chance to add to or reduce their stake in Pearson at significantly reduced dealing rates, or to donate shares to charity with ease. This service proved very popular with shareholders, and consequently we intend to offer this service again at a future date.

We believe it is important that our employees have a shared interest in the direction and achievements of Pearson and are pleased to say that a large number of our employees are shareholders in the company.

Our AGM – which will be held on 26 April this year – is an opportunity for all shareholders to meet the board and to hear presentations about Pearson's businesses and results.

Board committees

The board has established three formal committees: the nomination committee, the remuneration committee and the audit committee. The chairmen and members of these committees are appointed by the board on the recommendation (where appropriate) of the nomination committee and in consultation with each relevant committee chairman.

In addition to these board committees, three further committees operate with board input: the Pearson management committee (PMC), the standing committee and the recently-established reputation and responsibility committee.

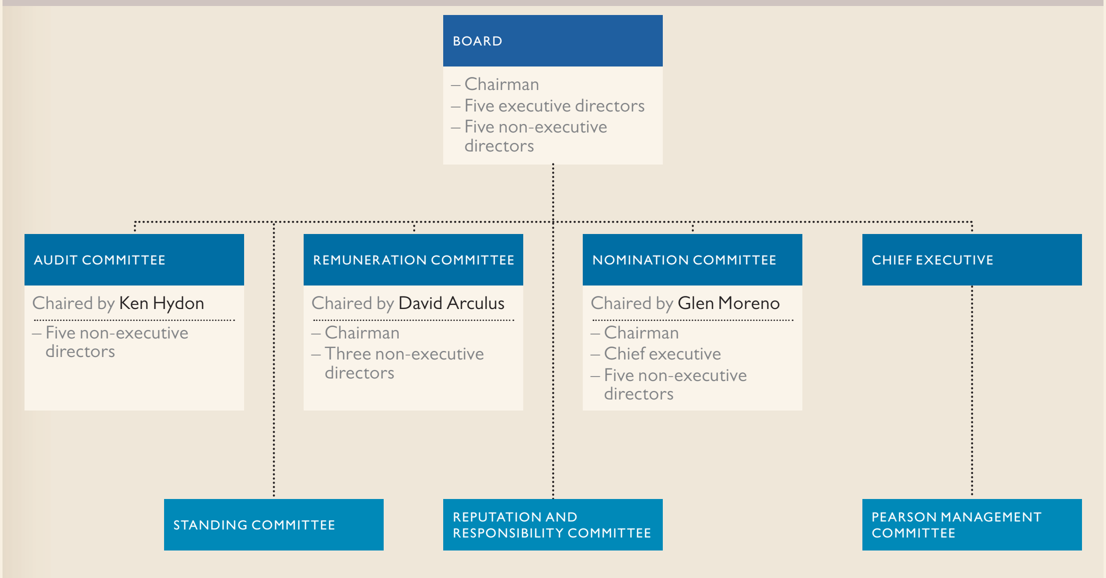
NOMINATION COMMITTEE

Chairman Glen Moreno

Members David Arculus, Vivienne Cox, John Fallon, Susan Fuhrman, Ken Hydon, Josh Lewis and Glen Moreno

The nomination committee meets at least once a year and as and when required. The committee primarily monitors the composition and balance of the board and its committees, and identifies and recommends to the board the appointment of new directors and/or committee members.

BOARD AND COMMITTEE FRAMEWORK



The schedule of matters reserved for the board and the terms of reference of the audit, remuneration, nomination and standing committees are available at www.pearson.com/investors/shareholder-information/governance

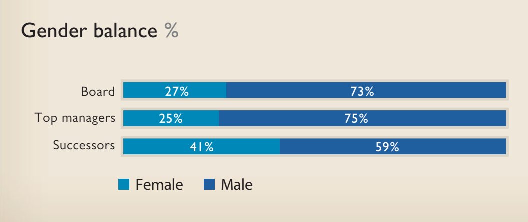
Board governance continued

During 2012, the committee's primary focus was the appointment of Pearson's new chief executive following Marjorie Scardino's decision to step down at the end of 2012, and consequently the committee met six times during the course of the year. At its February meeting, the committee reviewed succession planning for non-executive and executive board positions and senior management, as well as board committee membership.

The committee ensures that the directors of Pearson demonstrate a broad balance of skills, experience, independence, knowledge and diversity (including gender diversity). There are currently three female directors on the board, one of whom is an executive director. The committee and the board always take account of diversity when considering board appointments and will continue to do so, whilst ensuring that appointments are made based on merit and relevant experience.

The plan for 2013 is to continue to develop programmes and relationships that help attract talented diverse people into our business and retain them and to continue to track our progress. In particular, Pearson intends to commence work on a comprehensive gender diversity strategy, and to develop a global diversity strategy focusing on the key emerging markets of India, China and Brazil.

Pearson continues to show evidence of progress in relation to the retention of people with diverse backgrounds for both entry level and management positions and has made significant progress over the years in advancing women and culturally diverse people. As at December 2012, 25% of Pearson's top managers were women, and 41% of successors for such roles were female, including an increasing number of business leaders as well as functional roles such as HR and finance, ensuring that the pipeline of talented women within Pearson remains strong. To support this pipeline, a diversity toolkit for managers was launched in the UK, to provide managers with advice and guidance on developing their diversity management skills. We hope to launch a US version during 2013.



Whilst the chairman of the board chairs the nomination committee, he is not permitted to chair meetings when the appointment of his successor is being considered or during a discussion regarding his performance. At such times, the senior independent director will chair the meetings.

The committee has written terms of reference which clearly set out its authority and duties. These can be found on the company website at www.pearson.com/investors/shareholder-information/governance

REMUNERATION COMMITTEE

Chairman David Arculus

Members David Arculus, Vivienne Cox, Ken Hydon and Glen Moreno

The remuneration committee reports to the full board and a letter from the chairman of the remuneration committee and its report on directors' remuneration, which has been considered and adopted by the board, is set out on pages 64 to 92.

The committee met six times during the year, and has written terms of reference which clearly set out its authority and duties. These can be found on the company website at www.pearson.com/investors/shareholder-information/governance

AUDIT COMMITTEE

Chairman Ken Hydon

Members David Arculus, Vivienne Cox, Susan Fuhrman, Ken Hydon and Josh Lewis

As I described last year, in my role as audit committee chairman, I consider the key role of the committee to be in providing oversight and reassurance to the board, specifically with regard to the integrity of the company's financial reporting, accounting policies, risk management and internal control processes and governance framework.

Fundamental to this role is the committee's access to local management. Once again, committee meetings have been attended by the chief financial officer and head of Group internal audit and risk assurance, and often by the chief executive and chairman. Individual managers have joined meetings for specific topics, e.g. treasury, tax or business continuity planning. In total, 16 managers attended one or more meetings during the year. During the board's visit to São Paulo, members of the committee met with local senior financial management to discuss risk management, financial control and the Pearson code of conduct. In July, the committee met with the company's chief information officer and director of digital strategy to discuss the approach taken to data protection. Finally, in December, in its first 'risk deep-dive' session aimed at making the risk review process more tangible, the committee met with the president of the US assessment and information group to discuss risks and mitigation strategy related to the testing and assessment business. This approach worked well, and I am keen that the committee holds additional sessions in 2013 focusing on key risks within Pearson, as well as continuing to meet local management throughout the year and whenever the board is scheduled to meet in overseas locations.

The committee has a healthy interaction with group internal audit and PwC, who attend all of our regular committee meetings. Again, I see this as fundamental to the role of the committee and to my position as chairman.

We always need to be learning, as the business progresses and the environments in which we operate change.

Ken Hydon

Members

All of the audit committee members are independent non-executive directors and have financial and/or related business experience due to the senior positions they hold or have held in other listed or publicly traded companies and/or similar public organisations. Ken Hydon, chairman of the committee, is the company's designated financial expert. He is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers. He also serves as audit committee chairman for Reckitt Benckiser Group plc, and until recently for Tesco plc and Royal Berkshire NHS Foundation Trust.

The qualifications and relevant experience of the other committee members are detailed on page 46.

Role and responsibilities

The committee has written terms of reference which clearly set out its authority and duties. These are reviewed annually and can be found on the company website at www.pearson.com/investors/shareholder-information/governance

The committee has been established by the board primarily for the purpose of overseeing the accounting, financial reporting, internal control and risk management processes of the company and the audit of the financial statements of the company.

The committee is responsible for assisting the board's oversight of the quality and integrity of the company's external financial reporting and statements and the company's accounting policies and practices. The Group's internal and external auditors have direct access to the committee to raise any matter of concern and to report on the results of work directed by the committee. The committee reports to the full board at every board meeting immediately following a committee meeting. It also reviews the independence of the external auditors, including the provision of non-audit services (further details of which can be found on pages 59 and 60), and ensures that there is an appropriate audit relationship and that auditor objectivity and independence is upheld.

Board governance continued

External audit

Based on management's recommendations, the committee reviews the proposal on the appointment of the external auditors. The committee reviewed the effectiveness and independence of the external auditors during 2012 and remains satisfied that the auditors provide effective independent challenge to management. The committee will continue to review the performance of the external auditors on an annual basis and will consider their independence and objectivity, taking account of all appropriate guidelines. There are no contractual obligations restricting the committee's choice of external auditors. In any event, the external auditors are required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner has been in place for five years and consequently will rotate following completion of the Group's 2012 year end audit.

In accordance with our external auditor policy, Group internal audit performs an annual assessment of audit fees, services and independence. This review forms the basis for a recommendation by the committee to the board in respect of the appointment and compensation of our external auditor. Having previously conducted a full tender exercise in 1996, and considered re-tendering in subsequent years, we intend to give consideration during 2013 to the timing of our next formal tender, mindful of the 2012 Code requirement to undertake a formal tendering process at least once every ten years.

During the year, the committee discussed the planning, conduct and conclusions of the external audit as it proceeded.

At the July 2012 audit committee meeting, the committee discussed and approved the auditors' group audit plan and identified the following key risks of misstatement of the Group's financial statements, which were updated at the December 2012 committee meeting:

› Revenue recognition, in light of a number of products and services sold by Pearson where revenue recognition practices are complex and management assumptions and estimates are necessary;
› Accounting for acquisitions in light of material transactions in 2011 and 2012, in particular, valuation of acquired intangibles which involves significant judgement; and
› Disposal accounting, in particular relating to proposed Penguin Random House venture.

The committee discussed these issues with the auditors at the time of their review of the half year interim financial statements in July 2012 and again at the conclusion of their audit of the financial statements for the year in February 2013. In December 2012, the committee discussed with the auditors the status of their work, focusing on their work in relation to internal controls. As the auditors concluded their audit, they explained to the committee:

› The work they had conducted over revenue, which included targeted procedures at businesses which were considered to have more complex revenue recognition, such as the assessment and testing businesses;
› The results of their review of acquisition accounting for all significant acquisitions, encompassing assessment of management's valuations of intangible assets as well as other purchase price adjustments;
› The work they had done to test management's assumptions and estimates in relation to balance sheet judgements and calculations (encompassing provisions for doubtful debts and inventory, recoverability of pre-publication assets and authors' advances, reserves for sales returns, estimates of current and deferred tax and pension liabilities and other contingencies) and how they had satisfied themselves that these were reasonable;
› The impact of the board's decision on the future options for the Pearson in Practice business;
› The results of their review of the impairment model, including their challenge of management's underlying cash flow projections and consideration of key assumptions such as discount rates and perpetuity rates and sensitivities, which indicated that all cash-generating units had adequate headroom;
› The results of their controls testing to date for Sarbanes-Oxley Act section 404 reporting purposes and in support of their financial statements audit; and
› The review of the company's 'going concern' reports.

The auditors also reported to the committee the misstatements that they had found in the course of their work, which were insignificant, and the committee confirmed that there were no material items remaining unadjusted in these financial statements.

Training

The committee receives regular technical updates as well as specific or personal training as appropriate. During 2012, two committee members took advantage of a personal training session provided by PwC.

Committee members also meet with local management on an ongoing basis in order to gain a better understanding of how Group policies are embedded in operations. For example, during its visit to São Paulo in June 2012, the committee met with local senior finance managers.

Meetings

The committee met four times during the year with the following in attendance: the chief financial officer; head of Group internal audit and risk assurance; members of the senior management team; and the external auditors. The committee also met regularly in private with the external auditors and the head of Group internal audit and risk assurance.

At every meeting, the committee considered reports on the activities of the Group internal audit function, including the results of internal audits, risk reviews, project assurance reviews and fraud and whistleblowing reports. The committee also monitored the company's financial reporting, internal controls and risk management procedures and considered any significant legal claims and regulatory issues in the context of their impact on financial reporting.

Specifically, the committee considered the following matters during the course of the year:

- The 2011 annual report and accounts: preliminary announcement, financial statements and income statement;
- The Group accounting policies;
- Compliance with the UK Corporate Governance Code;
- Form 20-F and related disclosures including the annual Sarbanes-Oxley Act section 404 attestation of financial reporting internal controls;
- Receipt of the external auditors' report on the Form 20-F and on the year end audit;
- Assessment of the effectiveness of the Group's internal control environment;
- Reappointment, remuneration and engagement letter of the external auditors;
- Provision of non-audit services by PwC;
  Review of the interim financial statements and announcement;
- Annual re-approval of the Group internal audit mandate;
- Compliance with SEC and NYSE requirements including Sarbanes-Oxley Act;
- Reviews of the effectiveness of the audit committee, the external auditors and the Group internal audit function;
- Pearson's anti-corruption programme;
- Pearson's data protection programme;
- Review of the committee's terms of reference;
- Annual internal audit plan;
- Risk deep-dive: testing and assessment business;
- Review of company risk returns including Social, Ethical and Environmental (SEE) risks;
- Group tax strategy review; and
- Annual review of treasury policy.

In February 2013, the committee also considered the 2012 annual report and accounts, including the preliminary announcement, financial statements, business review, directors' report and corporate governance compliance statement.

Internal control and risk management

The directors confirm they have conducted a review of the effectiveness of the group's systems of risk management and internal controls, including strategic, financial, operational and compliance controls and risk management systems, in accordance with the UK Corporate Governance Code and the Turnbull guidance as revised. These systems have been operating throughout the year and to the date of this report.

The key elements and procedures that have been established to provide effective risk management and internal control systems are described below:

Control environment

The board of directors has overall responsibility for Pearson's system of internal control, which is designed to manage, and where possible mitigate, the risks facing the Group, safeguard assets and provide reasonable, but not absolute, assurance against material financial misstatement or loss.

Responsibility for monitoring financial management and reporting and risk management and internal control systems has been delegated to the audit committee by the board. At each meeting, the audit committee considers reports from management, Group internal audit and the external auditors, with the aim of reviewing the effectiveness of the internal financial and operating control environment of the Group.

The identification and mitigation of significant business risks is the responsibility of Group senior management and operating company management. Each operating company, including the corporate centre, maintains internal controls and procedures appropriate to its structure, business environment and risk assessment,

Board governance continued

whilst complying with Group policies, standards and guidelines.

Financial management and reporting

There is a comprehensive strategic planning, budgeting and forecasting system with an annual operating plan approved by the board of directors. Monthly financial information, including trading results, balance sheets, cash flow statements, capital expenditures and indebtedness, is reported against the corresponding figures for the plan and prior years, with corrective action outlined by the appropriate senior executive. Group senior management meet, on a quarterly basis, with operating company management to review their business and financial performance against plan and forecast. Major business risks relevant to each operating company as well as performance against the stated financial and strategic objectives are reviewed in these meetings.

We have an ongoing process to monitor the risks and effectiveness of controls in relation to the financial reporting and consolidation process including the related information systems. This includes up-to-date Group financial policies, formal requirements for business unit finance functions, Group consolidation reviews and analysis of material variances, group finance technical reviews, including the use of technical specialists, and review and sign-off by senior finance managers. These processes are monitored and assessed during the year by the Group internal audit and Group compliance functions.

These controls include those over external financial reporting which are documented and tested in accordance with the requirements of section 404 of the Sarbanes-Oxley Act, which is relevant to our US listing.

The effectiveness of key financial controls is subject to management review and self certification and independent evaluation by Group internal audit.

A risk management framework is in place to identify, evaluate and manage risks, including key financial reporting risks. Operating companies undertake semi-annual risk reviews to identify new or potentially under-managed risks. Throughout the year, risk sessions facilitated by the head of Group internal audit and risk assurance are held with Group and operating company management to identify the key risks the company faces in achieving its objectives, to assess the probability and impact of those risks and to document the actions being taken to manage those risks. The Pearson management committee reviews the output of these sessions, focusing on the significant risks facing the business. Management has the responsibility to consider and execute appropriate action to mitigate these risks whenever possible. The results of these reviews are reported to the board in detail via the audit committee.

Group internal audit

The Group internal audit function is responsible for providing independent assurance to management on the design and effectiveness of internal controls to mitigate strategic, financial, operational and compliance risks. The risk-based annual internal audit plan is approved by the audit committee. Recommendations to improve internal controls and to mitigate risks, or both, are agreed with operating company management after each audit. Formal follow-up procedures allow Group internal audit to monitor operating companies' progress in implementing its recommendations and to resolve any control deficiencies. The Group internal audit function also has a remit to monitor significant Group projects, in conjunction with the central project management office and to provide assurance that appropriate project governance and risk management strategies are in place. Group internal audit has a formal collaboration process in place with the external auditors to ensure efficient coverage of internal controls. Regular reports on the work of Group internal audit are provided to executive management and, via the audit committee, to the board.

The head of Group internal audit is jointly responsible with the Group legal counsel for monitoring compliance with our Code of Conduct, and investigating any reported incidents including ethical, corruption and fraud allegations. The Pearson anti-bribery and corruption programme provides the framework to support our compliance with various anti-bribery and corruption regulations such as the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act.

Treasury management

The treasury department operates within policies approved by the board and its procedures are reviewed regularly by the audit committee. Major transactions are authorised outside the department at the requisite level, and there is an appropriate segregation of duties. Frequent reports are made to the chief financial officer and regular reports are prepared for the audit committee and the board.

Insurance

Insurance is provided through Pearson's insurance subsidiary, Spear Insurance Limited, and/or externally, depending on the scale of the risk and the availability of cover in the external market, with the objective of achieving the most cost-effective balance between insured and uninsured risks.

Going concern

Having reviewed the Group's liquid resources and borrowing facilities and the Group's 2013 and 2014 cash flow forecasts, the directors believe that the Group has adequate resources to continue as a going concern. For this reason, the financial statements have, as usual, been prepared on that basis. Information regarding the Group's borrowing liabilities and financial risk management can be found in notes 18 and 19 on pages 135 to 143.

Share capital

Details of share issues are given in note 27 to the accounts on page 156. The company has a single class of shares which is divided into ordinary shares of 25p each. The ordinary shares are in registered form. As at 31 December 2012, 817,042,980 ordinary shares were in issue. At the AGM held on 27 April 2012, the company was authorised, subject to certain conditions, to acquire up to 81,597,867 ordinary shares by market purchase. Shareholders will be asked to renew this authority at the AGM on 26 April 2013.

Information provided to the company pursuant to the Financial Services Authority's Disclosure and Transparency Rules is published on a Regulatory Information Service and on the company's website. As at 5 March 2013, being the last practicable date before the publication of this report, the company had been notified under DTR5 of the following significant voting rights in its shares:

	Number of voting rights	Percentage
BlackRock, Inc.	40,975,445	5.01%
Legal & General Group plc	32,385,175	3.98%
Libyan Investment Authority	24,431,000	3.01%

Annual General Meeting (AGM)

The notice convening the AGM, to be held at 12 noon on Friday, 26 April 2013 at IET London, 2 Savoy Place, London WC2R 0BL, is contained in a circular to shareholders to be dated 21 March 2013.

Registered auditors

In accordance with section 489 of the Act, a resolution proposing the reappointment of PricewaterhouseCoopers LLP (PwC) as auditors to the company will be proposed at the AGM, at a level of remuneration to be agreed by the directors.

Auditors' independence

In line with best practice, our relationship with PwC is governed by our external auditors policy, which is reviewed and approved annually by the audit committee. The policy establishes procedures to ensure the auditors' independence is not compromised, as well as defining those non-audit services that PwC may or may not provide to Pearson. These allowable services are in accordance with relevant UK and US legislation.

The audit committee approves all audit and non-audit services provided by PwC. Certain categories of allowable non-audit services have been pre-approved by the audit committee subject to the authorities below:

- Pre-approved non-audit services can be authorised by the chief financial officer up to £100,000 per project, subject to a cumulative limit of £500,000 per annum;
- Acquisition or disposal transactions and due diligence up to £100,000 per project may be performed by our external auditors, in light of the need for confidentiality. Any project/transaction generating fees in excess of £100,000 must be specifically approved by the audit committee;
- Tax compliance and related activities up to the greater of £1,000,000 per annum or 50% of the external audit fee; and
- For forward-looking tax planning services we use the most appropriate adviser, usually after a tender process. Where we decide to use our independent auditors, authority, up to £100,000 per project subject to a cumulative limit of £500,000 per annum, has been delegated by the audit committee to management.

Services provided by PwC above these limits and all other allowable non-audit services, irrespective of value, must be approved by the audit committee. Where appropriate, services will be tendered prior to a decision being made as to whether to award work to the auditors.

The audit committee receives regular reports summarising the amount of fees paid to the auditors.

Board governance continued

During 2012, the significant non-audit work performed by PwC was:

- Tax compliance services related to a routine audit by the US Internal Revenue Service;
- Tax advisory services associated with the planned creation of the venture between Penguin and Random House;
- Assurance services on a corporate bond issued in May 2012; and
- Other assurance services which were individually less than £100,000 per project.

In each case, PwC was selected as they were best able to provide the services we required at a reasonable fee and within the terms of our external auditors policy. To assist in ensuring that independence and objectivity is maintained, for forward-looking tax planning and due diligence work PwC assign a different partner from the one leading the external audit.

A full statement of the fees for audit and services is provided in note 4 to the accounts on page 114.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the report on directors' remuneration and the financial statements in accordance with applicable law and regulations.

The Act requires the directors to prepare financial statements for each financial year. The directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under the Act the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union or disclose and explain any material departures from those IFRSs; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and/or the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group. This enables them to ensure that the financial statements and the report on directors' remuneration comply with the Act and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on pages 44 to 46, confirm that to the best of their knowledge and belief:

- The Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- The directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and Group, together with a description of the principal risks and uncertainties that they face.

The directors also confirm that, for all directors in office at the date of this report:

a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and

b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the board on 7 March 2013 and signed on its behalf by

Philip Hoffman Secretary

Additional information for shareholders

Set out below is other statutory and regulatory information that Pearson is required to disclose in its directors' report.

Amendment to Articles of Association

Any amendments to the Articles of Association of the company (the Articles) may be made in accordance with the provisions of the Companies Act 2006 (the Act) by way of a special resolution.

Rights attaching to shares

The rights attaching to the ordinary shares are defined in the Articles. A shareholder whose name appears on the company's register of members can choose whether his/her shares are evidenced by share certificates (i.e. in certificated form) or held electronically (i.e. uncertificated form) in CREST (the electronic settlement system in the UK).

Subject to any restrictions below, shareholders may attend any general meeting of the company and, on a show of hands, every shareholder (or his/her representative) who is present at a general meeting has one vote on each resolution for every ordinary share of which they are the registered holder. A resolution put to the vote at a general meeting is decided on a show of hands unless before, or on the declaration of the result of, a vote on a show of hands, a poll is demanded. A poll can be demanded by the chairman of the meeting, or by at least three shareholders (or their representatives) present in person and having the right to vote, or by any shareholders (or their representatives) present in person having at least 10% of the total voting rights of all shareholders, or by any shareholders (or their representatives) present in person holding ordinary shares on which an aggregate sum has been paid up of at least 10% of the total sum paid up on all ordinary shares. At this year's AGM voting will again be conducted on a poll, consistent with best practice.

Shareholders can declare a final dividend by passing an ordinary resolution but the amount of the dividend cannot exceed the amount recommended by the board. The board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide. In all cases the distributable profits of the company must be sufficient to justify the payment of the relevant dividend.

The board may, if authorised by an ordinary resolution of the shareholders, offer any shareholder the right to elect to receive new ordinary shares, which will be credited as fully paid, instead of their cash dividend.

Any dividend which has not been claimed for 12 years after it became due for payment will be forfeited and will then belong to the company, unless the directors decide otherwise.

If the company is wound up, the liquidator can, with the sanction of a special resolution passed by the shareholders, divide among the shareholders all or any part of the assets of the company and he/she can value assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. The liquidator can also, with the same sanction, transfer the whole or any part of the assets to trustees upon such trusts for the benefit of the shareholders.

Voting at general meetings

Any form of proxy sent by the shareholders to the company in relation to any general meeting must be delivered to the company (via its registrars), whether in written or electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

No shareholder is, unless the board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he/she or any person with an interest in shares has been sent a notice under section 793 of the Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and he/she or any interested person failed to supply the company with the information requested within 14 days after delivery of that notice. The board may also decide, where the relevant shareholding comprises at least 0.25% of the nominal value of the issued shares of that class, that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered.

Pearson operates two employee benefit trusts to hold shares, pending employees becoming entitled to them under the company's employee share plans.

Board governance continued

There were 10,101,860 shares so held as at 31 December 2012. Each trust has an independent trustee which has full discretion in relation to the voting of such shares. A dividend waiver operates on the shares held in these trusts.

Pearson also operates a nominee shareholding arrangement known as Sharestore which holds shares on behalf of employees. There were 4,710,567 shares so held as at 31 December 2012. The trustees holding these shares seek voting instructions from the relevant employee as beneficial owner, and voting rights are not exercised if no instructions are given.

Transfer of shares

The board may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the company from taking place on an open and proper basis. The board may also refuse to register a transfer of a certificated share unless (i) the instrument of transfer is lodged, duly stamped (if stampable), at the registered office of the company or any other place decided by the board, and is accompanied by the certificate for the share to which it relates and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer; (ii) it is in respect of only one class of shares; and (iii) it is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

Variation of rights

If at any time the capital of the company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either:

(i) with the written consent of the holders of at least 75% in nominal value of the issued shares of the relevant class; or

(ii) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the relevant class.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share may be issued with such preferred, deferred, or other special rights, or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the company may from time to time by ordinary resolution determine.

Appointment and replacement of directors

The Articles contain the following provisions in relation to directors:

Directors shall number no less than two. Directors may be appointed by the company by ordinary resolution or by the board. A director appointed by the board shall hold office only until the next AGM and shall then be eligible for reappointment, but shall not be taken into account in determining the directors or the number of directors who are to retire by rotation at that meeting. The board may from time to time appoint one or more directors to hold executive office with the company for such period (subject to the provisions of the Act) and upon such terms as the board may decide and may revoke or terminate any appointment so made.

The Articles provide that, at every AGM of the company, at least one-third of the directors shall retire by rotation (or, if their number is not a multiple of three, the number nearest to one-third). The first directors to retire by rotation shall be those who wish to retire and not offer themselves for re-election. Any further directors so to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since they were last re-elected but, as between persons who became or were last re-elected on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. In addition, any director who would not otherwise be required to retire shall retire by rotation at the third AGM after they were last re-elected.

Notwithstanding the provisions of the Articles, the board has resolved that all directors should offer themselves for re-election annually, in accordance with the UK Corporate Governance Code.

The company may by ordinary resolution remove any director before the expiration of his/her term of office. In addition, the board may terminate an agreement or arrangement with any director for the provision of his/her services to the company.

Powers of the directors

Subject to the company's Articles, the Act and any directions given by special resolution, the business of the company will be managed by the board who may exercise all the powers of the company, including powers relating to the issue and/or buying back of shares by the company (subject to any statutory restrictions or restrictions imposed by shareholders in general meeting).

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the company:

Under the $1,750,000,000 revolving credit facility agreement dated November 2010 which matures in November 2015 between, amongst others, the company, HSBC Bank plc (as facility agent) and the banks and financial institutions named therein as lenders (the Facility), any such bank may, upon a change of control of the company, require its outstanding advances, together with accrued interest and any other amounts payable in respect of such Facility, and its commitments, to be cancelled, each within 60 days of notification to the banks by the facility agent. For these purposes, a 'change of control' occurs if the company becomes a subsidiary of any other company or one or more persons acting either individually or in concert, obtains control (as defined in section 1124 of the Corporation Tax Act 2010) of the company.

Shares acquired through the company's employee share plans rank *pari passu* with shares in issue and have no special rights. For legal and practical reasons, the rules of these plans set out the consequences of a change of control of the company.

Report on directors' remuneration

Dear shareholders

I am pleased to present our report on directors' remuneration for 2012, which will be put forward for your consideration and approval at the annual general meeting on 26 April 2013.

The remuneration committee believes that the purpose of its remuneration policy is to support the company's strategy and to help deliver sustained performance and consistent long-term value creation in the interests of all stakeholders.

Performance in 2012

Performance has been resilient in very tough conditions and the company has delivered:

- strong competitive performance
- operating profit broadly level with the record profits in 2011
- return on invested capital above our cost of capital
- Pearson's 21st straight year of increasing our dividend above the rate of inflation. Over the past ten years we have increased our dividend at a compound annual rate of 7%, returning more than £2.5bn to shareholders

Principles of remuneration policy

Our reward policy is aligned with the interests of all stakeholders in providing:

- competitive base salaries that reflect the market and individual roles and contribution
- a high proportion of variable remuneration that is directly linked to the annual and long-term performance of the company
- annual incentives that reward achievement of strategic goals
- long-term incentives that drive long-term earnings and share price growth and encourage people to acquire and hold Pearson shares in line with shareholders' interests
- many people at Pearson with the opportunity to share in the company's success through cash-based annual incentives and bonuses and worldwide participation in share ownership plans, continuing practices first started in 1998

Market conditions

The remuneration committee is sensitive to the current social and economic environment surrounding executive compensation.

We welcome the coalition government's proposals to improve the clarity and transparency of remuneration disclosure. Although the regulations have not yet been finalised, we have adopted many of the recommendations in this year's report.

We hope that these changes will continue to demonstrate the link between our remuneration policy and practice and the company's strategy and performance, as well as our commitment to shareholder engagement.

We continue to keep our remuneration policy under review in light of the prevailing economic conditions and the impact of these on the company's objectives and strategy.

What we've planned for 2013

Looking forward, for 2013:

- we undertook a periodic review of base salaries for 2013 taking into account general economic and market conditions, the level of increases made across the company as a whole, the remuneration of executives in similar positions in comparable companies and individual performance
- we reviewed and established an appropriate starting remuneration package for the new CEO comprising base salary, annual and long-term incentives, allowances and benefits
- we reviewed and amended the service agreements for those executive directors, including the CEO, who will continue to serve throughout 2013. The consequence of this review has been to remove any entitlement to annual incentive from the calculation of any compensation that might be payable on termination of employment by the company without notice or cause

What we did in 2012

Looking back to some specific aspects of policy and practice in 2012:

- we undertook a periodic review of base salaries for 2012 and, in light of the prevailing economic conditions and consistent with the action that continues to be taken across the company to control costs, the committee endorsed the recommendation of the executive directors and other members of the Pearson Management Committee that they receive no increase in base salaries
- annual incentives paid to executives for 2012 performance were significantly lower than for 2011, reflecting performance in a tough business environment and more challenging incentive targets
- we reduced the number of shares awarded to the Pearson Management Committee as their long-term incentives

Our policy and implementation is summarised in more detail in the remainder of this report.

Finally, I would like to thank my fellow members of the committee and the people who have assisted us for their contribution over the past year and to give special appreciation to Patrick Cescau who stood down from the committee during 2012.

David Arculus
Chairman, Remuneration Committee

Report on directors' remuneration continued

Introduction

The rest of this report on directors' remuneration comprises:

- a policy report – a forward-looking statement on remuneration policy for 2013 and beyond; and
- an implementation report – a report on remuneration practice in 2012

Together, this report complies with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and was approved by the board of directors on 7 March 2013.

The committee believes that the company has complied with the provisions regarding remuneration matters contained within the UK Corporate Governance Code.

Where required under current regulations, the following tables have been subject to audit:

- total remuneration (page 80)
- pension entitlements and pension-related benefits (page 83)
- movements in directors' interests in restricted shares (pages 86 to 88)
- movements in directors' interests in share options (page 89)

Policy report

Remuneration policy and business strategy

The committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the company's business environment and in remuneration practice. Our starting point continues to be that total remuneration should reward both short- and long-term results, delivering competitive rewards for target performance but outstanding rewards for exceptional performance.

Our goal as a company is to be the world's leading learning company and to help people of all ages make progress in their lives through all kinds of learning. Pearson's strategy has for some years focused on growth in digital products, educational services and emerging markets. We are now accelerating the implementation of that strategy through:

- four global businesses – we are focusing on school, higher education, English-language learning and business education. We are taking an increasingly global view of educational needs and trends
- four types of geographic market – we will carefully evaluate when we offer global products and services, when we customise for local needs, and when we require a true local approach. We will focus our investment on markets with the biggest growth opportunities
- four business models – we will channel our investment into four proven business models: direct-to-consumer; 'Pearson Inside' (our shorthand for institutional services such as our school systems in Brazil); assessment; and learning systems

Those measures complement our more traditional financial measures and goals but they do not, of course, replace them. In financial terms, Pearson's goal is to achieve sustainable growth on three key financial goals – earnings, cash and return on invested capital, and reliable cash returns to our investors through healthy and growing dividends. We believe those are, in concert, good indicators that we are building the long-term value of Pearson. So those measures (or others that contribute to them, such as sales, profit, and working capital) form the basis of our annual budgets and plans, and the basis for bonuses and long-term incentives.

Summary of remuneration policy

The following table summarises the company's policy on directors' remuneration that applies to executive directors and other members of the Pearson Management Committee for 2013 and, so far as practicable, for subsequent years. We have taken account of the coalition government's proposed regulations on the disclosure of remuneration policy but the format and level of detail in the policy table may evolve in subsequent years in line with the final disclosure requirements.

Report on directors' remuneration: Policy table

Introduction

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different strategic objectives. Total remuneration is normally reviewed annually and benchmarked against total remuneration for similar positions in comparable companies.

Base salary

PURPOSE AND LINK TO STRATEGY

- Helps to recruit, reward and retain.
- Reflects competitive market level, role, skills, experience and individual contribution.

OPERATION

Normally reviewed annually for the following year taking into account general economic and market conditions, the level of increases made across the company as a whole, the remuneration of executives in similar positions in comparable companies and individual performance.

OPPORTUNITY

Normally reviewed in line with increases across the company as a whole, subject to particular circumstances such as changes in role, responsibilities or organisation, current remuneration relative to the mid-market position across our comparator groups and the level of increases for executives generally.

PERFORMANCE CONDITIONS

None, although performance of both the company and the individual are taken into account when determining an appropriate level of base salary increase each year.

PERFORMANCE PERIOD

None.

IMPLEMENTATION

There were no increases to base salaries in 2012 for executive directors and other members of the Pearson Management Committee. Base salaries for 2012 are reported in the total remuneration table on page 80.

For 2013, we reviewed base salaries consistent with our policy set out above.

OTHER EMPLOYEES

The approach to setting base salary increases elsewhere in the company takes into account economic factors, competitive market rates, roles, skills, experience and individual performance.

The increase in wages and salaries for the company as a whole is reported in note 5 to the financial statements on page 115.

Allowances and benefits

PURPOSE AND LINK TO STRATEGY

- Help to recruit and retain.
- Reflect local competitive market.

OPERATION

Include *inter alia* cash allowances and non-cash benefits such as health and welfare and car benefits.

Allowances and benefits do not form part of pensionable earnings.

OPPORTUNITY

The provision and level of allowances and benefits are competitive and appropriate in the context of the local market.

PERFORMANCE CONDITIONS

None.

PERFORMANCE PERIOD

None.

IMPLEMENTATION

No change on prior year. Allowances and benefits for 2012 are reported in the total remuneration table on page 80.

OTHER EMPLOYEES

Allowances and benefits for employees reflect the local labour market in which they are based.

Retirement benefits

PURPOSE AND LINK TO STRATEGY

› Help to recruit and retain.
› Recognise long-term commitment to the company.

OPERATION

New employees in the UK are eligible to join the Money Purchase 2003 section of the Pearson Group Pension Plan. New employees in the US are eligible to join the 401(k) plan.

Under the Money Purchase 2003 section of the Pearson Group Pension Plan in the UK, normal retirement age is 62, but, subject to company consent, retirement is currently possible from age 55 or earlier in the event of ill-health. During service, the company and the employee make contributions into a pension fund. Account balances are used to provide benefits at retirement. Pensions for a member's spouse, dependent children and/or nominated financial dependants are payable on death.

Under the 401(k) plan in the US, which is a defined contribution plan, account balances will be used to provide benefits at retirement. In the event of death before retirement, the account balances will be used to provide benefits for designated beneficiaries.

Longer serving directors with legacy arrangements may participate in the defined benefit Pearson Inc. Pension Plan in the US or the Final Pay section of the Pearson Group Pension Plan in the UK, which are closed to new members.

Under the Final Pay section of the Pearson Group Pension Plan in the UK, normal retirement age is 62, but, subject to company consent, retirement is currently possible from age 55 or earlier in the event of ill-health. During service, the employee makes a contribution of 5% of pensionable salary and the pension fund builds up based on final pensionable salary and pensionable service. The accrued pension is reduced on retirement prior to age 60. Pensions for a member's spouse, dependent children and/or nominated financial dependants are payable on death.

In the US, the defined benefit Pearson Inc. Pension Plan provides a lump sum benefit that is convertible to an annuity on retirement. The lump sum benefit accrued at an age dependent percentage of capped compensation until 31 December 2001 when further benefit accruals ceased for most employees.

Employees who satisfied criteria of age and service as of 30 November 1998 continue to earn benefits under an alternative formula that provides for 1.5% of final average earnings, adjusted for US Social Security. The benefit paid to these employees is the maximum of the lump sum benefit converted to an annuity and the benefit earned under the alternative final average earnings formula.

Executive directors and other executives across the company are entitled to additional pension benefits to take account of the cap on the amount of benefits that can be provided from the all-employee pension arrangements in the US and the UK.

OPPORTUNITY

In the UK, company contributions to the Money Purchase 2003 section of the Pearson Group Pension Plan amount up to 16% of pensionable salary (double the amount of the employee contribution, which is limited according to certain age bands).

In the US, company contributions to the 401(k) plan amount to 100% of the first 3% of eligible compensation contributed by the employee and 50% of the next 3%, plus a basic annual company contribution of 1.25% of eligible compensation. Pearson Inc. Pension Plan participants who were at least age 40 at 31 December 2001 can receive an additional 0.5% – 1.5% of pay.

PERFORMANCE CONDITIONS

None.

PERFORMANCE PERIOD

None.

IMPLEMENTATION

No change.

Retirement benefits are reported on page 83.

OTHER EMPLOYEES

Executive directors participate in the same pension arrangements that have been set up for Pearson employees in the US and the UK.

Note 1 Members of the Pearson Group Pension Plan who joined after May 1989 are subject to an upper limit of earnings that can be used for pension purposes, known as the earnings cap. This limit, £108,600 as at 6 April 2006, was abolished by the Finance Act 2004. However the Pearson Group Pension Plan has retained its own 'cap', which will increase annually in line with the UK Government's Index of Retail Prices (All Items). The cap was £137,400 as at 6 April 2012.

Note 2 As a result of the UK Government's A-Day changes effective from April 2006, UK executive directors and other members of the Pearson Group Pension Plan who are, or become, affected by the lifetime allowance may be provided with a cash supplement as an alternative to further accrual of pension benefits on a basis that is broadly cost neutral to the company. Effective from 6 April 2011, the annual allowance (i.e. the maximum amount of pension saving that benefits from tax relief each year) reduced from £255,000 to £50,000. Effective 6 April 2012, the lifetime allowance (i.e. the maximum amount of pension and/or lump sum that can benefit from tax relief) reduced from £1.8m to £1.5m.

Report on directors' remuneration: Policy table continued

Annual incentives

PURPOSE AND LINK TO STRATEGY

- Motivate achievement of annual strategic goals and personal objectives.
- Provide focus on key financial metrics.
- Reward individual contribution to the success of the company.

OPERATION

Up to 90% of total opportunity is based on financial performance at the corporate and business unit level. Up to 50% of total opportunity is based on performance against personal objectives.

The committee establishes threshold, target and maximum levels of performance for different levels of payout.

Performance is measured separately for each item.

Annual incentive payments do not form part of pensionable earnings.

OPPORTUNITY

For the chief executive, maximum opportunity is 180% of base salary.

For other members of the Pearson Management Committee, individual incentive opportunities take into account their membership of that committee and the relative contribution of their businesses or roles to the company's overall goals, with a maximum opportunity of up to 175% of salary.

For the chief executive and other members of the Pearson Management Committee, there is normally no payout for performance at threshold. The performance range sets a careful balance between upside opportunity and downside risk and is normally based on targets in accordance with the operating plan.

Annual incentive plans are discretionary and the committee reserves the right to make adjustments to payments up or down if it believes exceptional factors warrant doing so.

PERFORMANCE CONDITIONS

Subject to the achievement of targets for sales, growth in underlying earnings per share for continuing operations at constant exchange rates (for Pearson plc) or operating profit (for the operating companies), average working capital as a ratio to sales, operating cash flow and personal objectives.

The selection and weighting of performance measures takes into account the strategic objectives and the business priorities relevant to each operating company and to Pearson overall each year.

Personal objectives are agreed with the chief executive (or, in the case of the chief executive, the chairman) and may be functional, operational, strategic and non-financial and include *inter alia* objectives relating to environmental, social and governance issues.

PERFORMANCE PERIOD

One year.

IMPLEMENTATION

Annual incentive payments for 2012 are reported in the total remuneration table on page 80.

For 2013, the maximum annual incentive opportunity for the chief executive remains at 180% of base salary and up to 175% of base salary for the other members of the Pearson Management Committee.

OTHER EMPLOYEES

Many people participate in some form of cash-based annual incentive, bonus, profit-share or sales commission plan.

Annual incentive plans for the Pearson Management Committee form the basis of the annual incentive plans below the level of the principal operating companies and establish performance measures and standards and set the ceiling for individual incentive opportunities.

Long-term incentives

PURPOSE AND LINK TO STRATEGY

- Help to recruit, reward and retain.
- Drive long-term earnings and share price growth and value creation.
- Align interests of executives and shareholders.
- Encourage long-term shareholding and commitment to the company.
- Link corporate performance to management's long-term reward in a flexible way.

OPERATION

Last approved by shareholders in 2011. Awards may be delivered in restricted shares and/or share options, although it is not the committee's intention to grant share options for the foreseeable future.

Awards for executive directors and other members of the Pearson Management Committee vest on a sliding scale based on performance against stretching corporate performance targets. 75% of the vested award is released at the end of the three-year performance period and the remaining 25% only vests if the participant retains the after-tax number of shares for a further two years.

Restricted shares may be granted without performance conditions to satisfy recruitment and retention objectives, but not to any of the current executive directors.

Where shares vest, participants also receive additional shares representing the gross value of dividends that would have been paid on these shares during the performance period and reinvested.

Pearson's reported financial results for the relevant periods are used to measure performance.

The committee has discretion to make adjustments taking into account exceptional factors that distort underlying business performance. In exercising such discretion, the committee is guided by the principle of aligning shareholder and management interests. No such adjustments were made for performance periods ending in 2012.

OPPORTUNITY

We set the level of individual awards by taking into account:

- the face value of individual awards at the time of grant, assuming that performance targets are met in full;
- market practice for comparable companies and market assessments of total remuneration from our independent advisers;
- individual roles and responsibilities; and
- company and individual performance.

PERFORMANCE CONDITIONS

Subject to the achievement of targets for relative total shareholder return, return on invested capital and earnings per share growth, with normally one third of the award based on each. The committee determines the performance measures and targets governing an award of restricted shares prior to grant.

PERFORMANCE PERIOD

Three years.

IMPLEMENTATION

No change.

Awards are reported in the movements in directors' interests in restricted shares and share options tables on pages 86 to 89.

OTHER EMPLOYEES

Approximately 6% of the company's employees below the Pearson Management Committee – selected on the basis of their role, performance and potential – currently hold time-vesting shares under the long-term incentive plan.

All employees (including executive directors) are also eligible to participate in savings-related share acquisition programmes in the UK, US and rest of world, which are not subject to any performance conditions.

Note 3 **Total shareholder return** (TSR) is the return to shareholders from any growth in Pearson's share price and reinvested dividends over the performance period. For long-term incentive awards, TSR is measured relative to the constituents of the FTSE World Media Index over a three-year period. Companies that drop out of the index are normally excluded i.e. only companies in the index for the entire period are counted. Share price is averaged over 20 days at the start and end of the performance period, commencing on the date of Pearson's results announcement in the year of grant and the year of vesting. Dividends are treated as reinvested on the ex-dividend date, in line with the Datastream methodology. The vesting of shares based on relative TSR is subject to the committee satisfying itself that the recorded TSR is a genuine reflection of the underlying financial performance of the business. The committee chose TSR relative to the constituents of the FTSE World Media Index because, in line with many of our shareholders, it felt that part of executive directors' rewards should be linked to performance relative to the company's peers.

Note 4 **Return on invested capital** (ROIC) is adjusted operating profit less cash tax expressed as a percentage of gross invested capital (net operating assets plus gross goodwill). We chose ROIC because, over the past few years, the transformation of Pearson has significantly increased the capital invested in the business (mostly in the form of goodwill associated with acquisitions) and required substantial cash investment to integrate those acquisitions.

Note 5 **Adjusted earnings per share** (EPS) is calculated by dividing the adjusted earnings attributable to equity shareholders of the company by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares purchased by the company and held in trust (see note 8 of the financial statements for a detailed description of adjusted earnings per share). EPS growth is calculated using the point-to-point method. This method compares the adjusted EPS in the company's accounts for the financial year ended prior to the grant date with the adjusted EPS for the financial year ending three years later and calculates the implicit compound annual growth rate over the period. We chose EPS growth because strong bottom-line growth is imperative if we are to improve our TSR and our ROIC.

Report on directors' remuneration: Policy table continued

Bonus share matching

PURPOSE AND LINK TO STRATEGY

- Encourages executive directors and other senior managers to acquire and hold Pearson shares.
- Aligns interests of executives and shareholders.

OPERATION

First approved by shareholders in 1998; last approved by shareholders in 2008.

Senior managers across the company are invited to invest up to 50% of their after-tax annual incentive in Pearson shares and hold these shares for three years, in return for the opportunity to earn additional free matching shares and dividend shares, depending on performance against the earnings per share performance condition.

Where matching shares vest, participants also receive additional shares representing the gross value of dividends that would have been paid on the matching shares during the performance period and reinvested.

OPPORTUNITY

Maximum matching award is equal to the number of shares that could have been acquired with the amount of pre-tax annual bonus invested in Pearson shares (i.e. one matching share for every one invested share, grossed up for tax).

PERFORMANCE CONDITIONS

Maximum matching award is achieved if the company's earnings per share increase in real terms by 5% per annum compound over the three-year performance period. 50% of the maximum matching award is released if the company's adjusted earnings per share increase in real terms by 3% per annum compound over the same period. Matching shares are calculated on a straight-line basis for performance between threshold and maximum.

PERFORMANCE PERIOD

Three years.

IMPLEMENTATION

No change.

Awards are reported in the movements in directors' interests in restricted shares table on pages 86 to 88.

OTHER EMPLOYEES

Around 450 senior managers across the company are eligible to participate in this plan, typically direct reports to the operating company CEOs, their senior management teams, and anyone who has a direct and significant influence on corporate strategy and financial performance.

Note 6 **Earnings per share growth** is calculated using the point-to-point method, which compares the adjusted earnings per share in the company's accounts for the financial year ended prior to the grant date with the adjusted earnings per share for the financial year ending three years later and calculates the implicit compound annual growth rate over the period. Real growth is calculated by reference to the UK Government's Retail Prices Index (All Items).

Share ownership guidelines

PURPOSE AND LINK TO STRATEGY

- Align interests of executives and shareholders.

OPERATION

Executive directors are expected to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee ownership. Shares that count towards these guidelines include any shares held unencumbered by the executive, their spouse and/or dependent children plus any shares vested but held pending release under a restricted share plan.

Executive directors have five years from the date of appointment to reach the guideline.

OPPORTUNITY

Target holding is two times salary for the chief executive and 1.25 times salary for the other executive directors, consistent with median practice in FTSE 100 companies that operated such arrangements when the guideline was set.

PERFORMANCE CONDITIONS

None.

PERFORMANCE PERIOD

None.

IMPLEMENTATION

No change.

Directors' interests are reported on page 90. All executive directors comfortably exceeded these guidelines in 2012.

OTHER EMPLOYEES

There are no mandatory share ownership guidelines below executive director level, although employees are encouraged to become shareholders in the company by retaining shares acquired through the company's discretionary and all-employee stock programmes.

Service agreements

PURPOSE AND LINK TO STRATEGY

Provide an appropriate level of protection for the executive and the company by:

- setting out individual entitlements to elements of remuneration consistent with policy
- summarising notice periods and compensation on termination of employment by the company without notice or cause
- describing the obligations in relation to confidentiality, data protection, intellectual property and restraint on certain activities

OPERATION

The policy on executive directors' service agreements was reviewed in 2008, 2010 and again in 2012. In accordance with long established policy, all executive directors have rolling service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues until retirement.

There are no special provisions for notice or compensation in the event of a change of control of Pearson.

On termination of employment, executive directors' entitlements to any vested or unvested awards under Pearson's discretionary share plans are treated in accordance with the terms of the relevant plan.

OPPORTUNITY

The company may terminate executive directors' service agreements by giving no more than 12 months' notice.

As an alternative, the company may at its discretion pay in lieu of that notice. Payment-in-lieu of notice may be made in instalments and may be subject to mitigation. Longer serving directors with legacy agreements are entitled to liquidated damages if the company terminates their agreement without notice or cause.

For executive directors whose service will continue throughout 2013, compensation on termination of employment by the company without notice or cause comprises 100% of the annual salary at the date of termination and the annual cost to the company of providing pension and all other benefits.

PERFORMANCE CONDITIONS

None.

PERFORMANCE PERIOD

None.

IMPLEMENTATION

The service agreements for the executive directors, including the CEO, who will continue to serve throughout 2013 were reviewed and amended.

The consequence of this review has been to remove any entitlement to annual incentive from the calculation of any compensation that might be payable in the event of termination of employment by the company without notice or cause. Details of each individual's service agreement are reported in the notes below.

OTHER EMPLOYEES

Employment agreements for other employees below the Pearson Management Committee are determined according to local labour law and market practice.

Note 7 We summarise the service agreements that will apply to directors serving during 2013 as follows:

Name	Date of agreement	Notice periods	Compensation on termination of employment by the company without notice or cause
Glen Moreno	29 July 2005	12 months from the director; 12 months from the company	Payment-in-lieu of notice of 100% of annual fees at the date of termination
John Fallon	31 December 2012	Six months from the director; 12 months from the company	Payment-in-lieu of notice of 100% of annual salary at the date of termination and the annual cost of pension and all other benefits
Will Ethridge	31 December 2012	Six months from the director; 12 months from the company	Severance payments of 100% of annual salary at the date of termination and the annual cost of pension and all other benefits
Robin Freestone	17 December 2012	Six months from the director; 12 months from the company	Payment-in-lieu of notice of 100% of annual salary at the date of termination and the annual cost of pension and all other benefits
John Makinson	21 December 2012	Six months from the director; 12 months from the company	Liquidated damages of 100% of annual salary at the date of termination and the annual cost of pension and all other benefits

Note 8 Marjorie Scardino served under her service agreement dated 27 February 2004 until she left employment on 31 December 2012. This agreement provided for notice periods of six months from the director and 12 months from the company and compensation on termination of employment by the company without notice or cause of 100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive.

Note 9 Rona Fairhead's service agreement dated 24 January 2003 continues in effect for the first four months of 2013 until she leaves the company on 30 April 2013. This agreement provides for notice periods of six months from the director and 12 months from the company and compensation on termination of employment by the company without notice or cause of 100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive.

Report on directors' remuneration continued

Recruitment

The committee determines the remuneration package for any new appointment to the Pearson Management Committee, either from within or outside of Pearson. Remuneration includes base salary, annual and long-term incentive entitlements and awards, and pension arrangements.

The committee carefully considers factors such as the relative size and contribution of the role, the individual's skills and experience, the availability of skills and experience in the market, the individual's current remuneration package, the market rate for the job and internal comparisons within Pearson before determining an appropriate remuneration package for a new appointment. Occasionally this requires a degree of flexibility so that the remuneration policy boundaries are wider than under usual circumstances but at all times the committee seeks to minimise internal disparities and to avoid pay for poor performance. For someone joining from outside of Pearson, the offer may include compensation for the forfeiture of awards from a previous employer on a comparable basis, taking account of performance achieved or likely to be achieved, the proportion of performance period remaining and the form of the award.

Benchmarking

For benchmarking purposes, we review remuneration by reference to three separate comparator groups. First, we use a select peer group of FTSE 100 companies with very substantial overseas operations, excluding financial services. These companies are of a range of sizes relative to Pearson, but the method our independent advisers, Towers Watson, use to make comparisons on remuneration takes this variation in size into account. Secondly, we look at a broad media industry group of US companies. And thirdly, we look at the FTSE 20-50, excluding financial services. We use these companies because they represent the wider executive talent pool from which we might expect to recruit externally and the pay market to which we might be vulnerable if our remuneration was not competitive.

Market assessments against the three groups take account of key factors which Towers Watson's research shows differentiate remuneration for jobs of a similar nature, such as financial size, board membership, reporting relationships and international activities.

For benchmarking purposes and for the performance scenarios below, the main elements of remuneration are valued as follows:

Element of remuneration	Valuation
Base salary	Actual base salary
Allowances, retirement and other benefits	Cost to company of providing allowances, retirement and other benefits
Annual incentive	Target level of annual incentive
Long-term incentive	Expected value of long-term incentive award
Bonus share matching	Expected value of matching award based on target level of annual incentive and assuming maximum amount (50% of annual incentive) is invested
Total remuneration	Sum of all elements of remuneration

Expected value means Towers Watson's assessment of the awards' net present value taking into account the vesting schedule and the probability that any performance targets will be met.

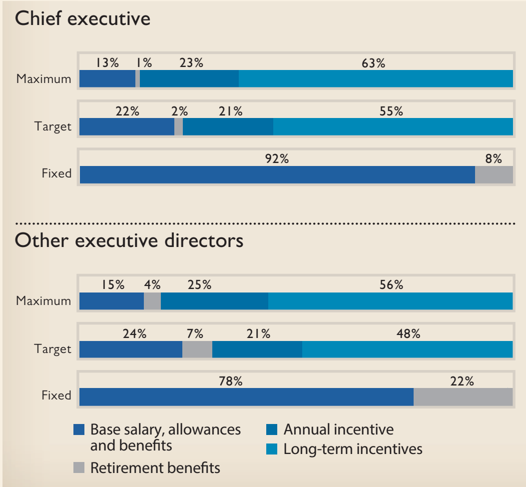
Pay and performance

Consistent with its policy, the committee places considerable emphasis on the performance-linked elements i.e. annual incentives, bonus share matching and long-term incentives.

The committee considers what each director can expect to receive under different performance scenarios, based on the following definitions of performance:

Performance scenario	Elements of remuneration
Maximum	Base salary, allowances, benefits, retirement benefits, maximum annual incentive, maximum bonus share matching and maximum long-term incentive
Target	Base salary, allowances, benefits, retirement benefits, target annual incentive, target bonus share matching and target long-term incentive
Fixed	Base salary, allowances, benefits and retirement benefits only

The relative importance of fixed and performance-related remuneration for the chief executive and other executive directors is typically as follows:



We will continue to review the mix of fixed and performance-linked remuneration on an annual basis, consistent with our overall philosophy.

Report on directors' remuneration continued

Chairman's remuneration

The committee's policy is that the chairman's pay should be set at a level that is competitive with those of chairmen in similar positions in comparable companies. He is not entitled to any annual or long-term incentive, retirement or other benefits.

Following the committee's last review in 2010, the chairman's remuneration was increased to its current level with effect from 1 April 2011. The next review will take place in 2014.

Non-executive directors

Fees are determined by the full board having regard to market practice and within the restrictions contained in the company's Articles of Association. Non-executive directors receive no other pay or benefits (other than reimbursement for expenses incurred in connection with their directorship of the company) and do not participate in the company's equity-based incentive plans.

With effect from 1 July 2010, the structure and fees are as follows:

	Fees payable from 1 July 2010
Non-executive director	£65,000
Chairmanship of audit committee	£25,000
Chairmanship of remuneration committee	£20,000
Membership of audit committee	£10,000
Membership of remuneration committee	£5,000
Senior independent director	£20,000

A minimum of 25% of the basic fee is paid in Pearson shares that the non-executive directors have committed to retain for the period of their directorships.

Non-executive directors serve Pearson under letters of appointment and do not have service contracts. There is no entitlement to compensation on the termination of their directorships.

Relative importance of pay spend

We show below the year-on-year change in the relative importance of pay spend compared to the return to shareholders (dividends) and reinvestment in the company (adjusted operating profit for continuing operations).

	2012	2011	Year-on-year change	
	£m	£m	£	%
Operating profit	936	942	(6)	(1%)
Dividends	346	318	28	9%
Wages and salaries	1,659	1,531	128	8%
Directors' salaries/fees, annual incentives, allowances and benefits	6	8	(2)	(25%)

Note 1 Wages and salaries include continuing operations only and exclude Penguin. 2011 is restated on the same basis. Employee numbers for continuing operations for 2012 were 42,980 (2011: 37,964). Further details are set out in note 5 to the financial statements on page 115.

Note 2 Directors' salaries/fees, annual incentives, allowances and benefits exclude retirement benefits and long-term incentives consistent with wages and salaries.

Employee engagement

In accordance with the committee's charter and terms of reference, the committee's remit does not include remuneration matters below that of the chief executive, the other executive directors and other members of the Pearson Management Committee. However, before the remuneration packages for the Pearson Management Committee are set for the year ahead, the committee considers a report from the chief executive and director for people on general pay trends in the market and the level of pay increases across the company as a whole. This helps to ensure that executive remuneration packages are reviewed in the context of the wider organisation.

The company consults with various employee representative bodies – including trade unions and works councils in some jurisdictions – about the company's strategy, competitiveness and performance of the business and other matters affecting employees. The company also conducts an employee engagement survey to find out how people feel about working for Pearson, what they think about the work they do, the opportunities they have and the rewards they get (including a section on pay and benefits). The company uses all of this feedback to inform decisions on people-related activities, resources and investment, local management action plans and wider business unit and organisational strategies.

It is the company's intention to continue to engage with employees and employee representatives in this way in the future.

Shareholder engagement

The company consults regularly with shareholders on all matters affecting its strategy and business operations. As part of that process, we also engage with shareholders on matters relating to executive remuneration.

In 2012, the committee amended the service contracts for all executive directors continuing to serve throughout 2013. The consequence of this review has been to remove any entitlement to annual incentive from the calculation of any compensation that might be payable on termination of employment by the company without notice or cause, in line with the prevailing view of best practice amongst shareholders and their representatives.

The committee continues to be aware of and respond to best practice guidelines of shareholders and their representative bodies.

Misstatement or misconduct

In 2011, the committee reviewed the company's powers to adjust and reclaim variable remuneration in exceptional circumstances of misstatement or misconduct. The committee already has long-standing discretionary powers to make downward adjustments under the annual and long-term incentive plans, as described in the remuneration policy table on pages 70 and 71. The company will follow its legal rights and reclaim rewards gained in the event of proven wrong doing which led to misstatement of the company's accounts.

Report on directors' remuneration continued

Implementation report

The remuneration committee and its activities

David Arculus chaired the remuneration committee for the year 2012; the other members were Patrick Cescau (who stood down from the committee at the AGM), Vivienne Cox (who joined the committee during the year), Ken Hydon and Glen Moreno. David Arculus, Patrick Cescau, Vivienne Cox and Ken Hydon are independent non-executive directors. Glen Moreno, chairman of the board, is a member of the committee as permitted under the UK Corporate Governance Code.

Marjorie Scardino, chief executive, Robin Freestone, chief financial officer, Robin Baliszewski, director for people, Robert Head, director for executive reward, and Stephen Jones, head of company secretarial and deputy secretary, provided material assistance to the committee during the year. They attended meetings of the committee, although none of them was involved in any decisions relating to his or her own remuneration.

To ensure that it receives independent advice, the committee has appointed Towers Watson to supply survey data and to advise on market trends, long-term incentives and other general remuneration matters. Towers Watson also advised the company on health and welfare benefits in the US and provided consulting advice directly to certain Pearson operating companies. Towers Watson are members of the Remuneration Consultants' Group, the body which oversees the code of conduct in relation to executive remuneration consulting in the UK.

The committee's principal duty is to determine and regularly review, having regard to the UK Corporate Governance Code and on the advice of the chief executive, the remuneration policy and the remuneration and benefits packages of the executive directors and other members of the Pearson Management Committee comprising CEOs of principal operating businesses and senior heads of strategic corporate functions. This includes base salary, annual and long-term incentives, retirement and any other benefits.

The committee's duties are also:

- to review and approve corporate goals and objectives relevant to executive compensation and to evaluate performance in light of those goals and objectives
- to approve the company's long-term incentive and other share plans
- to advise and decide on general and specific arrangements in connection with the termination of employment of executive directors and other members of the Pearson Management Committee
- to have delegated responsibility for determining the remuneration and benefits package of the chairman of the board
- to ensure that all provisions regarding disclosure of information are fulfilled
- to appoint and set the terms of reference for any remuneration consultants who advise the committee and monitor the cost of such advice

The committee's full charter and terms of reference are available on the company's website.

Annually, the committee reviews its own performance, constitution and charter and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

The committee participated in a survey to review its performance and effectiveness in July 2012, looking at areas such as the clarity of roles and responsibilities, the composition of the committee, the use of time, the quality and timeliness of meeting materials, the opportunity for discussion and debate, dialogue with management and access to independent advice. The committee concluded that it is operating effectively and noted the challenges for the year ahead.

The committee met six times during 2012. The matters discussed and actions taken were as follows:

20 AND 24 FEBRUARY 2012

- Reviewed and approved 2011 annual incentive plan payouts
- Reviewed and approved 2009 long-term incentive plan payouts and release of shares
- Approved vesting of 2007 and 2009 annual bonus share matching awards and release of shares
- Reviewed base salaries for the Pearson Management Committee and endorsed the recommendation of the executive directors and other members of the Pearson Management Committee that they receive no increase in base salaries for 2012
- Reviewed and approved 2012 Pearson and operating company annual incentive plan targets
- Reviewed and approved 2012 individual annual incentive opportunities for the Pearson Management Committee
- Reviewed and approved 2012 long-term incentive awards and associated performance conditions for the Pearson Management Committee
- Reviewed and approved 2011 report on directors' remuneration
- Noted company's use of equity for employee share plans
- Reviewed and approved the remuneration package for the chief executive

27 APRIL 2012

- Reviewed and approved 2012 long-term incentive awards for the Pearson Management Committee
- Noted the company's response to the UK pension tax relief changes for high earners

26 JULY 2012

- Noted the activity of the Standing Committee of the Board in relation to the operation of the company's equity-based reward programmes
- Ratified the 2012 annual incentive plans for Pearson plc and the operating companies
- Discussed Towers Watson's overview of the current remuneration environment
- Reviewed committee's charter and terms of reference

3 OCTOBER 2012

- Noted the activity of the Standing Committee of the board in relation to the operation of the company's equity-based reward programmes
- Noted the appointment of John Fallon to the board and reviewed his remuneration package
- Approved 2012 long-term incentive awards for executives and managers
- Reviewed committee's performance and effectiveness
- Reviewed remuneration policy and practice and the implications of the new reporting regulations

5 DECEMBER 2012

- Discussed Towers Watson's overview of the current remuneration environment
- Considered Towers Watson's report on remuneration for the Pearson Management Committee for 2013
- Reviewed status of outstanding long-term incentive awards
- Considered 2013 annual incentive plan metrics
- Considered the approach to 2013 long-term incentive plan awards for the Pearson Management Committee
- Noted the recommended format for the 2012 report on directors' remuneration taking account of the proposed reporting regulations
- Reviewed and approved the service agreement for John Fallon's appointment as chief executive
- Reviewed and approved the leaving arrangements for Marjorie Scardino, Rona Fairhead and one other member of the Pearson Management Committee

Report on directors' remuneration continued

Total remuneration

Total remuneration for the directors in 2012 was as follows:

All figures in £000s	Salaries/ fees	Annual incentive	Allowances	Benefits	Sub-total	Retirement benefits	Long-term incentives	Total (single figure)	Sub-total	Retirement benefits	Long-term incentives	Total (single figure)
	2012								2011			
Chairman												
Glen Moreno	500	–	–	–	500	–	–	500	488	–	–	488
Executive directors												
Marjorie Scardino	993	432	60	65	1,550	712	4,088	6,350	2,455	706	5,719	8,880
Will Ethridge	658	293	–	–	951	302	1,532	2,785	1,390	575	3,196	5,161
Rona Fairhead	529	192	–	25	746	267	1,109	2,122	999	182	1,574	2,755
John Fallon (appointed 3 October 2012)	146	63	–	4	213	64	317	594	–	–	–	–
Robin Freestone	500	252	–	15	767	151	1,461	2,379	1,094	150	2,087	3,331
John Makinson	549	238	211	16	1,014	–	1,081	2,095	1,417	346	1,571	3,334
Non-executive directors												
David Arculus	95	–	–	–	95	–	–	95	95	–	–	95
Patrick Cescau	90	–	–	–	90	–	–	90	100	–	–	100
Vivienne Cox (appointed 1 January 2012)	80	–	–	–	80	–	–	80	–	–	–	–
Susan Fuhrman	75	–	–	–	75	–	–	75	75	–	–	75
Ken Hydon	95	–	–	–	95	–	–	95	95	–	–	95
Josh Lewis	75	–	–	–	75	–	–	75	63	–	–	63
Total	4,385	1,470	271	125	6,251	1,496	9,588	17,335	8,271	1,959	14,147	24,377
Total 2011	4,139	3,752	316	64	8,271							

Note 1 For the full year, John Fallon's remuneration reflected nine months in his role as CEO, Pearson International and three months as Pearson CEO designate and was: salary/fees – £506; annual incentive – £259; benefits – £16; sub-total – £781; retirement benefits – £262; long-term incentives – £1,306; total – £2,349 (all figures in £000s).

Note 2 In anticipation of the proposed reporting regulations, we show a 'single figure' of total remuneration, which includes retirement benefits and long-term incentives in addition to the other elements of remuneration that have been shown in previous reports. Consistent with the methodology proposed by the Financial Reporting Council at the time of writing, retirement benefits include the increase in the value of the pension fund during the year, comprising company contributions to the plan during the year for defined contribution plans and the increase in the pension fund offset for inflation and multiplied by 20 for defined benefit plans, as well as other pension-related costs (see the retirement benefits table on page 83 for further detail). Long-term incentives include all awards under the long-term incentive plan, bonus share matching plan or all-employee share plan that vested during the year or that have not yet vested but where performance is known at year-end as well as dividend shares accruing and released on such shares in the year (see the tables on movements in restricted shares and share options on pages 86 to 89 for further detail).

Note 3 The company provided gifts to Patrick Cescau and Marjorie Scardino after they stepped down from the board. In the case of Patrick Cescau, the value of the gifts was £21,700. Marjorie Scardino received a painting originally purchased by the company for £12,000, which has an estimated value of approximately £50,000 – £100,000.

Salaries/fees

Salaries/fees paid by the company are reported in the table on total remuneration of the directors. Fees paid by other companies to the executive directors for their non-executive directorships elsewhere are reported separately on page 92.

Fees paid to non-executive directors in 2012 were comprised as follows:

All figures in £000s	Basic fee	Committee chairmanship	Committee membership	Senior independent directorship	Total
David Arculus	65	20	10	–	95
Patrick Cescau	65	–	5	20	90
Vivienne Cox	65	–	15	–	80
Susan Fuhrman	65	–	10	–	75
Ken Hydon	65	25	5	–	95
Josh Lewis	65	–	10	–	75

Annual incentive

For 2012, annual incentive opportunities were based on the following performance measures and performance against these measures (designated as: − below threshold, < between threshold and target, > between target and maximum and + above maximum) was as follows:

	Weighting of performance measures (% of maximum opportunity)			Performance in 2012								
				Pearson plc				Operating company/companies				
Name	Pearson plc	Operating company/ companies	Personal objectives	Underlying growth in adjusted EPS	Sales	Average working capital to sales ratio	Operating cash flow	Sales	Operating profit	Average working capital to sales ratio	Operating cash flow	Payout in 2012 (% of salary)
Marjorie Scardino	90%	–	10%	<	−	>	−					43.5%
Will Ethridge	30%	60% Pearson North America	10%	<	−	>	−	<	<	−	−	44.5%
Rona Fairhead	30%	50% Professional Assessment & Training	10%	<	−	>	−	−	−		−	36.4%
		10% FT Publishing						>	>		+	
John Fallon	30%	60% Pearson International	10%	<	−	>	−	<	<	+	−	51.1%
Robin Freestone	80%	–	20%	<	−	>	−					50.4%
John Makinson	30%	50% Penguin Group	10%	<	−	>	−	<	−	−	−	43.4%
		10% India										

Allowances

Allowances for Marjorie Scardino include £49,570 in respect of housing costs and a US payroll supplement of £9,985. John Makinson is entitled to a location and market premium in relation to the management of the business of the Penguin Group in the US and received £210,937 for 2012.

Benefits

Benefits include company car, car allowance and UK healthcare premiums. US health benefits for Marjorie Scardino and Will Ethridge are self-insured and the cost is tax free to employees. For Marjorie Scardino, benefits include £48,600 for pension planning and financial advice. Marjorie Scardino, Rona Fairhead and John Makinson have the use of a chauffeur.

Report on directors' remuneration continued

Retirement benefits

Description of the directors' pension entitlements are as follows:

Director	Retirement benefits
Marjorie Scardino	Member of the Pearson Inc. Pension Plan (under which her benefit accruals ceased at the end of 2001) and the approved 401(k) plan. Until 2010, additional benefits were provided through an unfunded unapproved defined contribution plan. Since 2010, additional pension benefits are provided through a taxable and non-pensionable cash supplement in place of the unfunded plan, a funded defined contribution plan approved by HM Revenue and Customs as a corresponding plan, and amounts in the legacy unfunded plan. In aggregate, the cash supplement and contributions to the funded plan are based on a percentage of salary and a fixed cash amount index-linked to inflation. The notional cash balance of the legacy unfunded plan increases annually by a specified notional interest rate. The unfunded plan also provides the opportunity to convert a proportion of this notional cash account into a notional share account reflecting the value of a number of Pearson ordinary shares. The number of shares in the notional share account is determined by reference to the market value of Pearson shares at the date of conversion.
Will Ethridge	Member of the Pearson Inc. Pension Plan (under which he continues to accrue benefits under the alternative formula because he satisfied criteria of age and service) and the approved 401(k) plan. He also participates in an unfunded, non-qualified Supplemental Executive Retirement Plan (SERP) that provides an annual accrual of 2% of final average earnings, less benefits accrued in the Pearson Inc. Pension Plan and US Social Security. Additional defined contribution benefits are provided through a funded, non-qualified Excess Plan.
Rona Fairhead	Member of the Pearson Group Pension Plan. Her pension accrual rate is 1/30th of pensionable salary per annum, restricted to the plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on her behalf. Since April 2006, she has received a taxable and non-pensionable cash supplement in replacement of the FURBS.
John Fallon	Member of the Pearson Group Pension Plan. His pension accrual rate is 1/30th of pensionable salary per annum, restricted to the plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on his behalf. Since April 2006, he has received a taxable and non-pensionable cash supplement in replacement of the FURBS.
Robin Freestone	Member of the Money Purchase 2003 section of the Pearson Group Pension Plan. Company contributions are 16% of pensionable salary per annum, restricted to the plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on his behalf. Since April 2006, he has received a taxable and non-pensionable cash supplement in replacement of the FURBS.
John Makinson	Member of the Pearson Group Pension Plan under which his pensionable salary is restricted to the plan earnings cap. The company ceased contributions on 31 December 2001 to his FURBS arrangement and the benefits were withdrawn in 2012, reducing the benefits payable under the UURBS. During 2002 it set up an Unfunded Unapproved Retirement Benefits Scheme (UURBS) for him. The UURBS tops up the pension payable from the Pearson Group Pension Plan and the closed FURBS to target a pension of two-thirds of a revalued base salary on retirement at age 62. The revalued base salary is defined as £450,000 effective at 1 June 2002, increased at 1 January each year by reference to the increase in the UK Government's Index of Retail Prices (All Items). In the event of his death a pension from the Pearson Group Pension Plan and the UURBS will be paid to his spouse or nominated financial dependant. Early retirement is currently possible from age 55, with company consent.

Details of the directors' pension entitlements and pension-related benefits during the year are as follows:

Directors' pensions	Age at 31 Dec 12	Accrued pension at 31 Dec 12 £000[1]	Increase/ (decrease) in accrued pension over the period £000[2]	Transfer value at 31 Dec 11 £000[3]	Transfer value at 31 Dec 12 £000[4]	Increase/ (decrease) in transfer value over the period £000[5]	Increase/ (decrease) in accrued pension over the period £000[6]	Transfer value of the increase in accrued pension at 31 Dec 12 £000[5/6]	Other pension costs to the company over the period £000[7]	Other allowances in lieu of pension £000[8]	Other pension related benefit costs £000[9]	Value in 2012 single figure £000[10]
Marjorie Scardino	65	3.7	(1.0)	49.5	48.8	(0.7)	(1.1)	–	10.5	665.1	58.3	712
Will Ethridge	60	212.0	17.6	2,039.3	2,502.0	462.7	13.4	157.8	32.7	–	1.7	302
Rona Fairhead	51	48.6	6.4	579.3	700.8	115.0	5.4	72.0	–	133.9	25.3	267
John Fallon	50	65.5	7.1	815.7	965.9	143.7	5.9	80.0	–	131.4	13.0	64
Robin Freestone	54	–	–	–	–	–	–	–	20.7	123.3	6.7	151
John Makinson	58	221.2	(86.8)	5,906.5	4,420.9	(1,492.0)	(93.6)	–	–	–	17.7	–

Note 1 The accrued pension at 31 December 2012 is the deferred pension to which the member would be entitled on ceasing pensionable service on 31 December 2012. For Marjorie Scardino this is the approximate pension payable in respect of her frozen benefit in the US plan. For Will Ethridge this is his pension from the US plan and the US SERP. For Rona Fairhead and John Fallon it relates to the pension payable from the UK plan. For John Makinson it relates to the pension from the UK Plan and his unapproved arrangements in aggregate. Robin Freestone does not accrue defined benefits.

Note 2 This is the change in accrued pension over the year compared with the accrued pension at the end of the previous year.

Note 3 This is the transfer value quoted at the end of the previous year.

Note 4 The UK transfer values at 31 December 2012 are calculated using the assumptions for cash equivalents payable from the UK plan and are based on the accrued pension at that date. There were no changes in the transfer value methodology over the year although the discount rates are updated each month to reflect changes in market conditions. For the US SERP, transfer values are calculated using a discount rate equivalent to current US long-term bond yields. The US plan is a lump sum plan and the accrued balance is included where applicable.

Note 5 Less directors' contributions.

Note 6 Net of UK inflation (where inflation is the increase in CPI to the previous September, subject to a minimum of 0% pa and a maximum of 5% pa). In the case of John Makinson, the accrued pension over the period has decreased because of a transfer made as a result of a pension sharing order.

Note 7 This column comprises contributions to defined contribution arrangements for UK benefits. For US benefits, it includes company contributions to funded defined contribution plans and notional contributions to unfunded defined contribution plans.

Note 8 This column represents the cash allowances paid in lieu of the previous unfunded defined contribution plan for Marjorie Scardino and of the previous FURBS arrangements for Rona Fairhead, John Fallon and Robin Freestone. John Makinson's deferred FURBS entitlement is referred to in note 1 above.

Note 9 This column comprises life cover and long-term disability insurance not covered by the retirement plans.

Note 10 The single figure of total remuneration includes the following elements from the table on retirement benefits: the increase in accrued pension over the period offset for inflation and multiplied by 20 (defined benefit plans), other pension costs to the company over the period (the company's contributions to defined contribution plans), other allowances in lieu of pension (cash allowances paid in lieu of previous plans for Marjorie Scardino, Rona Fairhead, John Fallon and Robin Freestone) and other pension-related benefit costs (additional life cover and long-term disability insurance not covered by the retirement plans).
In the case of John Fallon, the value included in the single figure of total remuneration is pro-rated to reflect his appointment to the board from 3 October 2012. In the case of John Makinson, the value for the single figure of total remuneration is nil because the decrease in accrued pension over the period offsets the other pension-related benefit costs.

Report on directors' remuneration continued

Long-term incentives

Details of awards made, outstanding, held or released under the annual bonus share matching plan are as follows:

Date of award	Share price on date of award	Vesting	Status of award
15 May 2012	1,152.0p	15 May 2015	Outstanding subject to 2011 to 2014 performance
20 April 2011	1,129.0p	20 April 2014	Outstanding subject to 2010 to 2013 performance
21 April 2010	1,024.1p	21 April 2013	Performance condition for release of 84.5% of matching award met. Real compound annual growth in earnings per share for 2009 to 2012 of 4.4% against a range of 3% to 5%. Shares held pending release on 21 April 2013.
16 April 2009	670.0p	16 April 2012	Target met as reported in report on directors' remuneration for 2011. Shares released on 15 May 2012
22 May 2007[1]	899.9p	100% on 22 May 2012	Target met as reported in report on directors' remuneration for 2011. Shares released on 22 May 2012

Note 1 For awards made prior to 2008, the annual bonus share matching plan operated on the basis of a 50% match after three years and 100% match after five years, subject to the earnings per share growth targets being met over the relevant performance periods.

Note 2 For all awards, Pearson's reported financial results for the relevant period were used to measure performance and no discretion was exercised.

Details of awards made, outstanding, vested and held or released under the long-term incentive plan are as follows:

Date of award	Share price on date of award	Vesting date	Performance measures (award split equally across three measures)	Performance period	Payout at threshold	Payout at maximum	Actual performance	% of award vested	Status of award
02/05/12	1,161.0p	02/05/15	Relative TSR	2012 to 2015	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2014	0% for ROIC of 8.5%	100% for ROIC of 10.5%	–	–	
			EPS growth	2014 compared to 2011	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	–	–	
03/05/11	1,149.0p	03/05/14	Relative TSR	2011 to 2014	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2013	25% for ROIC of 9.0%	100% for ROIC of 10.5%	–	–	
			EPS growth	2013 compared to 2010	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	–	–	
03/03/10	962.0p	03/03/13	Relative TSR	2010 to 2013	30% at median	100% at upper quartile	–	–	Outstanding Marked as ○ in the movements in restricted shares table
			ROIC	2012	25% for ROIC of 8.5%	100% for ROIC of 10.5%	9.1%	47.5%	Vested and remain held pending release. Marked as ● in the movements in restricted shares table
			EPS growth	2012 compared to 2009	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	8.8%	62.5%	
03/03/09	654.0p	03/03/12	Relative TSR	2009 to 2012	30% at median	100% at upper quartile	60th percentile	57.4%	68.3% of shares vested. Three-quarters released on 3 April 2012. If after tax number of shares are retained for a further two years, the remaining quarter will be released on 3 March 2014. The part based on relative TSR is marked as ○ and the part based on ROIC and EPS growth as ● in the movements in restricted shares table
			ROIC	2011	25% for ROIC of 8.5%	100% for ROIC of 10.5%	9.1%	47.5%	
			EPS growth	2011 compared to 2008	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	14.4%	100%	

Note 1 For all awards, Pearson's reported financial results for the relevant period were used to measure performance and no discretion was exercised.

Report on directors' remuneration continued

Movements in directors' interests in restricted shares (designated as: ABSMP annual bonus share matching plan; LTIP long-term incentive plan; Dividends where dividend-equivalent shares were added to the released shares; ● for the two-thirds of the award based on ROIC and EPS growth and ○ for the one third of the award based on relative TSR; we show these parts of the award separately where performance is known for only part of the award at year-end).

Date of award	Plan	1 Jan 12	Awarded	Released	Lapsed	31 Dec 12	Market value at date of award	Earliest release date	Date of release	Market value at date of release	Number of shares in 2012 single figure	Value in 2012 single figure £000
Marjorie Scardino												
22/5/07	ABSMP	60,287		60,287		0	899.9p	22/5/12	22/5/12	1,148.0p		
21/4/10	ABSMP	63,497			9,850	53,647	1,024.1p	21/4/13			53,647	£649
20/4/11	ABSMP	71,446			23,816	47,630	1,129.0p	20/4/14				
30/7/07	LTIP	84,000		84,000		0	778.0p	2/3/10	31/7/12	1,196.0p		
4/3/08	LTIP	97,500				97,500	649.5p	4/3/11				
3/3/09 ●	LTIP	221,250		165,938		55,312	654.0p	3/3/12	3/4/12	1,184.0p		
3/3/09 ○	LTIP	150,000		64,620	63,840	21,540	654.0p	3/3/12	3/4/12	1,184.0p	86,160	£1,020
3/3/10 ●	LTIP	266,667			119,976	146,691	962.0p	3/3/13			146,691	£1,776
3/3/10 ○	LTIP	133,333				133,333	962.0p	3/3/13				
3/5/11	LTIP	400,000			133,334	266,666	1,149.0p	3/5/14				
2/5/12	LTIP	0	250,000		166,667	83,333	1,161.0p	2/5/15				
3/4/12	Dividends	0	32,048	32,048		0	1,184.0p	3/4/12	3/4/12	1,184.0p	32,048	£379
30/7/12	Dividends	0	21,252	21,252		0	1,190.0p	30/7/12	30/7/12	1,190.0p	21,252	£253
Total		1,547,980	303,300	428,145	517,483	905,652					339,798	£4,077
Will Ethridge												
22/5/07	ABSMP	2,508		2,508		0	899.9p	22/5/12	22/5/12	1,148.0p		
16/4/09	ABSMP	112,515		112,515		0	670.0p	16/4/12	15/5/12	1,152.0p		
21/4/10	ABSMP	7,880			1,222	6,658	1,024.1p	21/4/13			6,658	£81
20/4/11	ABSMP	4,517				4,517	1,129.0p	20/4/14				
15/5/12	ABSMP	0	4,485			4,485	1,152.0p	15/5/12				
15/5/12	Dividends	0	13,053	13,053		0	1,152.0p	15/5/12	15/5/12	1,152.0p	13,053	£150
30/7/07	LTIP	30,000		30,000		0	778.0p	2/3/10	31/7/12	1,196.0p		
4/3/08	LTIP	36,562				36,562	649.5p	4/3/11				
3/3/09 ●	LTIP	86,042		64,531		21,511	654.0p	3/3/12	3/4/12	1,184.0p		
3/3/09 ○	LTIP	58,333		25,130	24,827	8,376	654.0p	3/3/12	3/4/12	1,184.0p	33,506	£397
3/3/10 ●	LTIP	100,000			44,991	55,009	962.0p	3/3/13			55,009	£666
3/3/10 ○	LTIP	50,000				50,000	962.0p	3/3/13				
3/5/11	LTIP	150,000				150,000	1,149.0p	3/5/14				
2/5/12	LTIP	0	100,000			100,000	1,161.0p	2/5/15				
3/4/12	Dividends	0	12,463	12,463		0	1,184.0p	3/4/12	3/4/12	1,184.0p	12,463	£148
30/7/12	Dividends	0	7,590	7,590		0	1,190.0p	30/7/12	30/7/12	1,190.0p	7,590	£90
Total		638,357	137,591	267,790	71,040	437,118					128,279	£1,532

Date of award	Plan	1 Jan 12	Awarded	Released	Lapsed	31 Dec 12	Market value at date of award	Earliest release date	Date of release	Market value at date of release	Number of shares in 2012 single figure	Value in 2012 single figure £000
Rona Fairhead												
30/7/07	LTIP	25,000		25,000		0	778.0p	2/3/10	31/7/12	1,196.0p		
4/3/08	LTIP	30,468				30,468	649.5p	4/3/11				
3/3/09 ●	LTIP	73,750		55,313		18,437	654.0p	3/3/12	3/4/12	1,184.0p		
3/3/09 ○	LTIP	50,000		21,540	21,280	7,180	654.0p	3/3/12	3/4/12	1,184.0p	28,720	£340
3/3/10 ●	LTIP	83,333			37,492	45,841	962.0p	3/3/13			45,841	£555
3/3/10 ○	LTIP	41,667				41,667	962.0p	3/3/13				
3/5/11	LTIP	165,000				165,000	1,149.0p	3/5/14				
2/5/12	LTIP	0	100,000			100,000	1,161.0p	2/5/15				
3/4/12	Dividends	0	10,683	10,683		0	1,184.0p	3/4/12	3/4/12	1,184.0p	10,683	£126
30/7/12	Dividends	0	6,325	6,325		0	1,190.0p	30/7/12	30/7/12	1,190.0p	6,325	£75
Total		469,218	117,008	118,861	58,772	408,593					91,569	£1,096
John Fallon												
16/4/09	ABSMP	7,595		7,595		0	670.0p	16/4/12	15/5/12	1,152.0p		
21/4/10	ABSMP	8,275			1,284	6,991	1,024.1p	21/4/13			6,991	£85
20/4/11	ABSMP	4,539				4,539	1,129.0p	20/4/14				
15/5/12	ABSMP	0	8,917			8,917	1,152.0p	15/5/15				
15/5/12	Dividends	0	882	882		0	1,152.0p	15/5/12	15/5/12	1,152.0p	882	£10
4/3/08	LTIP	24,375				24,375	649.5p	4/3/11				
3/3/09 ●	LTIP	86,042		64,531		21,511	654.0p	3/3/12	3/4/12	1,184.0p		
3/3/09 ○	LTIP	58,333		25,130	24,827	8,376	654.0p	3/3/12	3/4/12	1,184.0p	33,506	£397
3/3/10 ●	LTIP	100,000			44,991	55,009	962.0p	3/3/13			55,009	£666
3/3/10 ○	LTIP	50,000				50,000	962.0p	3/3/13				
3/5/11	LTIP	150,000				150,000	1,149.0p	3/5/14				
2/5/12	LTIP	0	100,000			100,000	1,161.0p	2/5/15				
3/4/12	Dividends	0	12,463	12,463		0	1,184.0p	3/4/12	3/4/12	1,184.0p	12,463	£148
Total		489,159	122,262	110,601	71,102	429,718					108,851	£1,306
Total (pro-rated for 2012 single figure, to reflect appointment 3 October 2012)											26,427	£317

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Report on directors' remuneration continued

Date of award	Plan	1 Jan 12	Awarded	Released	Lapsed	31 Dec 12	Market value at date of award	Earliest release date	Date of release	Market value at date of release	Number of shares in 2012 single figure	Value in 2012 single figure £000
Robin Freestone												
22/5/07	ABSMP	4,708		4,708		0	899.9p	22/5/12	22/5/12	1,148.0p		
16/4/09	ABSMP	35,446		35,446		0	670.0p	16/4/12	15/5/12	1,152.0p		
21/4/10	ABSMP	31,114			4,827	26,287	1,024.1p	21/4/13			26,287	£318
20/4/11	ABSMP	29,049				29,049	1,129.0p	20/4/14				
15/5/12	ABSMP	0	17,833			17,833	1,152.0p	15/5/15				
15/5/12	Dividends	0	4,112	4,112		0	1,152.0p	15/5/12	15/5/12	1,152.0p	4,112	£47
30/7/07	LTIP	25,000		25,000		0	778.0p	2/3/10	31/7/12	1,196.0p		
4/3/08	LTIP	30,468				30,468	649.5p	4/3/11				
3/3/09 ●	LTIP	73,750		55,313		18,437	654.0p	3/3/12	3/4/12	1,184.0p		
3/3/09 ○	LTIP	50,000		21,540	21,280	7,180	654.0p	3/3/12	3/4/12	1,184.0p	28,720	£340
3/3/10 ●	LTIP	83,333			37,492	45,841	962.0p	3/3/13			45,841	£555
3/3/10 ○	LTIP	41,667				41,667	962.0p	3/3/13				
3/5/11	LTIP	125,000				125,000	1,149.0p	3/5/14				
2/5/12	LTIP	0	100,000			100,000	1,161.0p	2/5/15				
3/4/12	Dividends	0	10,683	10,683		0	1,184.0p	3/4/12	3/4/12	1,184.0p	10,683	£126
30/7/12	Dividends	0	6,325	6,325		0	1,190.0p	30/7/12	30/7/12	1,190.0p	6,325	£75
Total		529,535	138,953	163,127	63,599	441,762					121,968	£1,461
John Makinson												
30/7/07	LTIP	20,000		20,000		0	778.0p	2/3/10	31/7/12	1,196.0p		
4/3/08	LTIP	30,468				30,468	649.5p	4/3/11				
3/3/09 ●	LTIP	73,750		55,313		18,437	654.0p	3/3/12	3/4/12	1,184.0p		
3/3/09 ○	LTIP	50,000		21,540	21,280	7,180	654.0p	3/3/12	3/4/12	1,184.0p	28,720	£340
3/3/10 ●	LTIP	83,333			37,492	45,841	962.0p	3/3/13			45,841	£555
3/3/10 ○	LTIP	41,667				41,667	962.0p	3/3/13				
3/5/11	LTIP	125,000				125,000	1,149.0p	3/5/14				
2/5/12	LTIP	0	100,000			100,000	1,161.0p	2/5/15				
3/4/12	Dividends	0	10,683	10,683		0	1,184.0p	3/4/12	3/4/12	1,184.0p	10,683	£126
30/7/12	Dividends	0	5,060	5,060		0	1,190.0p	30/7/12	30/7/12	1,190.0p	5,060	£60
Total		424,218	115,743	112,596	58,772	368,593					90,304	£1,081
Total		4,098,467	934,857	1,201,120	840,768	2,991,436					798,342	£9,564

Note 1 The number of shares shown represents the maximum number of share that may vest, subject to any performance conditions being met.

Note 2 No variations to terms and conditions of plan interests were made during the year.

Note 3 Performance conditions and vesting for awards under the bonus share matching and long-term incentive plans are described in the long-term incentive tables on pages 84 and 85.

Note 4 Marjorie Scardino left the company on 31 December 2012.

In the case of the bonus share matching award made on 21 April 2010 and the long-term incentive awards made on 4 March 2008 and 3 March 2009, the performance period has ended and the number of shares held at 31 December 2012 will be released to Marjorie in 2013.

In the case of the bonus share matching award on 20 April 2011 and the long-term incentive awards made on 3 March 2010, 3 May 2011 and 2 May 2012, outstanding awards have been pro-rated according to the number of months worked in the performance period to the date of leaving and we show the remaining shares as lapsed. The shares held at 31 December 2012 remain outstanding subject to performance and will be released in line with the normal vesting schedule.

Note 5 In the case of the long-term incentive awards made on 3 March 2009 and 3 March 2010, we detail separately the parts based on ROIC and EPS growth (two-thirds of the total award) and the part based on relative TSR (one-third of the total award), because of the time lag in the corresponding performance periods. We disclosed the lapsed part of the 2009 award (based on ROIC and EPS growth) in the 2011 report as performance was known at year-end but the vesting of the part based on relative TSR is disclosed together with the release of shares in the 2012 report (as above). Similarly, for the 2010 award, we disclose the lapse of the parts based on ROIC and EPS growth but the vesting of the part based on relative TSR and the release of shares will be disclosed in the 2013 report.

Note 6 The below notes have been prepared in anticipation of the proposing reporting regulations.

All awards released during the year are included in the single figure of total remuneration for that year, unless they were subject to a performance condition (other than a stay-in-employment) and performance against that condition was known in an earlier reporting period. Awards that have not yet vested but where performance is known at year-end are also included in the single figure of total remuneration.

In the case of the long-term incentive award made on 3 March 2009, only the part based on relative TSR is included in the 2012 single figure of total remuneration (under the proposed single figure methodology, the part based on ROIC and EPS growth would have been included in the 2011 single figure of total remuneration and disclosed in the 2011 report). In the case of the long-term incentive award made on 3 March 2010, only the parts based on ROIC and EPS growth are included in the 2012 single figure of total remuneration (the part based on relative TSR will be included in the 2013 single figure of total remuneration and disclosed in the 2013 report).

The value of shares included in the single figure of total remuneration is the number of shares multiplied by the share price on release (or, if the shares have not yet been released, the average share price over the final quarter of the year which for 2012 was 1,210.4p).

Movements in directors' interests in share options (all under the worldwide save for shares plan) are as follows:

Date of grant	1 Jan 12	Granted	Exercised	Lapsed	31 Dec 12	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise £	Value in 2012 single figure £000
Marjorie Scardino												
8/5/09	1,672				1,672	547.2p	1/8/12	1/2/13				£11
Total	1,672	0	0	0	0						£0	£11
Rona Fairhead												
4/5/07	2,371		2,371		0	690.4p	1/8/12	1/2/13	31/10/12	1,245.0p	£13,150	£13
Total	2,371	0	2,371	0	0						£13,150	£13
John Fallon												
7/5/10	1,930				1,930	805.6p	1/8/15	1/2/16				
Total	1,930	0	0	0	1,930						£0	£0
Robin Freestone												
4/5/12	0	990			990	909.0p	1/8/15	1/2/16				
Total	0	990	0	0	990						£0	£0
Total	5,973	990	2,371	0	4,592						£13,150	£24

Note 1 No variations to terms and conditions of share options were made during the year.

Note 2 The acquisition of shares under the worldwide save for shares plan is not subject to a performance condition.

Report on directors' remuneration continued

Note 3 Marjorie Scardino contributed US$1,000 per month (the maximum allowed) to the US employee stock purchase plan. The terms of this plan allow participants to make monthly contributions for six month periods and to acquire shares twice annually at the end of these periods at a price that is the lower of the market price at the beginning or the end of each period, both less 15%.

Note 4 The market price on 31 December 2012 was 1,188.0p per share and the range during the year was 1,111.0p to 1,294.0p.

Note 5 All share options that became exercisable during the year are included in the single figure of total remuneration for that year. The value included in the single figure of total remuneration is the number of options multiplied by the difference between the market value on the earliest exercise date (1,230.0p on 1 August 2012) and the option price.

Payments for loss of office

There were no payments for loss of office during 2012.

As announced on 3 October 2012, Marjorie Scardino stepped down from the board and left the company on 31 December 2012. She served the company under her service agreement dated 27 February 2004, the details of which are described in the policy table on page 73. There was no payment for loss of office.

As announced on 27 November 2012, Rona Fairhead is stepping down from the board at the annual general meeting on 26 April 2013 and leaving the company on 30 April 2013. Her service agreement dated 24 January 2003 provides for notice periods of six months from the director and 12 months from the company and compensation on termination of employment by the company without notice or cause of 100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive.

The committee and the board determined that her leaving employment was a consequence of the planned incorporation of the professional education division overseen by Rona into other parts of Pearson's education business, coupled with the smaller size of the Financial Times Group owing to recent major divestments. The company therefore intends to pay compensation amounting to approximately £1.146m comprising the elements described above to Rona in 2013.

Interests of directors and value of shareholdings

	Ordinary shares at 1 Jan 12 (or date of appointment, if later)	Ordinary shares at 31 Dec 12	Conditional shares at 31 Dec 12	Total number of ordinary and conditional shares at 31 Dec 12	Value (x salary)	Guideline (x salary)	Guideline met
Chairman							
Glen Moreno	150,000	150,000	–	–	–	–	–
Executive directors							
Marjorie Scardino	1,346,618	1,550,745	374,690	1,925,435	23.6	2.00	✓
Will Ethridge	405,295	505,635	128,116	633,751	11.7	1.25	✓
Rona Fairhead	425,023	440,522	101,926	542,448	12.5	1.25	✓
John Fallon (appointed 3 October 2012)	218,546	218,546	116,262	334,808	6.8	1.25	✓
Robin Freestone	308,731	408,814	128,213	537,027	13.1	1.25	✓
John Makinson	438,667	510,213	101,926	612,139	13.6	1.25	✓
Non-executive directors							
David Arculus	14,798	15,560	–	–	–	–	–
Patrick Cescau	7,117	7,886	–	–	–	–	–
Vivienne Cox	0	670	–	–	–	–	–
Susan Fuhrman	12,927	14,476	–	–	–	–	–
Ken Hydon	14,028	17,111	–	–	–	–	–
Josh Lewis	3,891	4,886	–	–	–	–	–

Note 1 Conditional shares means shares which have vested but remain held subject to continuing employment for a pre-defined holding period.

Note 2 The current value of the executive directors' holdings of ordinary and conditional shares is based on the middle market value of Pearson shares of 1,216.0p on 22 February 2013 (which is the latest practicable date before the results announcement) against base salaries in 2012. All executive directors comfortably exceeded the shareholding guidelines. The shareholding guidelines do not apply to the chairman and non-executive directors.

Note 3 Ordinary shares include both ordinary shares listed on the London Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. The figures include both shares and ADRs acquired by individuals investing part of their own after-tax annual bonus in Pearson shares under the annual bonus share matching plan.

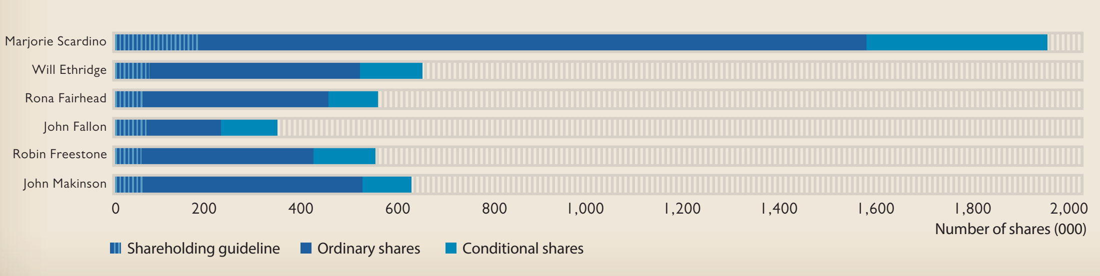
Note 4 From 2004, Marjorie Scardino is also deemed to be interested in a further number of shares under her unfunded pension arrangement described in this report, which provides the opportunity to convert a proportion of her notional cash account into a notional share account reflecting the value of a number of Pearson shares.

Note 5 The register of directors' interests (which is open to inspection during normal office hours) contains full details of directors' shareholdings and options to subscribe for shares. The market price on 31 December 2012 was 1,188.0p per share and the range during the year was 1,111.0p to 1,294.0p.

Note 6 At 31 December 2012, Patrick Cescau held 168,000 Pearson bonds.

Note 7 There were no movements in ordinary shares between 1 January 2012 and a month prior to the sign-off of this report.

Note 8 Ordinary shares do not include any shares vested but held pending release under a restricted share plan.



Dilution and use of equity

We can use existing shares bought in the market, treasury shares or newly-issued shares to satisfy awards under the company's various stock plans.

For restricted stock awards under the long-term incentive plan and matching share awards under the annual bonus share matching plan, we would normally expect to use existing shares.

There are limits on the amount of new-issue equity we can use. In any rolling ten-year period, no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson's share plans, and no more than 5% of Pearson equity will be issued, or be capable of being issued, under executive or discretionary plans.

At 31 December 2012, stock awards to be satisfied by new-issue equity granted in the last ten years under all Pearson share plans amounted to 1.7% of the company's issued share capital. No stock awards granted in the last ten years under executive or discretionary share plans will be satisfied by new-issue equity.

In addition, for existing shares no more than 5% of Pearson equity may be held in trust at any time. Against this limit, shares held in trust at 31 December 2012 amounted to 1.2% of the company's issued share capital.

The headroom available for all Pearson plans, executive or discretionary plans and shares held in trust is as follows:

Headroom	2012	2011	2010
All Pearson plans	8.3%	8.3%	7.6%
Executive or discretionary plans	5.0%	5.0%	4.1%
Shares held in trust	3.8%	3.2%	3.3%

Report on directors' remuneration continued

Executive directors' non-executive directorships

The committee's policy is that executive directors may, by agreement with the board, serve as non-executives of other companies and retain any fees payable for their services.

The following executive directors served as non-executive directors elsewhere and received fees or other benefits for the period covered by this report as follows:

	Company	Fees/benefits
Marjorie Scardino	Nokia Corporation	€150,000
	MacArthur Foundation	$31,750
Rona Fairhead	HSBC Holdings plc	£200,000

Other executive directors served as non-executive directors elsewhere but did not receive fees.

Shareholder engagement

The voting results for prior reports on directors' remuneration over the previous five years are presented below:

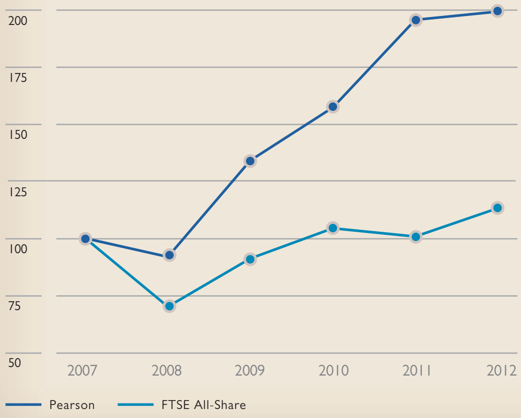
Year	Date of AGM	Votes for	Votes against
2011	27 April 2012	89.20%	4.99%
2010	28 April 2011	94.07%	3.40%
2009	30 April 2010	92.37%	4.97%
2008	1 May 2009	66.32%	23.36%
2007	25 April 2008	75.31%	10.42%

This table expresses as a percentage the votes cast, ignoring any formal instructions to withhold.

Total shareholder return performance

In compliance with current regulations, we set out below Pearson's total shareholder return performance relative to the FTSE All-Share index on an annual basis over the five-year period 2007 to 2012.

Total shareholder return: 5 years to 31 Dec 2012



Approved by the board and signed on its behalf by

David Arculus Director

7 March 2013