Board of directors

Pearson's 12-member board brings a wide range of experience, skills and backgrounds.

Chairman

Glen Moreno Chairman
aged 68, 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, deputy chairman and senior independent director at Lloyds Banking Group plc, and non-executive director of Fidelity International Limited. Previously, Glen was 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

Marjorie Scardino Chief executive
aged 65, appointed 1 January 1997

Member of the nomination committee

Marjorie brings a range of business, legal and publishing experience to Pearson. Before becoming Pearson CEO, she was chief executive of The Economist Group. Trained as a lawyer, she was a partner in a Savannah, Georgia, law firm and at the same time founded with her husband the Pulitzer Prize-winning *Georgia Gazette* newspaper. Marjorie is a director of Nokia Corporation and on the non-profit boards of Oxfam and the MacArthur Foundation. In 2003 she was made a Dame of the British Empire and in 2010 was named a fellow of the American Academy of Arts and Sciences.

Will Ethridge Chief executive, Pearson North American Education
aged 60, appointed 1 May 2008

Will has three decades of experience in education and educational publishing, including nearly 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 and chief executive of The Financial Times Group
aged 50, appointed 1 June 2002

Rona has wide experience in business, finance, services and manufacturing. She was Pearson's chief financial officer before beginning her current role in 2006. In addition to the FT Group, Rona heads Pearson's professional and careers business that includes Pearson VUE (our electronic testing and certification business) and various skills and professional training businesses. 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 53, 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 Institute of Chartered Accountants (ICAEW) Financial Reporting Committee and is deputy chairman of the Hundred Group of Finance Directors.

John Makinson Chairman and chief executive of The Penguin Group
aged 57, 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 a trustee of the Institute for Public Policy Research.

Board of directors continued

Non-executive directors

David Arculus Non-executive director
aged 65, 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 and a non-executive director of Telefonica S.A. 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 and group managing director of EMAP plc. David served from 2002 to 2006 as chairman of the British government's Better Regulation Task Force, which worked on reducing burdens on business.

Patrick Cescau Senior independent director aged 63, appointed 1 April 2002

Member of the audit, remuneration and nomination committees

Patrick brings to Pearson more than 35 years global business experience in finance, consumer products, retailing and developing and emerging markets. He is the senior independent director of Tesco plc, Britain's largest retailer, a director of France-based INSEAD, the Business School for the World, and IAG, the International Consolidated Airlines Group, S.A., parent company of British Airways and Spain's Iberia. He was previously group chief executive of Unilever, the global consumer-goods company whose brands are known throughout the world. Patrick is a trustee of the Leverhulme Trust and chairman of the St. Jude Children Charity. In 2005 he was awarded the 'Légion d'Honneur', the highest decoration bestowed by France.

Vivienne Cox Non-executive director
aged 52, 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 also non-executive director of mining company Rio Tinto plc, energy company BG, the UK Department for International Development, and Vallourec, which supplies tubular systems for the energy industry. Vivienne also sits on the board of INSEAD.

Susan Fuhrman Non-executive director
aged 67, 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 67, 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, retailer Tesco plc and the Royal Berkshire NHS Foundation Trust. Previously, Ken was finance director of Vodafone Group plc and of subsidiaries of Racal Electronics.

Josh Lewis Non-executive director
aged 49, 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 venture capital firm focused on technology-enabled businesses in education, financial services and other sectors. Over a 25 year private equity/venture capital career, 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 and the Bill & Melinda Gates Foundation.

Chairman's letter

Dear shareholders

This year, we are reporting against the revised UK Corporate Governance Code (the Code).

Role of the board

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.

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 over significant business issues brings a valuable additional discipline to major decisions.

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.

Board composition

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

We recently added two new non-executive members to the board. Josh Lewis brings extensive knowledge of education, technology and the development of digital businesses; Vivienne Cox adds significant management experience, an understanding of natural resource markets, which are key to the development strategies of many emerging markets, and a deep personal interest in education and sustainable development.

We continue to search for a non-executive director who brings additional expertise in emerging markets, following C K Prahalad's untimely death in 2010. We are making good progress in this regard.

In the light of Lord Davies' report on 'Women on Boards' and the new Code provisions on gender diversity, we report that Pearson has four female board members (constituting one-third of the board). All were appointed for their outstanding records of achievement in their respective fields, and for the significant skills and insights that they bring to our company.

Patrick Cescau, our senior independent director, has now served on the board for more than nine years. The board has discussed in detail Patrick's record and contribution as a director and considers him to be vigorously independent. Given his experience as chief executive of a major global company, he currently plays an invaluable role in advising on our global expansion and organisational design. We have therefore asked Patrick to continue on the board. He has agreed, but advised us that he will wish to stand down by the end of 2013. In the meantime, he will stand down from the audit and remuneration committees, both of which will continue to have a majority of independent directors.

Succession planning

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

Each year we devote one full meeting to organisation structure and succession planning, and how they support delivery of our strategic goals. 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.

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 2011 the company was in full compliance with the UK Corporate Governance Code (the Code), except for a short period of time when it did not comply with the required ratio of independent non-executive directors to executive directors. Following the resignation of Terry Burns and the passing of C K Prahalad in 2010, there was an imbalance of executive and non-executive directors on the board during January and February 2011. However, with effect from 1 March 2011, Josh Lewis was appointed to the board as an independent non-executive director and, upon appointment, joined the nomination and audit committees.

In addition, with effect from 1 January 2012, Vivienne Cox was appointed to the board as an independent non-executive director and, on appointment, joined all of its committees.

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 an additional suitable candidate who possesses the right mix of knowledge, skills and experience, specifically in emerging markets, to enhance debate and decision-making. A detailed account of the provisions of the Code can be found on the FRC's website at www.frc.org.uk and on the company website at www.pearson.com/investors/shareholder-information/governance

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

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 agreed by the board.

Senior independent director
Patrick Cescau is the company's senior independent director. The board believes that Patrick's extensive knowledge of Pearson together with his broad commercial experience, make him highly suitable for this role.

His role includes meeting regularly with the chairman and chief executive to discuss specific issues, e.g. strategy, as well as being available to shareholders if they should have concerns that have not been addressed through the normal channels. Patrick also makes a significant contribution to determining the structure and content of board meetings. During the year, Patrick held separate sessions with the other non-executive directors, the chief executive and an independent external evaluator, Boardroom Review, to appraise the performance of the chairman.

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
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.

In particular, the board undertook a thorough review of Susan Fuhrman and Patrick Cescau, as they have served on the board for over seven and nine years respectively. In his letter introducing the governance report, the chairman has explained the board's consideration of Patrick's position.

After thoroughly reviewing Susan's positive contribution to board and committee work, and her position as a leader in educational reform and efficacy, the board has asked her to continue to serve as a director.

All of the other non-executive directors were considered by the board to be independent for the purposes of the Code during the year ended 31 December 2011.

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. Such conflicts are then considered for authorisation by the board. 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 met six times in 2011, with most meetings taking place over two 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 2011 the major items covered by the board included:

BUSINESS PERFORMANCE: 24 AND 25 FEBRUARY 2011, LONDON

- 2010 report and accounts and dividend recommendation
- 2011 operating plan
- Risk assessment and review of mitigating actions
- Annual review of authorised conflicts
- Annual review of chief executive authorisation limits and procedures
- Appointment of Josh Lewis to the board
- The action to take with regard to the Libyan Investment Authority's investment in Pearson

GOVERNANCE: 28 APRIL 2011, LONDON

- Feedback on 2010 report and accounts
- Report on shareholders' views
- Review of corporate social responsibility
- External board effectiveness review
- Acquisition of Schoolnet

STRATEGY: 1 AND 2 JUNE 2011, BEIJING

- Strategy discussions – review of China businesses
- Acquisition of Education Development International plc

CASE STUDY

Looking to the future – planning for growth in China

In June 2011, the Pearson board held a two day meeting in Beijing, China. The purpose of this board meeting was to review our businesses in China. During their three day stay the board met with the key local management of all our businesses operating in mainland China and Hong Kong, visited a number of Wall Street English language schools and met key customers and other people who have important relationships with our China businesses. During 2012 the board plans to have similar meetings with local businesses in Brazil and India.

BUSINESS PERFORMANCE: 28 JULY 2011, LONDON

- Interim results
- Post-acquisition reviews
- Acquisition of Connections Education
- Acquisition of Stark Holding

STRATEGY: 6 AND 7 OCTOBER 2011, CALIFORNIA

- Review of technology strategy
- Strategic plan 2011 to 2013
- Review of audit, remuneration and nomination committee terms of reference
- Disposal of stake in FTSE
- Acquisition of Global Education
- Acquisition of TQ
- Investment in Companhia das Letras

STRATEGIC PLAN: 8 AND 9 DECEMBER 2011, NEW YORK

- Strategic review of Pearson legacy businesses
- Risk assessment and review of mitigating actions
- SEC and FINRA investigation in respect of the acquisition of Global Education
- Ofqual review of exam awarding bodies
- Appointment of Vivienne Cox to the board

Board governance continued

The following table sets out the attendance of the company's directors at board and committee meetings during 2011:

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

*appointed 1 March 2011.

The role and business of the board

The formal matters reserved for the board's decision and approval include:

- Determining the company's strategy in consultation with management and reviewing performance against it;
- Any decision to cease to operate all or any material part of the company's business;
- Major changes to the company's corporate structure, management and control structure or its status as a public limited company;
- Approval of all shareholder circulars, resolutions and corresponding documentation and press releases concerning matters decided by the board;
- Acquisitions, disposals and capital projects above £15m per transaction or project;
- All Pearson plc guarantees over £10m;
- Treasury policies;
- Setting interim dividends, recommending final dividends to shareholders and approving financial statements;
- Borrowing powers;
- Appointment of directors;
- Appointment and removal of the company secretary;
- Ensuring adequate succession planning for the board and senior management;
- Determining the remuneration of the non-executive directors, subject to the Articles and shareholder approval as appropriate;
- Approving the written division of responsibilities between the chairman and the chief executive and approval of the terms of reference of board committees;
- Reviewing the Group's overall corporate governance arrangements, including the performance of the board, its committees and individual directors and determining the independence of directors; and
- Determining the nature and extent of the significant risks the company is willing to take in achieving its strategic objectives and maintaining sound risk management and internal control systems.

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. 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.

Board evaluation

The board conducts an annual review of its effectiveness. For the review of 2010, conducted in early 2011, the board commissioned a board effectiveness review from an independent third party provider, Boardroom Review (which has no other connection to the company). This review was designed to be forward looking; assessing the quality of the board's decision making and debate, its overall contribution to, and impact on, the long term health and success of the business and its preparation for future challenges.

The review covered a variety of aspects associated with board effectiveness, including the board's ability to achieve its objectives, to work together effectively and the management of its time. This was carried out through confidential interviews with all members of the board, through board observation and through a review of selected board papers.

Following the review a discussion document was produced to facilitate the board's discussion at their meeting in April, as well as to provide a reference point for the board's development and change.

The evaluation for 2010 indicated that the culture of the board is dominated by a sense of cohesiveness and collaboration; the dynamics encourage openness, transparency and cooperation between executive and non-executive directors. During the review itself, the board was seen to demonstrate several areas of strength, including:

- a focused strategic approach;
- a thoughtful approach to control and risk;
- strong executive leadership and corporate culture;
- a healthy alignment between performance and reward;
- a positive culture, dynamic debate, and leadership from the chairman; and
- the effective management of time and information.

The review also highlighted an opportunity for improvement, relating to the quality of discussion and debate over changes in the competitive environment, particularly with regard to technology and emerging markets. The board addressed this issue at subsequent board meetings during 2011, including holding a technology strategy session in October and arranging board visits to emerging markets; China in June 2011, Brazil and India in 2012.

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.

For the review of 2011, to be conducted during the early part of 2012, the chairman will meet with each of the directors, executive and non-executive, on a one to one basis and discuss the board's effectiveness and progress made against objectives. He will also take the opportunity to discuss with each director their individual training and development needs.

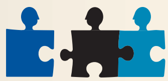
Directors' training and induction

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. Directors can also make use of external courses.

CASE STUDY

Induction – Josh Lewis appointed to Pearson Board



Josh Lewis was appointed to the board in March 2011 and a programme of induction was tailored to his particular requirements. Within the first few months of his appointment, Josh had met with the senior management teams from each of our businesses, as well as spending time with all of the members of our management committee. In addition, Josh visited our operations in China, India and a number of locations throughout the US. This induction programme resulted in Josh having a firm understanding of Pearson, its operations, culture and the key risks and issues the company is facing. A similar induction process is currently being prepared for Vivienne Cox, who was appointed to the board in January 2012.

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Board governance continued

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 it is repaid not later than when the outcome becomes final if: (i) they are convicted in the proceedings; (ii) judgement 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 2011, we continued with our shareholder outreach programme, seeing more than 500 institutional and private investors at more than 300 different institutions in Australia, Brazil, Canada, China, Continental Europe, Japan, the UK and the US.

There are five trading updates a 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. In 2011, the chief financial officer and the director of investor relations met with representatives of the UK Shareholders' Association. The meeting included a presentation from Pearson describing the company's performance and a question and answer session to give shareholders the opportunity to question management directly.

The chairman and senior independent director also make themselves available to meet any significant shareholder as required. 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.

At every board meeting, the directors receive an analysis of the shareholder register highlighting any significant movements in ownership or the share price, and the reasons behind the movements. In addition, every year the board receives a detailed report on the views of major institutional shareholders, provided either by our corporate brokers or our independent investor relations advisers, Makinson Cowell.

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 recently invited all shareholders, who had not already done so, to register their email addresses. This enables them to receive email alerts when trading updates and other important announcements are added to our website.

We are committed to ensuring that all our shareholders receive their dividends and with the final cash dividend mailing this year, we will be informing any shareholder who has outstanding unclaimed dividends, of the amounts owed to them and how they can claim these.

We also make a particular effort to communicate regularly with our employees, a large majority of whom are shareholders in the company. 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.

Our AGM – which will be held on 27 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 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.

NOMINATION COMMITTEE

Chairman Glen Moreno

Members David Arculus, Patrick Cescau, Vivienne Cox, Susan Fuhrman, Ken Hydon, Josh Lewis, Glen Moreno and Marjorie Scardino

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.

During 2011, the committee considered the recruitment of two non-executive directors, concluding with the appointment of Josh Lewis and Vivienne Cox to the board effective March 2011 and January 2012 respectively.

In addition, the committee met in February 2012 to review 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 four female directors on the board, two of whom are executive directors. 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.

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 2011, 27% of Pearson's top managers were women, a 35% increase from 2008.

The plan for 2012 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.

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.

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, Patrick Cescau, 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 65 to 89.

The committee met four 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

Board governance continued

AUDIT COMMITTEE

Chairman Ken Hydon

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

"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. Committee meetings are always attended by the chief financial officer and head of Group internal audit, and often by the chief executive and chairman. Individual managers join meetings for specific topics, e.g. treasury or business continuity planning. In total, 15 managers attended one or more meetings during the year. During the board's visit to Beijing, members of the committee met with local senior financial management to discuss risk management, financial control and the Pearson code of conduct. In December, the committee met with the company's chief information officer and director of digital strategy to discuss the approach of Pearson Technology to risk management. The committee will continue this method during 2012, and is planning to meet local management in at least two regular committee meetings and whenever the board is scheduled to meet in overseas locations.

Also fundamental to the role of the committee is its relationship with both the external auditors and Group internal audit. The committee has a healthy interaction with both and PWC attend all our regular committee meetings.

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 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 Tesco plc, Reckitt Benckiser Group plc and Royal Berkshire NHS Foundation Trust.

The qualifications and relevant experience of the other committee members are detailed on page 48.

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 page 60), and ensures that there is an appropriate audit relationship and that auditor objectivity and independence is upheld.

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 2011 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 four years and will rotate next year. In accordance with our external auditor policy, in 2010 Group internal audit performed a formal assessment of audit fees, services and independence. This formed the basis for a recommendation to the board to continue with PwC.

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

At the July 2011 audit committee meeting, the committee discussed and approved the auditors' Group audit plan, in which they identified the following key risks of misstatement of the Group's financial statements:

- Revenue recognition, specifically in relation to long-term contract accounting and increasingly to digital revenue streams where management assumptions and estimates are necessary;
- Accounting for acquisitions and disposals in light of material transactions in 2011, in particular, valuation of acquired intangibles which involves significant judgement;
- Key balance sheet judgements, since small changes in provisioning judgements or methodology can have notable impacts on the Group's balance sheet and income statement; and
- Assessment of goodwill and intangible assets for impairment in the context of current market conditions, recognising that management judgement is required.

The committee discussed these issues with the auditors at the time of their review of the half year interim financial statements in July 2011 and again at the conclusion of their audit of the financial statements for the year in February 2012. In December 2011, 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 (encompassing provisions for doubtful debts and inventory, recoverability of pre-publication assets and authors' advances, reserves for sales returns, estimates of tax and pension liabilities and other contingencies) and how they had satisfied themselves that these were reasonable;
- 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 outputs of their controls testing for Sarbanes-Oxley 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 such material items remaining unadjusted in these financial statements.

Board governance continued

Training

The committee receives regular technical updates as well as specific or personal training as required. 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 Beijing in June 2011, the committee met with local senior finance managers.

Meetings

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

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 2010 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 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;
- UK Bribery Act adequate procedures guidance;
- Risk management in Asia;
- Review of the interim financial statements and announcement;
- Annual re-approval of the internal audit mandate;
- Compliance with SEC & NYSE requirements including Sarbanes-Oxley;
- Reviews of the effectiveness of the audit committee, the external auditors and the Group internal audit function;
- Pearson's anti-corruption programme;
- Review of the committee's terms of reference;
- Annual internal audit plan;
- Review of company risk returns including Social, Ethical and Environmental (SEE) risks; and
- Annual review of treasury policy.

In February 2012, the committee also considered the 2011 annual report and accounts, including the preliminary announcement, financial statements, business review, directors' report, corporate governance compliance statement and the income 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 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, rather than eliminate, 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, 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.

Risk management

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 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 has been enhanced to support the UK Bribery Act 2010.

Board governance continued

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 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 2012 and 2013 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 130 to 138.

Share capital

Details of share issues are given in note 27 to the accounts on page 150. 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 2011, 815,626,237 ordinary shares were in issue. At the AGM held on 28 April 2011, the company was authorised, subject to certain conditions, to acquire up to 81,310,000 ordinary shares by market purchase. Shareholders will be asked to renew this authority at the AGM on 27 April 2012.

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 31 December 2011, the company had been notified under DTR5 of the following significant voting rights in its shares:

	Number of shares	Percentage
Legal & General Group plc	32,385,175	3.97%
Libyan Investment Authority	24,431,000	3.01%

No notifications under DTR5 had been received by the company during the period from 1 January 2012 to 5 March 2012, being the last practicable date before the publication of this report.

Annual General Meeting (AGM)

The notice convening the AGM, to be held at 12 noon on Friday, 27 April 2012 at IET London, 2 Savoy Place, London WC2R 0BL, is contained in a circular to shareholders to be dated 22 March 2012.

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;
- 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, such as due diligence, irrespective of value, must be approved by the audit committee. Where appropriate, services will be tendered prior to awarding work to the auditors.

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

A full statement of the fees for audit and services is provided in note 4 to the accounts on page 110.

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.

Company law requires the directors to prepare financial statements for each financial year. Under that law 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 company law 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 46 to 48, confirm that to the best of their knowledge and belief:

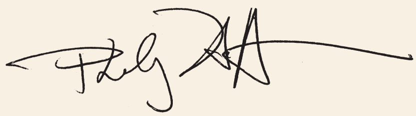
- The Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and company; and
- The directors' report contained in the annual report includes a fair review of the development 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 2012 and signed on its behalf by



Philip Hoffman Secretary

Board governance continued

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 company's 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 be conducted on a poll.

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 on trustees upon such trusts for the benefit of the shareholders.

Voting at general meetings

Any form of proxy sent by the company to shareholders in relation to any general meeting must be delivered to the company, 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. There were 14,665,223 shares so held as at 31 December 2011. 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 4,137,566 shares so held as at 31 December 2011. The trustees holding these shares seek voting instructions from the 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.

Board governance continued

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, 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 Shareholder

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

We are committed to long-term value creation and this sets the agenda for our approach to remuneration.

The company has performed strongly and has delivered:

› record earnings

› a share price around its highest level for a decade

› total shareholder return ahead of that of the market and our sector

› return on invested capital above our cost of capital

› Pearson's 20th 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

Our remuneration policy centres on three major elements to support and sustain performance: competitive base salaries that reflect the market and individual roles and contribution; annual incentives that reward achievement of strategic goals; and 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.

Pearson's people have shared in the company's success through cash awards and worldwide participation in share ownership plans continuing practices first started in 1998.

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.

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

For 2012, the committee endorsed the recommendation of the executive directors and other members of the Pearson Management Committee that they should receive no increase in base salaries.

In addition, the committee has decided that there will be a reduction in the number of shares awarded to the Pearson Management Committee as their long-term incentives.

Looking back to some specific aspects of policy:

› we undertook a normal review of base salaries for 2011 that took into account the guideline for the general level of increases elsewhere across the company

› annual incentives paid to executives for 2011 performance were generally lower than for 2010, reflecting more challenging targets and a tougher business environment

› shareholders approved the renewal of the long-term incentive plan at the Annual General Meeting (AGM) on 28 April 2011

› we introduced formal shareholding guidelines for executive directors to complement the operation of the company's long-term incentive arrangements

› we reviewed the company's powers to reclaim variable remuneration in exceptional circumstances of misstatement or misconduct

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

Finally, I have great pleasure in welcoming Vivienne Cox, who is widely experienced in remuneration matters, as a member of the committee with effect from her appointment as independent non-executive director of the board on 1 January 2012. I would also like to thank my fellow members of the committee and the people who have assisted us for their contribution over the past year.

David Arculus Chairman, Remuneration Committee

Report on directors' remuneration continued

Governance

The board presents its report on directors' remuneration to shareholders. 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 2012.

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

We will put a resolution to shareholders at the AGM on 27 April 2012 inviting them to consider and approve this report.

The remuneration committee & its activities

David Arculus chaired the remuneration committee for the year 2011; the other members were Patrick Cescau, Ken Hydon and Glen Moreno. David Arculus, Patrick Cescau 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. Terry Burns stepped down from his membership of the committee and his role as a non-executive director on 30 April 2010.

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 these 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.

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. This includes base salary, annual and long-term incentive entitlements and awards, and pension arrangements, 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.

The committee met four times during 2011. The matters discussed and actions taken were as follows:

17 AND 25 FEBRUARY 2011

- Reviewed and approved 2010 annual incentive plan payouts
- Reviewed and approved 2008 long-term incentive plan payouts and release of shares
- Approved vesting of 2006 and 2008 annual bonus share matching awards and release of shares
- Reviewed and approved 2011 base salary increases for the Pearson Management Committee
- Reviewed and approved 2011 Pearson and operating company annual incentive plan targets
- Reviewed and approved 2011 individual annual incentive opportunities for the Pearson Management Committee
- Discussed renewal of long-term incentive plan
- Reviewed and approved 2011 long-term incentive awards and associated performance conditions for the Pearson Management Committee

- Reviewed and approved 2010 report on directors' remuneration
- Noted company's use of equity for employee share plans
- Reviewed and approved the remuneration package for the chief executive

29 JULY 2011

- Approved 2011 long-term incentive awards for executives and managers
- Reviewed committee's charter and terms of reference

7 DECEMBER 2011

- Discussed Towers Watson's overview of the current remuneration environment
- Considered Towers Watson's report on remuneration for the Pearson Management Committee for 2012
- Reviewed status of outstanding long-term incentive awards
- Considered the approach to 2012 long-term incentive plan awards for the Pearson Management Committee
- Reviewed 2012 annual incentive plan metrics
- Reviewed committee's performance

Remuneration policy & business strategy

This report sets out the company's policy on directors' remuneration that applies to executive directors for 2012 and, so far as practicable, for subsequent years. Future reports, which will continue to be subject to shareholder approval, will describe any changes in this policy.

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 company performance.

Our goal as a company is to make an impact on people's lives and on society through education and information. Our strategy to achieve that goal is pursued by all Pearson's businesses in some shape or form and has four parts: long-term investment in our business; technology; working in fast-growing markets around the world; and efficiency and scale.

An important measure of our strategy is, of course, financial performance. 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.

Performance conditions

The performance conditions that we select for the company's various performance-related annual or long-term incentive plans are linked to the company's strategic objectives set out above.

As part of our ongoing review, we have concluded that no fundamental changes are required to the performance measures used in the company's annual and long-term incentive plans.

We will, however, continue to give careful consideration to the selection and weighting of these measures and the targets that apply taking into account the company's short- and longer- term strategy and risk and the impact on the sustainability and future development of the company.

We determine whether or not targets have been met under the company's various performance-related incentive plans based on relevant internal information and input from external advisers.

Misstatement or misconduct

In accordance with the UK Corporate Governance Code, in 2011 the committee reviewed the company's powers to reclaim variable remuneration in exceptional circumstances of misstatement or misconduct.
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

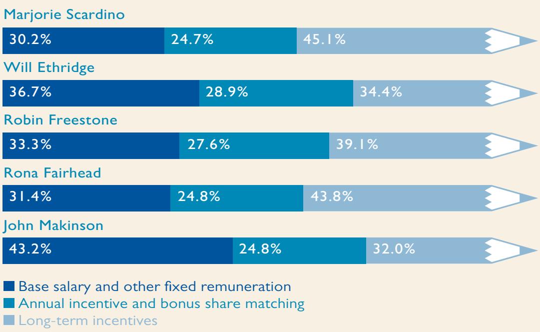
Main elements of remuneration

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different objectives.

Element	Objective	Performance period	Performance conditions
Base salary (see page 69)	Reflects competitive market level, role and individual contribution	Not applicable	Normally reviewed annually taking into account general economic conditions and the wider pay scene, the level of increases applicable to employees across the company as a whole, the remuneration of directors and executives in comparable companies and individual performance
Annual incentives (see page 70)	Motivates achievement of annual strategic goals	One year	Subject to achievement of targets for sales, earnings per share or profit, working capital, cash flow and personal objectives
Bonus share matching (see page 71)	Encourages executive directors and other senior executives to acquire and hold Pearson shares. Aligns executives' and shareholders' interests	Three years	Subject to achievement of target for earnings per share growth
Long-term incentives (see page 73)	Drives long-term earnings and share price growth and value creation. Aligns executives' and shareholders' interests	Three years	Subject to achievement of targets for relative total shareholder return, return on invested capital and earnings per share growth

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. Our assessment of the relative importance of fixed and performance-related remuneration for each of the directors based on our policy and the data set out in this report is as follows:

PROPORTION OF TOTAL COMPENSATION



Note The method for valuing the different elements of remuneration is summarised in the table on page 69.

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

Benchmarking

The committee wants our executive directors' remuneration to be competitive with those of directors and executives in similar positions in comparable companies.

For benchmarking purposes, we review remuneration by reference to the UK and US market depending on the relevant market or markets for particular jobs.

We look separately at three comparator groups. First, we use a select peer group of FTSE 100 companies with very substantial overseas operations. These companies are of a range of sizes around Pearson, but the method our independent advisers use to make comparisons on remuneration takes this variation in size into account. Secondly, for the US, we use a broad media industry group. 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 those 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, comparison with practice in other organisations and consistency with survey data, the main elements of remuneration are valued as follows:

Element of remuneration	Valuation
Base salary	Actual base salary
Annual incentive	Target level of annual incentive
Bonus share matching	Expected value of matching award based on 50% of target level of annual incentive
Long-term incentive	Expected value of long-term incentive award
Pension and benefits	Cost to company of providing pension and other benefits
Total remuneration	Sum of all elements of remuneration

Note Expected value means our independent advisers' assessment of the awards' net present value taking into account the vesting schedule and the probability that any performance targets will be met.

Base salary

The committee's normal policy is to review the base salaries of the executive directors and other members of the Pearson Management Committee taking into account general economic conditions and the wider pay scene, the level of increases applicable to employees across the company as a whole, the remuneration of directors and executives in comparable companies and individual performance.

Before the base salaries and remuneration packages for the Pearson Management Committee are set for the coming year, the committee considers a report from the chief executive and director for people on general pay trends and pay increases across the company and an assessment by the committee's independent advisers of remuneration relative to the market.

For 2012, the company has reviewed or is reviewing salaries for employees taking into account the location and economic conditions of each business as it did for 2011.

The committee has reviewed executive directors' base salaries for 2012 consistent with the policy and process set out above. In the 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 should receive no increase in base salaries for 2012.

Full details of the executive directors' remuneration for 2012 will be set out in the report on directors' remuneration for 2012.

For 2011, there was a normal review of base salaries for the executive directors and other members of the Pearson Management Committee that took into account the guideline for the general level of increases elsewhere across the company. Some individual increases were above this level because of relativity to the market, relativity to peers and performance. Full details of the executive directors' 2011 remuneration are set out in table 1 on page 82.

Allowances and benefits

The company's policy is that benefit programmes should be competitive in the context of the local labour market, but as an international company we require executives to operate worldwide and recognise that recruitment also operates worldwide.

Report on directors' remuneration continued

Annual incentives

The committee establishes the annual incentive plans for the executive directors and the chief executives of the company's principal operating companies, including performance measures and targets. These plans then become the basis of the annual incentive plans below the level of the principal operating companies, particularly with regard to the performance measures used and the relationship between the relevant business unit operating plans, and the incentive targets.

We will continue to review the annual incentive plans each year and to revise the performance measures, targets and individual incentive opportunities in light of current conditions. We will continue to disclose details of the operation of the annual incentive plans in the report on directors' remuneration each year.

Annual incentive payments do not form part of pensionable earnings.

Performance measures

The financial performance measures relate to the company's main drivers of business performance at both the corporate, operating company and business unit level. Performance is measured separately for each item. For each performance measure, the committee establishes threshold, target and maximum levels of performance for different levels of payout.

A proportion (which for 2012 may be up to 30%) of the total annual incentive opportunity for the executive directors and other members of the Pearson Management Committee is based on performance against personal objectives as agreed with the chief executive (or, in the case of the chief executive, the chairman). These comprise functional, operational, strategic and non-financial objectives relevant to the executives' specific areas of responsibility and *inter alia* may include objectives relating to environmental, social and governance issues.

For 2012, the principal financial performance measures are: sales; operating profit (for the operating companies) and growth in underlying earnings per share for continuing operations at constant exchange rates (for Pearson plc); average working capital as a ratio to sales; and operating cash flow. 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.

Incentive opportunities

In each year's report on directors' remuneration, we describe any changes to target and maximum incentive opportunities for the chief executive and the other executive directors for the year ahead.

For 2012, there are no changes to the target and maximum annual incentive opportunities for the chief executive which remain at 100% and 180% respectively, of base salary (as in 2011).

For the other members of the Pearson Management Committee, individual incentive opportunities take into account their membership of that committee and the contribution of their respective businesses or role to Pearson's overall financial goals. In the case of the executive directors, the target individual incentive opportunity for 2012 is in a range from 80% to 87.5% of base salary (as in 2011). The maximum opportunity remains at twice target (as in 2011).

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

The committee may also award individual discretionary incentive payments although no such payments were awarded in respect of 2011.

For 2011, total annual incentive opportunities were based on Pearson plc and operating company financial performance and performance against personal objectives as follows:

Name	Pearson plc	Operating company/ companies	Personal objectives
Marjorie Scardino	90%	–	10%
Will Ethridge	30%	60% Pearson North America	10%
Rona Fairhead	30%	40% Professional Assessment & Training 10% FT Publishing	20%
Robin Freestone	80%	–	20%
John Makinson	30%	60% Penguin Group	10%

2011 performance

Performance in 2011 against the relevant incentive plans was as follows:

Incentive plan	Performance measure	Performance against incentive plan: Below threshold	Between threshold and target	Between target and maximum	Above maximum
Pearson plc	Sales		✓		
	Underlying growth in adjusted earnings per share at constant exchange rates			✓	
	Average working capital to sales ratio				✓
	Operating cash flow			✓	
Pearson Education North America	Sales		✓		
	Operating profit			✓	
	Average working capital to sales ratio				✓
	Operating cash flow				✓
FT Publishing	Sales			✓	
	Operating profit				✓
	Operating cash flow				✓
Professional Assessment & Training	Sales		✓		
	Operating profit	✓			
	Operating cash flow			✓	
Penguin Group	Sales			✓	
	Operating profit			✓	
	Operating margin		✓		
	Average working capital to sales ratio				✓
	Operating cash flow				✓

Details of actual payouts for 2011 which range from 52% to 76% of maximum (89% to 100% in 2010) are set out in table 1 on page 82.

Bonus share matching

In 2008, shareholders approved the renewal of the annual bonus share matching plan first approved by shareholders in 1998.

Invested and matching shares

The plan permits executive directors and senior executives around the company to invest up to 50% of any after-tax annual bonus in Pearson shares.

If the participant's invested shares are held, they are matched subject to earnings per share growth over the three-year performance period on a gross basis i.e. the maximum number of matching shares is equal to the number of shares that could have been acquired with the amount of the pre-tax annual bonus taken in invested shares.

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 three-year performance period. 100% of the maximum matching award is released if the company's adjusted earnings per share increase in real terms by 5% per annum compound over the same period.

For real growth in adjusted earnings per share of between 3% and 5% per annum compound, the rate at which the matching award is released is calculated according to a straight-line sliding scale.

Report on directors' remuneration continued

Real earnings per share growth per annum	Proportion of maximum matching award released
Less than 3%	0%
3%	50%
Between 3% and 5%	Sliding scale between 50% and 100%
5% or more	100%

Performance condition

Earnings per share growth is calculated using the point-to-point method. This method 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).

Dividend shares

Where matching shares vest in accordance with the plan, 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.

Outstanding awards

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

Date of award	Share price on date of award	Vesting	Status of award
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	Outstanding subject to 2009 to 2012 performance
16 April 2009	670.0p	16 April 2012	Performance condition for release of maximum matching award met. Real compound annual growth in earnings per share for 2008 to 2011 of 10.1% against target of 5%. Shares held pending release on 16 April 2012
4 June 2008	670.7p	4 June 2011	Target met as reported in report on directors' remuneration for 2010. Shares released on 4 June 2011
22 May 2007 (See note 1)	899.9p	100% on 22 May 2012	Performance condition for release of 100% of matching award met. Real compound annual growth in earnings per share for 2006 to 2011 of 11.2% against target of 3%. Shares held pending release on 22 May 2012
12 April 2006 (See note 1)	776.2p	100% on 12 April 2011	Target met as reported in report on directors' remuneration for 2010. Shares released on 12 April 2011

Note 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.

Marjorie Scardino, Will Ethridge, Rona Fairhead and Robin Freestone hold or held awards under this plan in 2011. Details are set out in table 4 on pages 85 to 87 and itemised as a or a*.

Long-term incentives

At the AGM in 2011, shareholders approved the renewal of the long-term incentive plan.

The plan enables the company to recruit and retain the most able managers worldwide and to ensure their long-term incentives encourage outstanding performance and are competitive in the markets in which we operate.

Under the plan, executive directors, senior executives and other managers can participate in this plan which can deliver restricted stock and/or stock options. Approximately 6% of the company's employees currently hold awards under this plan.

The aim is to give the committee a range of tools with which to link corporate performance to management's long-term reward in a flexible way. It is not the committee's intention to grant stock options in 2012 or for the foreseeable future.

Restricted stock granted to executive directors vests only if stretching corporate performance targets over a specified period have been met. Awards vest on a sliding scale based on performance over the period. There is no retesting.

Performance measures

The committee determines the performance measures and targets governing an award of restricted stock prior to grant.

The performance measures that will apply for the executive directors for awards in 2012 and subsequent years will continue to be focused on delivering and improving returns to shareholders. These measures, which have applied since 2004, are relative total shareholder return (TSR), return on invested capital (ROIC) and earnings per share (EPS) growth.

Total shareholder return 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.

Return on invested capital 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.

Adjusted earnings per share 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).

Since 2008, EPS growth has been 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.

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

Report on directors' remuneration continued

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 2011.

Restricted stock may be granted without performance conditions to satisfy recruitment and retention objectives. Restricted stock awards that are not subject to performance conditions will not be granted to any of the current executive directors.

Performance targets

We will set targets for the 2012 awards that are consistent with the company's strategic objectives over the period to 2014 and that are no less stretching than in previous years. Full details of the performance targets for 2012 will be set out in the report on directors' remuneration for 2012.

Value of awards

Our approach to the level of individual awards takes into account a number of factors.

First, we take into account the face value of individual awards at the time of grant assuming that the performance targets are met in full. Secondly, we take into account the assessments by our independent advisers of market practice for comparable companies and of directors' total remuneration relative to the market. And thirdly, we take into account individual roles and responsibilities, and company and individual performance.

For 2012, we reviewed award levels taking into account the value of individual awards and market practice and, as a consequence, reduced the number of shares awarded to executive directors and other members of the Pearson Management Committee compared to practice in recent years.

Future awards

For awards beyond 2012, the committee may use the same performance measures and targets, or apply different ones that are consistent with the company's objectives and which it considers to be similarly demanding. The committee also has the flexibility to vary individual award levels.

The committee will consult with shareholders before making any significant changes to its approach to, or policy on, performance measures or targets or the range of award levels established by awards in recent years.

Dividends

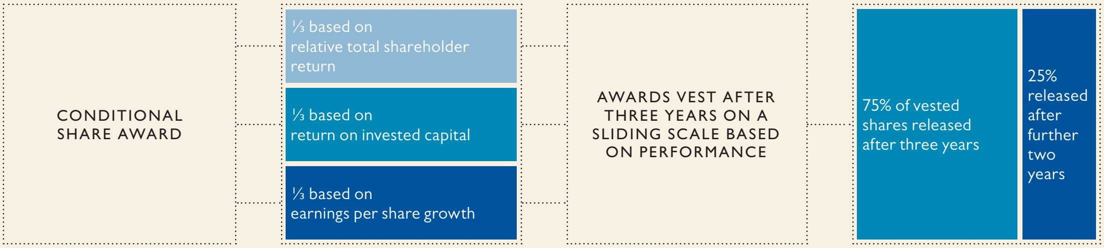
Where shares vest, in accordance with the plan, participants also receive additional shares representing the gross value of dividends that would have been paid on these shares during the performance period and reinvested.

Retention period

We encourage executives and managers to build up a long-term holding of shares so as to demonstrate their commitment to the company.

To achieve this, for awards of restricted stock that are subject to performance conditions over a three-year period, a percentage of the award (normally 75%) vests at the end of the three-year period. The remainder of the award (normally 25%) only vests if the participant retains the after-tax number of shares that vest at year three for a further two years.

All of the executive directors hold awards under the long-term incentive plan. Details are set out in table 4 on pages 85 to 87 and itemised as b or b*.



Outstanding awards

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

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
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%	–	–	Outstanding
			EPS growth	2013 compared to 2010	30% for EPS growth of 6.0%	100% For EPS growth of 12.0%	–	–	Outstanding
03/03/10	962.0p	03/03/13	Relative TSR	2010 to 2013	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2012	25% for ROIC of 8.5%	100% for ROIC of 10.5%	–	–	Outstanding
			EPS growth	2012 compared to 2009	30% for EPS growth of 6.0%	100% For EPS growth of 12.0%	–	–	Outstanding
03/03/09	654.0p	03/03/12	Relative TSR	2009 to 2012	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2011	25% for ROIC of 8.5%	100% for ROIC of 10.5%	9.1%	47.5%	Vested and remain held pending release
			EPS growth	2011 compared to 2008	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	14.4%	100%	Vested and remain held pending release

Report on directors' remuneration continued

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
04/03/08	649.5p	04/03/11	Relative TSR	2008 to 2011	30% at median	100% at upper quartile	93.3rd percentile	100%	97.5% of shares vested. Three-quarters released on 05 April 2011. If after tax number of shares are retained for a further two years, the remaining quarter will be released on 4 March 2013.
			ROIC	2010	25% for ROIC of 8.5%	100% for ROIC of 10.5%	10.3%	92.5%	
			EPS growth	2010 compared to 2007	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	18.4%	100%	

All-employee share plans

Executive directors can participate in the company's all-employee share plans on the same terms as other employees.

These plans comprise savings-related share acquisition programmes in the UK and the US.

These plans operate within specific tax legislation (including a requirement to finance acquisition of shares using the proceeds of a monthly savings contract) and the acquisition of shares under these plans is not subject to the satisfaction of a performance target.

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 2011, 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 2011 amounted to 1.8% 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	2011	2010	2009
All Pearson plans	8.3%	7.6%	6.4%
Executive or discretionary plans	5.0%	4.1%	3.0%
Shares held in trust	3.2%	3.3%	3.3%

Shareholding of executive directors

The committee expects executive directors to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee ownership and operates formal shareholding guidelines for executive directors. The target holding is 2 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 operate such arrangements.

Shares that count towards these guidelines include any shares held unencumbered by the executive, their spouse and/or dependent children (as set out in table 3 on page 84) plus any shares vested but held pending release under a restricted share plan (as marked as * in table 4 on pages 85 to 87).

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

The current value of the executive directors' holdings based on the middle market value of Pearson shares of 1,251.0p on 24 February 2012 (which is the latest practicable date before the results announcement) against the base salaries in 2011 comfortably exceeded these guidelines:

Own shares	Number of shares	Value (x salary)	Guideline (x salary)	Guideline met
Marjorie Scardino	1,809,655	22.8	2.00	✓
Will Ethridge	560,407	10.8	1.25	✓
Rona Fairhead	554,241	13.1	1.25	✓
Robin Freestone	442,657	11.1	1.25	✓
John Makinson	562,885	12.8	1.25	✓

Service agreements

In accordance with long established policy, all continuing executive directors have rolling service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues until retirement.

The committee reviewed the policy on executive service agreements in 2008 and again in 2010. Our policy is that future executive director agreements should provide that the company may terminate these 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.

We will keep the application of the policy on executive service agreements, including provisions for payment in lieu of notice, under review, particularly with regard to the arrangements for any new executive directors.

In the case of the longer serving directors with legacy agreements, the compensation payable in circumstances where the company terminates the agreements without notice or cause takes the form of liquidated damages.

There are no special provisions for notice, pay in lieu of notice or liquidated damages in the event of termination of employment 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.

Report on directors' remuneration continued

We summarise the service agreements that applied during 2011 and that continue to apply for 2012 as follows:

Name	Date of agreement	Notice periods	Compensation on termination by the company without notice or cause
Glen Moreno	29 July 2005	12 months from the director; 12 months from the company	100% of annual fees at the date of termination
Marjorie Scardino	27 February 2004	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive
Will Ethridge	26 February 2009	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and target annual incentive
Rona Fairhead	24 January 2003	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive
Robin Freestone	5 June 2006	Six months from the director; 12 months from the company	No contractual provisions
John Makinson	24 January 2003	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive

Retirement benefits

We describe the retirement benefits for each of the executive directors. Details of directors' pension arrangements are set out in table 2 on page 83 of this report.

Executive directors participate in the pension arrangements set up for Pearson employees.

Marjorie Scardino, Will Ethridge, John Makinson, Rona Fairhead and Robin Freestone will also have other retirement arrangements because of the cap on the amount of benefits that can be provided from the pension arrangements in the US and the UK.

The differences in the arrangements for the current executive directors reflect the different arrangements in the UK and the US and the changes in pension arrangements generally over the periods of their employment.

Executive directors are entitled to life insurance cover while in employment, and to a pension in the event of ill-health or disability. A pension for their spouse and/or dependants is also available on death.

In the US, the defined benefit arrangement is the Pearson Inc. Pension Plan. This plan provides a lump sum convertible to an annuity on retirement. The lump sum accrued at 6% of capped compensation until 31 December 2001 when further benefit accruals ceased for most employees. Employees who satisfied criteria of age and service at that time continued to accrue benefits under the plan. Will Ethridge is included in this group and continues to accrue benefits under this plan. Marjorie Scardino is not and her benefit accruals under this plan ceased at the end of 2001.

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

In the UK, the pension plan is the Pearson Group Pension Plan and executive directors participate in either the Final Pay or the Money Purchase 2003 section. Normal retirement age is 62, but, subject to company consent, retirement is currently possible from age 55. In the Final Pay section, the accrued pension is reduced on retirement prior to age 60. Pensions in payment are guaranteed to increase each year at 5% or the rise in inflation each year, if lower. Pensions for a member's spouse, dependant children and/or nominated financial dependant are payable in the event of death. In the Money Purchase 2003 section the account balances are used to provide benefits at retirement. In the event of death before retirement pensions for a member's spouse, dependant children and/or nominated financial dependant are payable.

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 £129,600 as at 6 April 2011.

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 are 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, than 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 2011, the lifetime allowance (i.e. the maximum amount of pension and/or lump sum that can benefit from tax relief) reduced from £1.8million to £1.5million.

Marjorie Scardino

Marjorie Scardino participates in the Pearson Inc. Pension Plan 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

Will Ethridge is a member of the Pearson Inc. Pension Plan 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

Rona Fairhead is a 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.

Report on directors' remuneration continued

Robin Freestone
Robin Freestone is a 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
John Makinson is a 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. 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, the FURBS and the UURBS will be paid to his spouse or nominated financial dependant. Early retirement is currently possible from age 55, with company consent.

The pension is reduced to reflect the shorter service, and before age 60, further reduced for early payment.

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	$28,000
Rona Fairhead	HSBC Holdings plc	£200,000

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

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.

The committee reviewed the chairman's remuneration in 2010. In the light of this review, the board approved the committee's recommendation that the chairman's remuneration be increased to £500,000 per year with effect from 1 April 2011. The next review will take place in 2014.

Non-executive directors

Fees for non-executive directors 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.

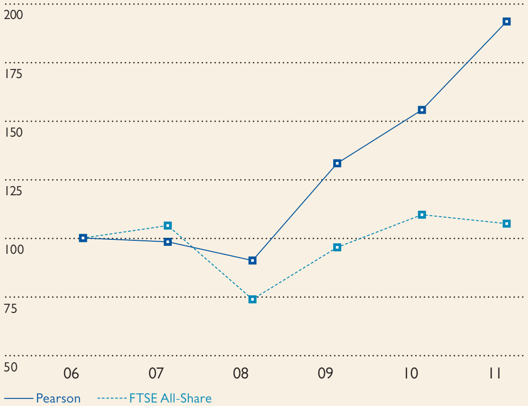
Total shareholder return performance

Below we set out Pearson's total shareholder return on three bases. Pearson is a constituent of all the indices shown.

First, we set out Pearson's total shareholder return performance relative to the FTSE All-Share index on an annual basis over the five-year period 2006 to 2011.

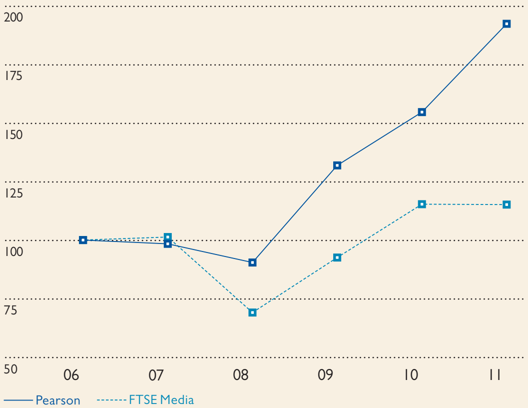
We have chosen this index, and used it consistently in each report on directors' remuneration since 2002, on the basis that it is a recognisable reference point and an appropriate comparator for the majority of our investors.

TOTAL SHAREHOLDER RETURN



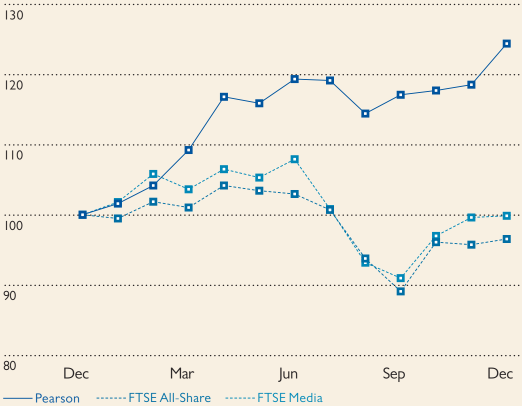
Secondly, to illustrate performance against our sector, we show Pearson's total shareholder return relative to the FTSE Media index over the same five-year period.

TOTAL SHAREHOLDER RETURN



And thirdly, we show Pearson's total shareholder return relative to the FTSE All-Share and Media indices on a monthly basis over 2011, the period to which this report relates.

TOTAL SHAREHOLDER RETURN



Report on directors' remuneration continued

Items subject to audit

The following tables form the auditable part of the remuneration report, except table 3 which is not subject to audit.

Table 1: Remuneration of the directors

Excluding contributions to pension funds and related benefits set out in table 2, directors' remuneration was as follows:

					2011	2010
All figures in £000s	Salaries/fees	Annual incentive	Allowances	Benefits	Total	Total
Chairman						
Glen Moreno	488	–	–	–	488	450
Executive directors						
Marjorie Scardino	993	1,353	73	36	2,455	2,662
Will Ethridge	652	738	–	–	1,390	1,671
Rona Fairhead	529	440	12	18	999	1,373
Robin Freestone	500	580	7	7	1,094	1,158
John Makinson	549	641	224	3	1,417	1,575
Non-executive directors						
David Arculus	95	–	–	–	95	90
Patrick Cescau	100	–	–	–	100	86
Susan Fuhrman	75	–	–	–	75	73
Ken Hydon	95	–	–	–	95	90
Joshua Lewis (appointed 1 March 2011)	63	–	–	–	63	–
Total	4,139	3,752	316	64	8,271	9,228
Total 2010 (including former directors)	3,989	4,928	321	48	–	9,286

Note 1 Allowances for Marjorie Scardino include £47,120 in respect of housing costs and a US payroll supplement of £12,551. 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 £210,464 for 2011.

Note 2 Benefits include company car, car allowance and UK healthcare premiums. US health and welfare benefits for Marjorie Scardino and Will Ethridge are self-insured and the company cost, after employee contributions, is tax free to employees. For Marjorie Scardino, benefits include £33,310 for pension planning and financial advice. Marjorie Scardino, Rona Fairhead and John Makinson have the use of a chauffeur.

Note 3 No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Table 2: Directors' pensions and other pension-related items

Directors' pensions	Age at 31 Dec 11	Accrued pension at 31 Dec 11 £000[1]	Increase in accrued pension over the period £000[2]	Transfer value at 31 Dec 10 £000[3]	Transfer value at 31 Dec 11 £000[4]	Increase in transfer value over the period £000[5]	Increase/(decrease) in accrued pension over the period £000[6]	Transfer value of the increase/(decrease) in accrued pension at 31 Dec 11 £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]
Marjorie Scardino	64	4.7	0.1	47.3	49.5	2.2	(0.1)	(1.1)	7.2	644.5	56.7
Will Ethridge	59	194.4	34.4	1,418.4	2,039.3	620.9	26.4	276.9	45.6	–	1.7
Rona Fairhead	50	42.2	4.1	489.2	579.3	83.9	2.2	24.0	–	121.2	16.4
Robin Freestone	53	–	–	–	–	–	–	–	19.8	124.5	5.5
John Makinson	57	308.0	30.6	4,767.0	5,906.5	1,133.3	16.7	314.1	–	–	11.9

Note 1 The accrued pension at 31 December 2011 is the deferred pension to which the member would be entitled on ceasing pensionable service on 31 December 2011. For Marjorie Scardino this relates to a fixed pension from the US plan. For Will Ethridge the pension quoted in this column relates to his pension from the US Plan and the US SERP. For Rona Fairhead it relates to the pension payable from the UK Plan. For John Makinson it relates to the pension from the UK Plan, the FURBS and the UURBS 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 2011 are calculated using the assumptions for cash equivalents payable from the UK Plan and are based on the accrued pension at that date. The only change in the transfer value methodology was to make an allowance for the fact that the future increases to deferred pensions will be based on the increase in the CPI as opposed to RPI. 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). The increase in the CPI in the year to September 2011 was 5.2%. As this exceeded 5%, the inflation figure used in these calculations was 5%.

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.

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 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.

Report on directors' remuneration continued

Table 3: Interests of directors

	Ordinary shares at 1 Jan 11	Ordinary shares at 31 Dec 11
Glen Moreno	150,000	150,000
Marjorie Scardino	1,107,118	1,346,618
David Arculus	14,053	14,798
Patrick Cescau	6,282	7,117
Will Ethridge	333,395	405,295
Rona Fairhead	342,669	425,023
Robin Freestone	193,954	308,731
Susan Fuhrman	11,363	12,927
Ken Hydon	10,715	14,028
John Makinson	551,039	438,667
Joshua Lewis (appointed 1 March 2011)	0	3,891

Note 1 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 2 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 3 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 2011 was 1,210.0p per share and the range during the year was 983.0p to 1,222.0p.

Note 4 At 31 December 2011, Patrick Cescau held 168,000 Pearson bonds.

Note 5 There were no movements in ordinary shares between 1 January 2012 and a month prior to the sign-off of this report.

Note 6 Ordinary shares do not include any shares vested but held pending release under a restricted share plan.

Table 4: Movements in directors' interests in restricted shares

Restricted shares designated as: a annual bonus share matching plan; b long-term incentive plan; * where shares at 31 December 2011 have vested and are held pending release; and ** where dividend-equivalent shares were added to the released shares.

Date of award	1 Jan 11	Awarded	Released	Lapsed	31 Dec 11	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Marjorie Scardino									
a* 22/5/07	60,287				60,287	899.9p	22/5/10		
a* 4/6/08	99,977		99,977		0	670.7p	4/6/11	6/6/11	1,143.0p
a 21/4/10	63,497				63,497	1,024.1p	21/4/13		
a 20/4/11	0	71,446			71,446	1,129.0p	20/4/14		
a** 6/6/11	0	14,697	14,697		0	1,143.0p	6/6/11	6/6/11	1,143.0p
b* 13/10/06	93,750		93,750		0	767.5p	13/10/09	13/10/11	1,162.0p
b* 30/7/07	84,000				84,000	778.0p	2/3/10		
b* 4/3/08	390,000		292,500		97,500	649.5p	4/3/11	5/4/11	1,146.0p
b* 3/3/09	300,000			78,750	221,250	654.0p	3/3/12		
b 3/3/09	150,000				150,000	654.0p	3/3/12		
b 3/3/10	400,000				400,000	962.0p	3/3/13		
b 3/5/11	0	400,000			400,000	1,149.0p	3/5/14		
b** 5/4/11	0	45,630	45,630		0	1,146.0p	5/4/11	5/4/11	1,146.0p
b** 13/10/11	0	23,344	23,344		0	1,162.0p	13/10/11	13/10/11	1,162.0p
Total	1,641,511	555,117	569,898	78,750	1,547,980				
Will Ethridge									
a* 22/5/07	2,508				2,508	899.9p	22/5/12		
a 16/4/09	112,515				112,515	670.0p	16/4/12		
a 21/4/10	7,880				7,880	1,024.1p	21/4/13		
a 20/4/11	0	4,517			4,517	1,131.0p	20/4/14		
b* 13/10/06	41,667		41,667		0	767.5p	13/10/09	13/10/11	1,162.0p
b* 30/7/07	30,000				30,000	778.0p	2/3/10		
b* 4/3/08	146,250		109,688		36,562	649.5p	4/3/11	5/4/11	1,146.0p
b* 3/3/09	116,667			30,625	86,042	654.0p	3/3/12		
b 3/3/09	58,333				58,333	654.0p	3/3/12		
b 3/3/10	150,000				150,000	962.0p	3/3/13		
b 3/5/11	0	150,000			150,000	1,149.0p	3/5/14		
b** 5/4/11	0	17,112	17,112		0	1,146.0p	5/4/11	5/4/11	1,146.0p
b** 13/10/11	0	10,376	10,376		0	1,162.0p	13/10/11	13/10/11	1,162.0p
Total	665,820	182,005	178,843	30,625	638,357				

Report on directors' remuneration continued

Table 4: Movements in directors' interests in restricted shares continued

Restricted shares designated as: a annual bonus share matching plan; b long-term incentive plan; * where shares at 31 December 2011 have vested and are held pending release; and ** where dividend-equivalent shares were added to the released shares.

Date of award	1 Jan 11	Awarded	Released	Lapsed	31 Dec 11	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Rona Fairhead									
a* 12/4/06	16,101		16,101		0	776.2p	12/4/11	12/4/11	1,087.0p
a** 12/4/11	0	272	272		0	1,087.0p	12/4/11	12/4/11	1,087.0p
b* 13/10/06	29,167		29,167		0	767.5p	13/10/09	13/10/11	1,162.0p
b* 30/7/07	25,000				25,000	778.0p	2/3/10		
b* 4/3/08	121,875		91,407		30,468	649.5p	4/3/11	5/4/11	1,146.0p
b* 3/3/09	100,000			26,250	73,750	654.0p	3/3/12		
b 3/3/09	50,000				50,000	654.0p	3/3/12		
b 3/3/10	125,000				125,000	962.0p	3/3/13		
b 3/5/11	0	165,000			165,000	1,149.0p	3/5/14		
b** 5/4/11	0	14,260	14,260		0	1,146.0p	5/4/11	5/4/11	1,146.0p
b** 13/10/11	0	7,263	7,263		0	1,162.0p	13/10/11	13/10/11	1,162.0p
Total	467,143	186,795	158,470	26,250	469,218				
Robin Freestone									
a* 12/4/06	3,435		3,435		0	776.2p	12/4/11	12/4/11	1,087.0p
a* 22/5/07	4,708				4,708	899.9p	22/5/12		
a* 4/6/08	37,906		37,906		0	670.7p	4/6/11	6/6/11	1,143.0p
a 16/4/09	35,446				35,446	670.0p	16/4/12		
a 21/4/10	31,114				31,114	1,024.1p	21/4/13		
a 20/4/11	0	29,049			29,049	1,129.0p	20/4/14		
a** 12/4/11	0	58	58		0	1,087.0p	12/4/11	12/4/11	1,087.0p
a** 6/6/11	0	5,573	5,573		0	1,143.0p	6/6/11	6/6/11	1,143.0p
b* 13/10/06	26,042		26,042		0	767.5p	13/10/09	13/10/11	1,162.0p
b* 30/7/07	25,000				25,000	778.0p	2/3/10		
b* 4/3/08	121,875		91,407		30,468	649.5p	4/3/11	5/4/11	1,146.0p
b* 3/3/09	100,000			26,250	73,750	654.0p	3/3/12		
b 3/3/09	50,000				50,000	654.0p	3/3/12		
b 3/3/10	125,000				125,000	962.0p	3/3/13		
b 3/5/11	0	125,000			125,000	1,149.0p	3/5/14		
b** 5/4/11	0	14,260	14,260		0	1,146.0p	5/4/11	5/4/11	1,146.0p
b** 13/10/11	0	6,485	6,485		0	1,162.0p	13/10/11	13/10/11	1,162.0p
Total	560,526	180,425	185,166	26,250	529,535				

Table 4: Movements in directors' interests in restricted shares continued

Restricted shares designated as: a annual bonus share matching plan; b long-term incentive plan; * where shares at 31 December 2011 have vested and are held pending release; and ** where dividend-equivalent shares were added to the released shares.

Date of award	1 Jan 11	Awarded	Released	Lapsed	31 Dec 11	Market value at date of award	Earliest release date	Date of release	Market value at date of release
John Makinson									
b* 13/10/06	29,167		29,167		0	767.5p	13/10/09	13/10/11	1,162.0p
b* 30/7/07	20,000				20,000	778.0p	2/3/10		
b* 4/3/08	121,875		91,407		30,468	649.5p	4/3/11	5/4/11	1,146.0p
b* 3/3/09	100,000			26,250	73,750	654.0p	3/3/12		
b 3/3/09	50,000				50,000	654.0p	3/3/12		
b 3/3/10	125,000				125,000	962.0p	3/3/13		
b 3/5/11	0	125,000			125,000	1,149.0p	3/5/14		
b** 5/4/11	0	14,260	14,260		0	1,146.0p	5/4/11	5/4/11	1,146.0p
b** 13/10/11	0	7,263	7,263		0	1,168.9p	13/10/11	13/10/11	1,162.0p
Total	446,042	146,523	142,097	26,250	424,218				
Total	3,781,042	1,250,865	1,234,474	188,125	3,609,308				

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

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

Note 3 The performance and other conditions that apply to outstanding awards under the annual bonus share matching plan and the long-term incentive plan and that have yet to be met were set out in the reports on directors' remuneration for the years in which they were granted.

Note 4 In the case of the long-term incentive plan awards made on 3 March 2009, we detail separately the part of the award based on ROIC and EPS growth (two-thirds of total award) and that part based on relative TSR (one-third of total award), because vesting of that part of the awards based on TSR was not known at the date of the 2011 report.

Report on directors' remuneration continued

Table 5: Movements in directors' interests in share options

Shares under option are designated as: a worldwide save for shares; b long-term incentive; and * where options are exercisable.

	Date of grant	1 Jan 11	Granted	Exercised	Lapsed	31 Dec 11	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Marjorie Scardino												
a	8/5/09	1,672				1,672	547.2p	1/8/12	1/2/13			
b*	9/5/01	41,550			41,550	0	1,421.0p	9/5/02	9/5/11			
b*	9/5/01	41,550			41,550	0	1,421.0p	9/5/03	9/5/11			
b*	9/5/01	41,550			41,550	0	1,421.0p	9/5/04	9/5/11			
b*	9/5/01	41,550			41,550	0	1,421.0p	9/5/05	9/5/11			
Total		167,872	0	0	166,200	1,672						£0
Will Ethridge												
b*	9/5/01	11,010			11,010	0	$21.00	9/5/02	9/5/11			
b*	9/5/01	11,010			11,010	0	$21.00	9/5/03	9/5/11			
b*	9/5/01	11,010			11,010	0	$21.00	9/5/04	9/5/11			
b*	9/5/01	11,010			11,010	0	$21.00	9/5/05	9/5/11			
Total		44,040	0	0	44,040	0						$0
Rona Fairhead												
a	4/5/07	2,371				2,371	690.4p	1/8/12	1/2/13			
b*	1/11/01	20,000		20,000		0	822.0p	1/11/02	1/11/11	19/9/11	1,136.0p	£62,800
b*	1/11/01	20,000		20,000		0	822.0p	1/11/03	1/11/11	19/9/11	1,136.0p	£62,800
b*	1/11/01	20,000		20.000		0	822.0p	1/11/04	1/11/11	19/9/11	1,136.0p	£62,800
Total		62,371	0	60,000	0	2,371						£188,400

Table 5: Movements in directors' interests in share options continued

Shares under option are designated as: a worldwide save for shares; b long-term incentive; and * where options are exercisable.

Date of grant	1 Jan 10	Granted	Exercised	Lapsed	31 Dec 10	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Robin Freestone											
a 9/5/08	1,757		1,757	0	0	534.8p	1/8/11	1/2/12	1/8/11	1,180.0p	£11,336
Total	1,757	0	1,757	0	0						£11,336
John Makinson											
b* 9/5/01	19,785			19,785	0	1,421.0p	9/5/02	9/5/11			
b* 9/5/01	19,785			19,785	0	1,421.0p	9/5/03	9/5/11			
b* 9/5/01	19,785			19,785	0	1,421.0p	9/5/04	9/5/11			
b* 9/5/01	19,785			19,785	0	1,421.0p	9/5/05	9/5/11			
Total	79,140	0	0	79,140	0						£0
Total	355,180	0	61,757	289,380	4,043						£199,736

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

Note 2 Each plan is described below.

a Worldwide save for shares – The acquisition of shares under the worldwide save for shares plan is not subject to the satisfaction of a performance target.

Marjorie Scardino, Rona Fairhead and Robin Freestone hold options under this plan. Details of these holdings are itemised as a.

b Long-term incentive – All options that remain outstanding are exercisable and lapse if they remain unexercised at the tenth anniversary of the date of grant.

Details of the option grants under this plan for Marjorie Scardino, Will Ethridge, Rona Fairhead and John Makinson are itemised as b.

Note 3 Marjorie Scardino contributes 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 2011 was 1,210p per share and the range during the year was 983p to 1,222p.

Approved by the board and signed on its behalf by

David Arculus Director
7 March 2012