Governance report

What's in this section?

Note: This section constitutes our directors' report as required by UK legislation.

Governance overview

from Glen Moreno, Chairman

Clear board roles and governance processes offer balance and experience to our strong, focused executive team, helping to drive strategic and performance progress.

In this Governance section:

Dear shareholders,

As you may have already seen elsewhere in this report, 2014 was a year in which we completed the restructure of Pearson, laying the foundations to strengthen our position as the world's largest education company and embedding efficacy into all we do. I would like to take this opportunity to share with you some insights as to how our board and governance framework has operated and evolved throughout the year to complement our transformation. Learn more about our Transformation on p4-9

Governance principles

Our role and activities As a board we organise our work around four major themes where we believe we can add value: governance, strategy, business performance and people. Our board calendar and agenda provide ample time to focus on these themes and we have set out some examples of the business considered by the board, as well as the governance practices to which we adhere, on the pages that follow. Learn more about Board meetings and activities on p63

UK Corporate Governance Code This year, as is required, we are reporting against the 2012 edition of the UK Corporate Governance Code (the Code). The board believes that during 2014 the company was in full compliance with the Code. See page 73 for our position on audit tendering and rotation. A detailed account of the provisions of the Code can be found on the FRC's website at www.frc.org.uk and we encourage readers to view our compliance schedule on the company website at www.pearson.com/governance

Board and management

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

Board changes As is best practice, we continually assess and refresh the board to ensure we maintain an appropriate balance and diversity of skills and experience. We will soon bid farewell to two trusted advisers, David Arculus and Ken Hydon, who have signalled their intentions to stand down from the board at the upcoming Annual General Meeting (AGM), having each served the company for nine years. We will miss their wise counsel and rigour as chairmen of the remuneration and audit committees respectively, and we thank them for their service to Pearson.

During the past year we have also welcomed two new non-executive directors to our board. Elizabeth Corley joined us in May 2014 and in January 2015 we welcomed Tim Score. I am delighted to say that Elizabeth and Tim are to be appointed as our new remuneration and audit committee chairmen respectively, following the AGM in April 2015. Between them, Elizabeth and Tim bring a wealth of business, finance and technology experience to Pearson's board, and will no doubt contribute fresh perspectives to the board's deliberations. Learn more about our Board of directors on p60-61

Board and executive structure and balance Our board consists primarily of non-executive directors, who bring a strong independent viewpoint, complementing the executive perspectives of John Fallon and Robin Freestone. In addition, we invite the Pearson executive to attend a number of the board's sessions to bring insights and thoughts from across the business. Learn more about the Pearson executive on p9

Board evaluation During 2014 we undertook an externally-facilitated board evaluation process. As always, this assists us in identifying opportunities to refine our processes, but the overall findings reflected a board which functions well, is fit for purpose and which has a strong sense of collegiality and support – something which has served us well through our two-year transformation. Learn more about the Board evaluation on p67

Accountability

See full section on p70-77

Throughout our transformation, our audit committee has played a vital role in overseeing both risk and reporting matters. Our refocused business has seen the introduction of a new financial reporting structure along the lines of our primary geographic markets, and our shift towards digital, services and emerging markets has brought new opportunities and risks – strategic, operational and financial. Learn more about our Principal risks and uncertainties on p34

Engagement

See full section on p78-81

Engagement with shareholders and society as a whole is key to Pearson's mission to help people make progress in their lives through learning. During the year, recognising this, we formalised our reputation & responsibility committee, headed by Vivienne Cox, whose focus includes our reputation with stakeholders (including investors and the education community) and oversight of Pearson's public commitments to society. We also welcomed a number of shareholders to our Annual General Meeting which, as always, was a valuable opportunity for our board and senior management to respond to shareholders' views and questions.

Remuneration

See full section on p82-106

Our remuneration policy was reviewed last year to align with the company's strategy and organisation and was approved by shareholders at the 2014 AGM. We continue to operate executive remuneration in line with the approved policy and at present do not anticipate seeking shareholder approval for our policy again until required to do so at the 2017 AGM.

This year's report on directors' remuneration refers to the changes we made in line with policy in 2014 to better align executive director compensation with the interests of our shareholders and, to put our report into context, contains a summary of the approved directors' remuneration policy report from 2013 which is not subject to a vote. The report also deals with the significant minority vote against the 2013 annual remuneration report which the company received at the 2014 AGM.

Conclusion

I 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 General Meeting.

Glen Moreno Chairman

OUR BUSINESS
OUR PERFORMANCE
OUR SOCIAL IMPACT
GOVERNANCE
FINANCIAL STATEMENTS

Leadership & effectiveness

Board of directors

Chairman

Glen Moreno Chairman
aged 71, appointed 1 October 2005

Chairman of the nomination committee and member of the remuneration committee

Glen has more than four decades of experience in business and finance, and is currently non-executive director and chairman designate of Virgin Money Holdings (UK) plc and non-executive director of Fidelity International Limited. He is also a senior adviser to HSBC and chairman of the Global Leadership and Technology Exchange leadership board. Previously, Glen was deputy chairman of The Financial Reporting Council Limited in the UK, deputy chairman and senior independent director at Lloyds Banking Group plc, senior independent director of Man Group plc and acting chairman of UK Financial Investments Limited, the company set up by HM Treasury to manage the government's shareholdings in UK banks.

Executive Directors

John Fallon Chief executive
aged 52, appointed 3 October 2012

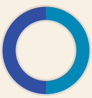
John became Pearson's chief executive on 1 January 2013. Since 2008 he had been responsible for the company's education businesses outside North America, and a member of the Pearson management committee. He joined Pearson in 1997 as director of communications and was appointed president of Pearson Inc.,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

Robin Freestone Chief financial officer
aged 56, appointed 12 June 2006

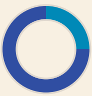
Robin's experience in management and accounting includes a previous role as group financial controller of Amersham plc (now part of General Electric) and senior financial positions with ICI plc, Zeneca and Henkel UK. He was also a non-executive director and founder shareholder of eChem Limited until May 2014 when the company was sold. Robin joined Pearson in 2004 as deputy chief financial officer and became chief financial officer in June 2006. He qualified as a chartered accountant with Touche Ross (now Deloitte), and currently sits on the Advisory Group of the ICAEW's Financial Reporting Faculty and was, until December 2014, chairman of The Hundred Group of Finance Directors. He also sits on the CBI's Economic Growth board.

Pearson board members bring a wide range of experience, skills and backgrounds which complement our strategy.

Digital experience
50%



Emerging market experience
25%



Education/learning sector experience
50%

Note: Graphic illustrates experience of non-executive directors

Non-executive Directors

Ken Hydon Non-executive director
aged 70, appointed 28 February 2006

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

Ken's experience in finance and business includes working in the electronics, retail, consumer products and healthcare sectors. He is non-executive director of Reckitt Benckiser Group plc, one of the world's leading branded consumer goods companies in health, hygiene and home. He is also a non-executive director of Merlin Entertainments plc, the world's second largest visitor attraction operator. From 2004 to 2013 he was a non-executive director of Tesco plc. Previously, Ken was chief financial officer of Vodafone Group plc, the multinational telecommunications company, and financial director of subsidiaries of Racal Electronics.

Josh Lewis Non-executive director
aged 52, appointed 1 March 2011

Member of the nomination and remuneration committees

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

Non-executive Directors

David Arculus Non-executive director
aged 68, 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 Energy UK and Hassium Asset Management and is a member of council of Cranfield University. David's previous roles include the chairmanship of Aldermore Bank plc, Numis Corporation plc, O2 plc, Severn Trent plc, IPC Group and the advisory board of the British Library, as well as chief operating officer of United Business Media plc, group managing director of EMAP plc and a non-executive director of Telefonica S.A. David served from 2002 to 2006 as chairman of the UK government's Better Regulation Task Force, which worked on reducing burdens on business.

Elizabeth Corley, CBE Non-executive director
aged 58, appointed 1 May 2014

Member of the nomination and remuneration committees

Elizabeth is chief executive officer of Allianz Global Investors, one of the world's leading investment organisations. She was previously at Merrill Lynch Investment Managers and Coopers & Lybrand. Elizabeth is a member of the board of the Investment Association, a member of the European Securities and Markets Authority's stakeholder group, an advisory council member of TheCityUK and is non-executive director of the Financial Reporting Council in the UK. She is also a member of the management committee of the Forum of European Asset Managers, a member of the CFA Future of Finance Council and a member of the Committee of 200. Elizabeth was appointed Commander of the Order of the British Empire (CBE) in the 2015 New Year Honours, for services to the financial sector. She is also a fellow of the Royal Society of Arts and an accomplished crime fiction author.

Vivienne Cox Senior independent director
aged 55, appointed 1 January 2012

Chairman of the reputation & responsibility committee and member of the audit, nomination and remuneration 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 and renewables business and its alternative energy unit. She is non-executive director of Stena International and of energy company BG Group plc, and chairman of the supervisory board of Vallourec, which supplies tubular systems for the energy industry. She is also lead independent director at the UK Department for International Development. Vivienne is a commissioner of the Airports Commission, which was set up by the UK government to examine any requirements for additional UK airport capacity.

Linda Lorimer Non-executive director
aged 62, appointed 1 July 2013

Member of the audit, nomination and reputation & responsibility committees

Linda has a deep background in education strategy, administration and public affairs. She is vice president for Global & Strategic Initiatives at Yale University, where her duties include oversight of Yale's Office of International Affairs and Office of Digital Dissemination. Over a 30-year career in higher education, she has been responsible for many of Yale's administrative services including the university's public communications, alumni relations and Office of Sustainability. Previously, Linda served as president of Randolph-Macon Woman's College in Virginia, and had earlier worked at Yale in several senior roles including associate provost. She is a non-executive director of Save the Children (US) and was chair of the board of the Association of American Colleges and Universities.

Harish Manwani Non-executive director
aged 61, appointed 1 October 2013

Member of the nomination and reputation & responsibility committees

Harish has an extensive background in emerging markets and senior experience in a successful global organisation. He was previously chief operating officer of consumer products company Unilever, having joined the company in 1976 as a marketing management trainee in India, and held senior management roles around the world, including North America, Latin America, Europe, Africa and Asia. He is non-executive chairman of Hindustan Unilever Limited in India, and serves on the boards of Whirlpool Corporation, Qualcomm Inc. and Nielsen N.V. He is also on the board of the Indian School of Business and the Economic Development Board (EDB) of Singapore.

Tim Score Non-executive director
aged 54, appointed 1 January 2015

Member of the audit and nomination committees

Tim has been chief financial officer of ARM Holdings plc, the world's leading semiconductor IP company, for 13 years, with extensive experience of the technology sector and in both developed and emerging markets, particularly China. He is an experienced non-executive director and currently sits on the board of The British Land Company plc. He served on the board of National Express Group plc from 2005 to 2014, including time as interim chairman and six years as the senior independent director. Earlier in his career Tim held senior finance roles with Rebus Group, William Baird, BTR plc and others.

Leadership & effectiveness

Board governance

Board of directors

Composition of the board The board currently consists of the chairman, Glen Moreno, two executive directors including the chief executive, John Fallon, and eight independent non-executive directors. Following the 2015 AGM, the board will consist of six independent non-executive directors, following the retirement of David Arculus and Ken Hydon.

Chairman and chief executive There is a defined split of responsibilities between the chairman and the chief executive. The roles and responsibilities of the chairman and chief executive are clearly defined, set out in writing and reviewed and agreed by the board annually.

Chairman's significant commitments During the course of 2014, the chairman stepped down from his position as deputy chairman of the Financial Reporting Council, and with effect from 1 January 2015 has been appointed as a non-executive director and chairman designate of Virgin Money Holdings (UK) plc.

Independence of directors All of the non-executive directors who served during 2014 were considered by the board to be independent for the purposes of the Code.

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 addition to this review, each of the non-executive directors is asked annually to complete an independence questionnaire to satisfy requirements arising from Pearson's US listing.

The board has in particular considered the independence of David Arculus and Ken Hydon who have each now served for nine years. It is the intention of both David and Ken to retire as directors at the 2015 AGM, but nevertheless the board believes that both directors continue to provide sufficient challenge to the deliberations of the board as a whole, and that they are sufficiently independent in character and judgement to continue to serve as independent non-executive directors for the remainder of their terms.

Key roles

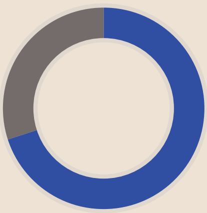
ROLE	NAME	RESPONSIBILITY
Chairman	Glen Moreno	The chairman is primarily responsible for the leadership of the board and ensuring its effectiveness.
Chief executive	John Fallon	The chief executive is responsible for the operational management of the business and for the development and implementation of the company's strategy as agreed by the board and the Pearson executive.
Senior independent director	Vivienne Cox	The senior independent director's role includes meeting regularly with the chairman and chief executive to discuss specific issues, as well as being available to shareholders generally if they should have concerns that have not been addressed through the normal channels. The senior independent director has responsibility for appraising the performance of the chairman, including in relation to the effectiveness of the nomination committee, as part of the annual board evaluation process. 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.

Gender split of the board

Men	7
Women	3

Figures as at 31 December 2014

Following 2015 AGM, split will be 6:3

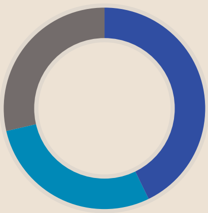


Length of tenure of non-executive directors

Under 3 years	3
3 to 6 years	2
7 years or more	2

Figures as at 31 December 2014

Following 2015 AGM, ratio will be 4:2:0



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

Board meetings

The board held six full scheduled meetings in 2014, with discussions and debates focused on the key strategic issues facing the company. Major items covered by the board in 2014 are shown in the table below.

Board meetings during the year 2014

	Feb 2014 London	Apr 2014 London	ANNUAL GENERAL MEETING – 25 APRIL 2014	Jun 2014 Washington DC	Jul 2014 London	Oct 2014 London	Dec 2014 New York
GOVERNANCE	› Annual review of authorised conflicts of interest › Review of division of responsibilities between chairman and chief executive	› Focus on forthcoming AGM and review of shareholder issues		› Brand, reputation and US government policy Read more on p78		› Update on Pearson Foundation	› Approval of committee terms of reference › Enterprise risk management review › Approval of schedule of authority limits
STRATEGY	› 2014 operating plan › Review of transformation to date and plans for 2014	› Update on new organisational and product strategy approach › Pearson Technology – view from new chief information officer		› Overview of US business	› Strategic plan update › Systems, supply chain and procurement	Strategic offsite meeting, focusing on: › Geographies and Lines of Business strategic reviews, including post-acquisition reviews › Focus sessions – Financial Times and UK education › Technology deep dive	› Penguin Random House review › Business portfolio and transaction update
PERFORMANCE	› 2013 report and accounts and dividend recommendation	› Review of investor relations strategy and share price performance › Trading update			› Interim results and dividend approval	› Trading update	› Trading update and preliminary view of 2015
PEOPLE	› Review remuneration committee recommendations			› Rising Stars breakfast Read more on p65	› Organisational design and structure	› Rising Stars breakfast Read more on p65	› Talent review

In addition to its six formal meetings, the board held one further meeting in February 2014 to approve the 2013 preliminary results and to make its determination that the 2013 Annual report was fair, balanced and understandable. The board also undertook discussions throughout the year, as required, to consider the progress and terms of corporate transactions.

Leadership & effectiveness
Board governance continued

The role and business of the board

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

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

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

Non-executive directors meet with local senior management every time board and committee meetings are held at the locations of operating companies, such as during the board's 2014 trip to Washington, DC. This allows the non-executive directors to share their experience and expertise with senior managers as well as allowing them to better understand the abilities and motivations of senior management, which in turn will help them assess the company's prospects and plans for succession.

Standing committee

A standing committee of the board has been established to approve certain ordinary course of business items such as banking matters, guarantees, intra-Group transactions and routine matters relating to employee share plans.

The committee has written terms of reference, reviewed and approved each year, which clearly set out its authority and duties. These can be found on the company website at www.pearson.com/governance

Culture and values of the board

As part of its annual evaluation, the board considered its own culture and dynamics, and how these have evolved alongside the wider transformation.

The board agreed that it has a real sense of collegiality, with an open and transparent approach where diversity of opinion and challenge are encouraged and welcomed. As a whole and at an individual level, the board feels wholly committed to Pearson's values and mission, and throughout 2014 has received regular updates on the transformation as it has progressed. Learn more about our Board evaluation on p67

Board attendance

The following table sets out the attendance of the company's directors at scheduled board meetings during 2014:

	Board meetings attended
Chairman	
Glen Moreno	6/6
Executive directors	
John Fallon	6/6
Robin Freestone	6/6
Non-executive directors	
David Arculus	6/6
Elizabeth Corley*	4/4
Vivienne Cox	6/6
Ken Hydon	6/6
Josh Lewis	6/6
Linda Lorimer	6/6
Harish Manwani	6/6

* Appointed on 1 May 2014

Succession planning

The board considers oversight of succession planning – not only at board and executive management level but for all key positions throughout the business – as one of its prime responsibilities. At board level, the primary focus in the latter part of the year has been to identify suitable candidates for the role of chief financial officer.

The company has formal contingency plans in place for temporary absence of the chief executive for health or other reasons. The matter of chief executive succession is a standing item for discussion and review by the chairman and chief executive annually. Succession planning for the board and chair are also undertaken annually.

Talent review

The board dedicated part of its December 2014 meeting to reviewing chief executive succession and the leadership talent pipeline at Pearson. In preparation for that, the Pearson executive team undertook a rigorous talent review programme, assessing performance and potential of its top 100 executives (their direct reports) as well as the strength of the succession pipeline for their own roles and their team's roles.

All members of the executive team also took part in a multi-rater feedback process (360 feedback process), receiving feedback from direct reports, colleagues and the chief executive on key leadership traits and behaviours.

At the board meeting, the board discussed chief executive succession and together they reviewed the 360 summary reports for the executives, as well as overall themes from the 2014 employee engagement survey.

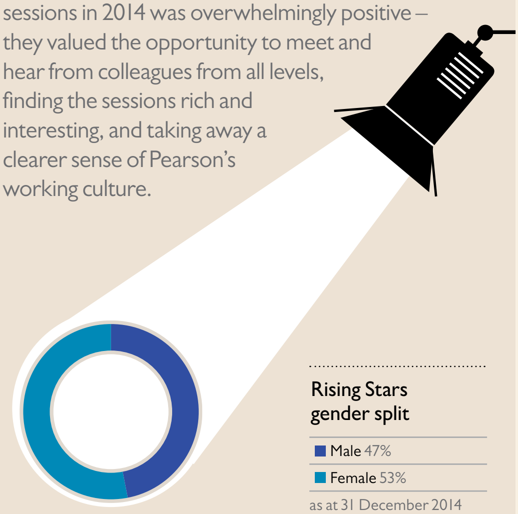
This discussion was followed by a session on the broader talent process, looking into succession for each executive role, analysing diversity statistics and discussing key capabilities that will be critical for the effective delivery of our strategy (pedagogy, technology and product management).

As a result of this process, we are designing structured development plans for the top 100 executives in the organisation and starting a deeper assessment of our capabilities in the areas of pedagogy, technology and product management.

RISING STARS

In addition to the board's established succession planning and talent review process for senior roles throughout the business, it was decided in 2014 to initiate a series of Rising Stars sessions.

The first of these sessions took place over informal breakfasts during each of the board's offsite meetings in Washington, DC and London. The purpose of the sessions is to provide the board with the opportunity to meet a cross-section of junior or mid-level colleagues from the host country who have been identified by senior executives as showing real promise. The board's feedback on these sessions in 2014 was overwhelmingly positive – they valued the opportunity to meet and hear from colleagues from all levels, finding the sessions rich and interesting, and taking away a clearer sense of Pearson's working culture.



"The Rising Stars offered the directors incredible insights into the workings of the company's enterprises. These men and women are a key part of the future of the company, and we were impressed by their sagacity and by their passion for the mission of Pearson – and by their good ideas for our collective future."

Linda Lorimer Non-executive director

Leadership & effectiveness
Board governance continued

Directors' training and induction

Directors receive a significant bespoke induction programme and a range of information about Pearson when they join the board. This includes background information on Pearson and details of board procedures, directors' responsibilities and various governance related issues, including procedures for dealing in Pearson shares and their legal obligations as directors. The induction also includes a series of meetings with members of the board, the Pearson executive and senior management, presentations regarding the business from senior executives and a briefing on Pearson's investor relations programme. The induction programmes for Elizabeth Corley and Tim Score are ongoing, tailored to their specific interests, and relevant to the board committees they have joined.

All directors receive training in the form of presentations about the company's operations, through board meetings held at operational locations and by encouraging the directors to visit local operations and management as and when their schedule allows, including if they are travelling to a country or region on non-Pearson business. The company secretary and general counsel, in conjunction with the Group's advisers, monitor legal and governance developments and update the board on such matters as agreed with the chairman. Directors can also make use of external courses.

Directors' indemnities

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

(i) they are convicted in the proceedings
(ii) judgment is given against them or
(iii) the court refuses to grant the relief sought.

As permitted by Pearson's articles of association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by section 234 of the Act. The indemnity was in force throughout the last financial period and is currently in force.

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.

Board committees

The board has established four formal committees: the audit committee, the nomination committee, the remuneration committee, and the reputation & responsibility committee, which was formally constituted in 2014 having operated on an informal basis during 2013. The chairmen and members of these committees are appointed by the board on the recommendation (where appropriate) of the nomination committee and in consultation with each relevant committee chairman. In addition to these formal board committees, the standing committee also operates with board level input.

More committee information:
AUDIT COMMITTEE p70
NOMINATION COMMITTEE p68
REMUNERATION COMMITTEE p82
REPUTATION & RESPONSIBILITY COMMITTEE p78
STANDING COMMITTEE p64

The approach adopted by the board is for committees to focus on their own areas of expertise, enabling the board meetings to focus on governance, strategy, performance and people, thereby making the best use of the board's time together as a whole. The committee chairmen report to the full board at each meeting immediately following their sessions, ensuring a good communication flow whilst retaining the ability to escalate items to the full board's agenda if appropriate.

Board committee attendance

The following table shows attendance by directors at committee meetings throughout 2014:

	Audit	Remuneration	Nomination	Reputation & responsibility
Glen Moreno	–	4/4	6/6	–
John Fallon	–	–	6/6	–
David Arculus	5/5	4/4	6/6	–
Elizabeth Corley*	–	1/1	4/4	–
Vivienne Cox	5/5	4/4	6/6	3/3
Ken Hydon	5/5	4/4	6/6	–
Josh Lewis	–	4/4	6/6	–
Linda Lorimer	5/5	–	6/6	3/3
Harish Manwani	–	–	6/6	3/3

*Joined nomination committee on 1 May 2014 and remuneration committee on 1 August 2014

BOARD EVALUATION

A formal evaluation of the board, its committees and individual directors' performance was completed at the end of 2014.

It is recommended by the Code that this process is facilitated by a third party every three years. This effectiveness review was conducted by external evaluator, JCA Group. In addition to facilitating this review, JCA Group provided benchmarking and due diligence services in connection with the appointment of Elizabeth Corley as a non-executive director. JCA Group has no other connection to Pearson apart from in relation to board evaluation and search consultancy services.

EVALUATION PROCESS

On JCA Group's recommendation, the process for the evaluation was as follows:

1 **Initial briefing** An initial briefing on the company to provide context and insights into the strategic priorities for the business as well as any issues or concerns to address more specifically

2 **Discussion guideline** Development of a 'discussion guideline' which was shared with the participants ahead of one-to-one meetings, to address key topics but not limit the discussion to only these; such topics included the organisation of the board, board and chair succession, judgement of the strategy and business performance, the dynamics and composition of the board and feedback on the committees and individual directors

3 **One-to-one meetings** One-to-one meetings with each board member, both executive and non-executive; these conversations were conducted on a confidential, un-attributable basis

4 **Effectiveness report** A full report was presented to the board, containing the key findings, recommendations for actions and suggested next steps

Conclusion and recommendations

The review concluded that overall the board and its committees remain effective in fulfilling their responsibilities appropriately. Actions agreed as a result of the evaluation included ongoing review and assessment of the strategy and its success, given the significant transformation being undertaken by the company. The frequency of board meetings was judged to be appropriate. However, building on the success of the recommendation of the chief executive's monthly letter from last year's internal board review, there was also a suggestion to introduce additional board calls in between board meetings to keep the board current on issues and progress. In addition, it was highlighted that it is essential the board pays continuing attention to ensure all directors are well informed and have a deep understanding of the issues for the business and the broader global education environment in order to provide appropriate strategic direction and challenge going forward. This might include creating ongoing opportunities for board members to visit Pearson's operations in different global venues.

Personal objectives

In addition to the evaluation of the board as a whole, executives are also evaluated each year on their performance against personal objectives under the company's annual incentive plan. Learn more about our Annual incentive plan on p104

The non-executive directors, led by the senior independent director, also conduct a review of the chairman's performance.

Committee evaluation

In addition to the review of the board and individual directors, the audit and remuneration committees each undergo an annual evaluation process to review their performance and effectiveness.

The process involves distribution of questionnaires to audit and remuneration committee members, as well as key stakeholders in each committee, seeking views on matters including committee roles and responsibilities, quality and timeliness of meeting materials, opportunity for discussion and debate, dialogue with management and access to independent advice. Responses are then evaluated and presented to the respective committee at a scheduled meeting, with key themes being drawn out for discussion.

Leadership & effectiveness
Board governance continued

NOMINATION COMMITTEE

Chairman
Glen Moreno

Members David Arculus, Elizabeth Corley, Vivienne Cox, Ken Hydon, Josh Lewis, Linda Lorimer, Harish Manwani, Glen Moreno and Tim Score

Key activities in 2014

Objectives	Actions
Identify and appoint additional non-executive directors, at least one of whom to be female	Appointment of Elizabeth Corley and Tim Score
Audit committee and remuneration committee chair succession	Appointment of Tim Score and Elizabeth Corley as respective committee chairmen
Commence search for new chief financial officer	Appointment of Coram Williams announced – to join board on 1 August 2015

For nomination committee attendance see overview table on p66

COMMITTEE RESPONSIBILITIES INCLUDE:

1. Appointments Identifying and nominating candidates for board vacancies.

2. Balance Ensuring that the board and its committees have the appropriate balance of skills, experience, independence, diversity and knowledge to operate effectively.

3. Succession planning Reviewing the company's leadership needs with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

Nomination committee role and composition

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.

John Fallon stepped down from the nomination committee in December 2014, although he will continue to be available to attend committee meetings by invitation. Elizabeth Corley and Tim Score joined the nomination committee following their appointments to the board.

Committee meetings and appointments

The nomination committee meets at least once a year and at other times as and when required. During 2014, the committee met six times with its primary focus being to consider suitable candidates for the role of chief financial officer and for non-executive positions, including for the roles of audit and remuneration committee chairmen in preparation for the retirement from the board of Ken Hydon and David Arculus during 2015.

The non-executive search culminated in the successful appointment of Tim Score and Elizabeth Corley to the board, who also joined the audit and remuneration committees respectively and will assume the chairmanships of those committees following the AGM in April 2015.

Having considered a range of external and internal candidates, we announced on 27 February 2015 that Coram Williams would succeed Robin Freestone as chief financial officer. Coram will join Pearson as CFO designate on 1 July 2015 and will replace Robin on the board on 1 August 2015.

In addition, the committee continued to focus on the search for a non-executive director with insights into mobile and digital technology to further complement our strategy.

Pearson uses a number of leading firms in its board and executive search activities. An external search consultancy, Odgers Berndtson, was used during the recruitment process for Tim Score. Odgers Berndtson does not have any other connection to Pearson apart from as a search consultancy.

The committee identified Elizabeth Corley as a potential non-executive candidate and an external search agency, JCA Group, provided benchmarking and due diligence services in connection with Elizabeth's appointment. In addition to these services, JCA Group facilitated Pearson's board evaluation in 2014.

Learn more about the Board of directors on p60

Chairman role

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

Terms of reference

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/governance

Diversity

The board embraces the Code's underlying principles with regard to board balance and diversity, including gender diversity. The nomination committee, led by the chairman, ensures that the directors of Pearson demonstrate a broad balance of skills, experience and nationality, to support Pearson's strategic development and reflect the global nature of the Group's business.

The committee and the board always take account of diversity in its broadest sense when considering board appointments whilst ensuring that appointments are made based on merit and relevant experience.

Lord Davies has called for companies to target 25% female representation on boards of FTSE 100 companies by 2015. Pearson is committed to having at least 30% female directors within Lord Davies' 2015 timeframe and currently has three female directors on its board of eleven, representing 27%. With the forthcoming retirement of David Arculus and Ken Hydon in the coming months, this figure is expected to increase to 33%.

Immediately below board level, the Pearson executive, not including the chief executive and chief financial officer who are main board directors, has three female members out of a total of 12 (representing 25%). Our senior leadership team, up to and including two reporting levels from the chief executive, shows a strong pipeline of female talent with women representing 35% of our senior leaders.

Pearson considers diversity as an important issue across the Group, not just at board level. One of the key aims of Pearson's diversity policy is to increase the number of leaders coming from a diverse background, including advancing more women into leadership positions such as through our Women in Learning and Leadership programme for employees.

Learn more about Diversity throughout Pearson on p50

Glen Moreno Chairman of nomination committee

OUR BUSINESS
OUR PERFORMANCE
OUR SOCIAL IMPACT
GOVERNANCE
FINANCIAL STATEMENTS

Accountability

AUDIT COMMITTEE

Chairman
Ken Hydon
(stands down at 2015 AGM)

Members David Arculus, Vivienne Cox, Ken Hydon, Linda Lorimer, Tim Score

In my nine years as audit committee chairman I have learned a lot about Pearson, its operations, its practices and its senior management and have enjoyed the stimulation generated by so much change and world class colleagues.

Ken Hydon Chairman of audit committee

For Audit committee meeting attendance see overview table on p66

COMMITTEE RESPONSIBILITIES INCLUDE OVERSIGHT OF:

1. **Reporting** The quality and integrity of financial reporting and statements and related disclosure
2. **Policy** Group policies, including accounting policies, and practices
3. **External audit** External audit, including the appointment, qualification, independence and the performance of the external auditor
4. **Risk and internal control** Risk management systems and internal control environment including the performance of the internal audit function
5. **Compliance** Compliance with legal and regulatory requirements in relation to financial reporting and accounting matters.

Terms of reference

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/governance

Audit committee role

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. As a committee, we are 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 auditor has a dual reporting line to the chief financial officer and me, 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. I report to the full board at every board meeting immediately following a committee meeting. As a committee, we also review the independence of the external auditors, including the provision of non-audit services (further details of which can be found on page 107 and note 4 to the financial statements), ensure that there is an appropriate audit relationship and that auditor objectivity and independence are upheld.

Audit committee changes

Linda Lorimer joined the audit committee in January 2014 and we have also recently welcomed Tim Score who joined the committee upon his appointment to the board on 1 January 2015. Following nine years with Pearson, and as chairman of the audit committee, I will step down from the board at the 2015 Annual General Meeting. Tim Score will take over the chairmanship of the committee following my retirement and I am sure Tim will bring his own challenge and rigour to the committee's deliberations as an experienced audit committee chairman.

Fair, balanced and understandable reporting

We are mindful of the Code's revised principle C.1.1 relating to fair, balanced and understandable reporting and accordingly we built in additional steps to our Annual report timetable to ensure that the full board was given sufficient opportunity to review, consider and comment on the report as it progressed. Learn more about Fair, balanced and understandable reporting on p108

Risk assessment, assurance and integrity

A key part of the role of the committee is in providing oversight and reassurance to the board with regard to the integrity of the company's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. During 2014 we aligned our risk and control processes with the new organisational structure, and conducted a number of deep dives into selected principal risks.

Data security

We view data privacy and cyber security breach as one of our principal operational risks, and this is a regular item on the audit committee's agenda. During 2014, a new chief information officer and a chief information security officer were appointed, and the committee met with both shortly following their appointments to receive their initial assessments on Pearson's data security programme, and subsequently for progress updates throughout the year. The committee learned that the key areas of focus are to ensure consistently secure applications and infrastructure across all parts of the Group, with the aim of adopting best-in-class practices for our customers and employees.

Anti-bribery and corruption

Given our geographic focus and profile, and a number of recent acquisitions in growth markets, anti-bribery and corruption (ABC) is a specific risk for Pearson. The committee conducted a deep dive into ABC risk in 2014, joined by legal advisers, the SVP general counsel and SVP internal audit and compliance. The focus of the deep dive included the increasingly co-ordinated approach taken by authorities in higher-risk jurisidictions in which we operate, as well as a review of recent enforcement actions elsewhere in the education sector. The committee noted that Pearson's ABC policy is updated on an ongoing basis to reflect legislative changes, and learned more about how the internal ABC training programme continues to evolve to reflect our new business models and market specific risks.

Health & safety

One year on from the introduction of our global health & safety policy, the committee conducted a deep dive reviewing implementation and findings to date. As well as reviewing findings of audits at Pearson sites around the world, the committee discussed the Group's health and safety priorities. A primary focus is the safeguarding and protection of our students and, to this end, a new global safeguarding officer has been appointed and a safeguarding and protection policy introduced. Our initial focus has been on our direct delivery businesses – the areas of greatest risk – and a training course is being developed for those staff who have contact with students. We have also engaged throughout the Group to ensure that our safeguarding is robust whenever we come into contact with children, young people and vulnerable adults. Corporate security is another key area of focus, particularly in relation to the safety and security of our staff working in, or travelling to, high-risk destinations. Significant progress has been made in implementation of the new policies across our businesses, although there remains work to be done, and the committee will maintain oversight as we move forward with our health & safety and safeguarding strategies.

Audit committee meetings and activities

The committee met five times during the year with the following in attendance: the chief financial officer; SVP internal audit and compliance; members of the senior management team; and the external auditors. Additionally, the chief executive and chairman periodically attended committee meetings. Since the remit of the SVP internal audit and compliance expanded to include compliance, the internal audit director and the VP compliance and risk assurance have also attended meetings, so the committee has direct contact with those areas. The committee also met regularly in private with the external auditors and the SVP internal audit and compliance.

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, reviewed the non-audit services provided by PwC and considered any significant legal claims and regulatory issues in the context of their impact on financial reporting.

Finally, I would like to thank my fellow committee members, the chief financial officer and the SVP internal audit and compliance for their enthusiasm and support.

Learn more about the Key activities of the audit committee on p72

Ken Hydon Chairman of audit committee

Accountability continued

AUDIT COMMITTEE

Audit committee meetings during the year

Every meeting	Feb 2014	Apr 2014	Jul 2014	Sep 2014	Dec 2014
REPORTING					
› Accounting and technical updates › Impact of legal claims and regulatory issues on financial reporting	› The 2013 Annual report and accounts: preliminary announcement, financial statements and income statement › Form 20-F and related disclosures including the annual Sarbanes-Oxley Act section 404 attestation of financial reporting internal controls	› Interim management statement	› Review of the interim results and trading announcement		› Overview of 2014 Annual report process
POLICY					
› Accounting matters and Group accounting policies		› Tax reporting process		› Annual review and approval of external auditor policy › Information security and policy update	› Annual review of treasury policy and strategy
EXTERNAL AUDIT					
› Provision of non-audit services by PwC	› Receipt of the external auditors' report on the Form 20-F and on the year end audit › Reappointment of the external auditors › Confirmation of auditor independence		› 2014 external audit plan › Remuneration and engagement letter of the external auditors › Review opinion on interim results	› Update on audit tendering requirements › Review of the effectiveness of the external auditors	
RISK AND INTERNAL CONTROL					
› Internal audit activity reports and review of key findings › Enterprise risk management › Data security	› Assessment of the effectiveness of the Group's internal control environment and risk management systems › Review of Group internal audit terms of reference	› Risk deep dive: testing risk	› Annual internal audit plan › Risk deep dive: business continuity planning › Risk deep dive: health & safety	› Risk deep dive: anti-bribery and corruption › Risk deep dive: tax	› 2015 internal audit plan › Crisis management and ebola preparedness › Health & safety
COMPLIANCE AND GOVERNANCE					
› Fraud, whistleblowing reports and Code of Conduct matters	› Compliance with the Code › Compliance with SEC and NYSE requirements including Sarbanes-Oxley Act			› Review of the committee's terms of reference › Review of the effectiveness of the committee and the group internal audit function	

Members

All of the audit committee members are independent non-executive directors and have financial and/or related business experience due to the senior positions they hold or have held in other listed or publicly traded companies and/or similar public organisations. Ken Hydon, current chairman of the committee, is the company's designated financial expert. He is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers. He also serves as audit committee chairman for Reckitt Benckiser Group plc and Merlin Entertainments plc, and until 2012 for Tesco plc and Royal Berkshire NHS Foundation Trust. Tim Score, who will assume the chairmanship of the committee during 2015, is an Associate Chartered Accountant. He also serves as audit committee chairman for The British Land Company plc and until 2014 for National Express Group plc.

The qualifications and relevant experience of the other committee members are detailed on p60-61

Audit committee meetings during the year 2014

During the year, the matters considered by the committee included those shown on the table opposite.

In February 2015, the committee also considered the 2014 Annual report and accounts, including the preliminary announcement, financial statements, strategic report, directors' report and corporate governance compliance statement.

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 2014 and remains satisfied that the auditors provide effective independent challenge to management.

The review was conducted by distributing a questionnaire to key audit stakeholders including members of the audit committee, the chief executive, chief financial officer, SVP company secretarial, SVP internal audit and compliance, SVP finance for each Geography and Line of Business and heads of corporate functions. Feedback overall was very positive, indicating an effective external audit process.

The lead audit partner explained to the committee how PwC were monitoring and reviewing each highlighted area and confirmed that they would consider how to adapt their approach in light of specific comments received.

In addition, in accordance with our external auditor policy, Group internal audit performs an annual assessment of audit fees, services and independence which forms the basis for a recommendation by the committee to the board in respect of the appointment and compensation of our external auditor. Learn more about Auditors' independence on p107

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 rotated onto the Group's audit in 2013.

Pearson's last audit tender was in respect of the 1996 year end resulting in the appointment of Price Waterhouse as auditors. We reported last year that a tender process would commence no later than 2017 to ensure auditors have been appointed in time for the 2018 year end audit, following the end of the current lead partner's term, in line with the FRC's suggested transitional arrangements on audit tendering. Developments at an EU level regarding mandatory audit rotation for listed companies have changed the UK landscape on audit tendering and rotation and, as a result, Pearson would be required to change auditors no later than the next audit appointment after 17 June 2023. The audit committee will continue to monitor developments in this area and to consider the timing of the next tender so as to achieve the most efficient and effective outcome and expects to have concluded on its planned approach within the next year. Once the next audit tender occurs, the Group will adopt a policy of putting the audit contract out to tender at least every ten years.

Audit committee training

The committee receives regular technical updates as well as specific or personal training as appropriate. In September 2014, as part of a deep dive into anti-bribery and corruption (ABC) risk, the committee held a session with legal advisers to better understand global ABC developments.

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.

Accountability continued

AUDIT COMMITTEE

Significant issues

AREA OF FOCUS	ISSUE	ACTION TAKEN BY AUDIT COMMITTEE	OUTCOME
New organisation structure and IFRS 8	Following the introduction of the new management structure and operating model, the Group has changed its externally reported segments in 2014 in accordance with the guidance in IFRS 8 'Operating Segments'. As part of the exercise to identify new segments and restate financial reports, underlying cash generating units (CGUs) were also defined.	The committee reviewed restated financials and discussed the conclusion that the Group's primary segments were now made up of the businesses within the three regions – North America, Core and Growth. The committee confirmed that reporting for the new segments was consistent with board reporting for internal purposes. The committee also discussed the definition of CGUs and the allocation of goodwill to these CGUs for the purpose of impairment testing.	Segments and CGUs redefined.
Impairment reviews	The Group carries significant goodwill intangible asset balances. There is judgement exercised in the identification of CGUs and the process of allocating goodwill to CGUs and aggregate CGUs and in the assumptions underlying the impairment review.	The committee considered the results of the Group's annual goodwill impairment review in the light of new and aggregate CGUs. The key assumptions are considered to be the cash flows derived from strategic and operating plans, long term growth rates and the weighted average cost of capital. The committee considered the sensitivities to changes in assumptions and the related disclosures required by IAS 36 'Impairment of Assets'. In particular the committee reviewed the analysis and disclosure relating to the Growth CGUs where valuations indicated an impairment in the India business and sensitivity to assumptions was also reviewed in relation to other businesses.	Annual impairment review finalised with confirmation of an impairment in India and sufficient headroom in all other CGUs.
Revenue recognition	Pearson has a number of revenue streams where revenue recognition practices are complex and management assumptions and estimates are necessary.	The committee regularly reviews revenue recognition practice and the underlying assumptions and estimates. In addition, the committee has visibility of internal audit findings relating to revenue recognition controls and processes and routinely monitors the views of external auditors on revenue recognition issues. During the year the committee reviewed revenue recognition in respect of services provided to universities and higher education institutions to facilitate online courses and looked at significant new school testing and teacher certification contracts. The committee also discussed the impact of the new revenue recognition standard, IFRS 15 'Revenue from Contracts with Customers' and noted that although the standard would not be adopted by Pearson until 2017 the committee would need to understand the implications of the change well before that date.	Assumptions underlying revenue recognition were reviewed and challenged.
Tax	There are a number of issues in different countries where management judgements and assumptions are made as to the correct tax treatment.	The committee considered the Group's approach to tax provisioning. The Group operates in a large number of countries and, accordingly, its earnings are subject to tax in many jurisdictions. The judgement in relation to tax provisioning is a combination of the committee's assessment of the specific open tax issues and also a review of the time periods in which the Group's tax affairs are open to enquiry by local tax inspectors in jurisdictions where the Group has a larger taxable presence. The committee addressed this matter through the presentation of a management report on the Group's tax affairs by the head of group tax and through a presentation of the external auditor's assessment of the Group's tax provisioning.	The committee was satisfied with the Group's approach to tax provisioning taking account of the views of management and the assessment of the external auditors.

Significant issues continued

AREA OF FOCUS	ISSUE	ACTION TAKEN BY AUDIT COMMITTEE	OUTCOME
Grupo Multi acquisition	Pearson acquired Grupo Multi in February 2014 for £437m. Management assumptions and estimates were necessary in establishing fair values for the assets and liabilities acquired.	The committee monitored progress on the acquisition accounting and fair value adjustments proposed with particular emphasis on tax and legal provisions and on the external valuation of intangible assets.	Acquisition accounting reviewed and significant judgements explained.
Disposal accounting	Pearson disposed of its 100% interest in Mergermarket, its joint venture interest in Safari Books Online, its 5% investment in Nook Media and made adjustments to the disposal of Penguin recorded in 2013.	The committee reviewed the disposal accounting and disclosure and considered the main judgements relating to tax treatments, pension accounting in relation to Penguin and contingent consideration relating to Safari. The committee also discussed the valuation of the Nook Media investment at various meetings during the year prior to its eventual disposal in December 2014.	Accounting treatments and valuations confirmed.

Significant issues

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

At the July 2014 audit committee meeting, the committee discussed and approved the auditors' Group audit plan and reviewed the key risks of misstatement of the Group's financial statements, which were updated at the December 2014 committee meeting.

The table opposite sets out the significant issues considered by the audit committee together with details of how these items have been addressed. The committee discussed these issues with the auditors at the time of their review of the half year interim financial statements in July 2014 and again at the conclusion of their audit of the financial statements for the full year in February 2015.

All the significant issues were areas of focus for the auditors. Learn more in the Independent auditors' report on p114-121

In December 2014, the committee discussed with the auditors the status of their work, focusing in particular on internal controls and Sarbanes-Oxley testing, and covering the significant issues outlined above.

As the auditors concluded their audit, they explained to the committee:

- The work they had conducted over revenue, working alongside management to assess several complex revenue contracts
- The work they had done to understand the Group's tax strategy and identify business and legislative risks, to evaluate key underlying assumptions and assess the recoverability of deferred tax assets
- Their evaluation of the recoverability of digital platforms and pre-publication assets
- Their focus on segments, CGUs and goodwill impairment and the impact of the Group's transformation on those
- The results of their controls testing to date for Sarbanes-Oxley Act section 404 reporting purposes and in support of their financial statements audit
- The review of the company's 'going concern' reports.

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

Accountability continued

RISK GOVERNANCE AND CONTROL

Internal control and risk management

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

In September 2014, the Financial Reporting Council published updated Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, which takes effect for our 2015 year end reporting. The changes were discussed by executive management and the audit committee and a plan has been developed to set a clear path to compliance with the new requirements, including ongoing robust assessment of risk and preparation of a viability statement.

An enterprise risk management (ERM) framework is in place to identify, evaluate and manage risks, including key financial reporting risks. Business areas undertake semi-annual risk reviews to identify new or potentially under-managed risks. Throughout the year, risk discussions are facilitated by the risk assurance team with Group and business area 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 Executive reviews the output of these sessions, focusing on the key 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 audit committee and the board in detail.

During 2014, the semi-annual reporting of top risks was reviewed by executive management as well as the board and audit committee. During the year, the audit committee considered the oversight of specific selected principal risks, through a series of risk 'deep dives'. This is covered in more detail in the separate report on the audit committee. The key elements and procedures that have been established to provide effective risk management and internal control systems are described below. During 2014, we aligned these procedures to the new organisation structure.

Learn more about our Principal risks and mitigating factors on p34

Control environment

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

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

The identification and mitigation of significant business risks is the responsibility of Group senior management and the management team for each business area – being the heads of the Lines of Business, Geographies and enabling functions. Each business area, 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 periodically with business area management to review their business and financial performance against plan and forecast. Major risks relevant to each business area 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 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 subject to reviews based on Group internal audit's risk-based audit programme. The Group finance function also monitors and assesses these processes, through a finance compliance function.

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. One key control in this area is the disclosure committee, which submits reports to the audit committee. This committee is chaired by the SVP internal audit and compliance, and members include the chief financial officer, general counsel, SVP investor relations, SVP company secretarial as well as senior members of financial management. The primary responsibility of this committee is to review Pearson's public reporting and disclosures to ensure that information provided to shareholders is complete, accurate and compliant with all applicable legislation and listing regulations.

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

Group internal audit

The Group internal audit function is responsible for providing independent assurance to management and the audit committee on the design and effectiveness of internal controls to mitigate strategic, financial, operational and compliance risks. The risk-based annual internal audit plan is approved by the audit committee. Management action plans to improve internal controls and to mitigate risks, or both, are agreed with each business area after each audit. Formal follow-up procedures allow Group internal audit to monitor business areas' progress in implementing its recommendations and to resolve any control deficiencies. 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 SVP internal audit and compliance oversees compliance with our Code of Conduct and works with senior legal and human resources personnel to investigate any reported incidents including ethical, corruption and fraud allegations. The audit committee is provided with an update of all significant matters received through our whistle-blowing reporting system, together with an annual review of the effectiveness of this system. The Pearson anti-bribery and corruption programme provides the framework to support our compliance with various anti-bribery and corruption regulations such as the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act.

Treasury management

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

Insurance

Pearson purchases comprehensive insurance coverage where this is available on a cost-effective basis. Pearson's insurance subsidiary, Spear Insurance Company Limited, is used to leverage the risk retention capability of the Group and to achieve a balance between retaining insurance risk and transferring it to external insurers.

Engagement

REPUTATION & RESPONSIBILITY COMMITTEE

Chairman
Vivienne Cox

Members Vivienne Cox, Linda Lorimer, Harish Manwani

As Pearson takes a more active role in education worldwide, we have a responsibility to our learners and to our shareholders to grasp new opportunities which have a positive impact on society. We are working to build our brand and to sharpen our awareness and management of anything that risks damaging it.

Vivienne Cox Chairman of reputation & responsibility committee

Reputation & responsibility committee role

The reputation & responsibility committee became a formal committee of the board in 2014. This reflects the board and Pearson executive's growing awareness and ambition around Pearson's corporate reputation, and our belief in the importance of fulfilling our obligations to the communities in which we work, and maximising Pearson's positive impact on society.

Terms of reference

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/governance

The committee's responsibilities are shown in more detail below.

For reputation & responsibility committee meeting attendance see overview table on p66

COMMITTEE RESPONSIBILITIES:

1. **Reputation** Pearson's reputation among major stakeholders, including governments, investors, employees, customers, learners and the education community
2. **Strategy** Communications strategies, policies and plans related to reputational issues
3. **Social** Social impact initiatives
4. **Brand** Brand and culture development
5. **Ethics** Ethical business standards
6. **Risk** Oversight of reputational risk

BOARD VISIT TO WASHINGTON, DC

In June 2014, the board visited Washington, DC for a three-day meeting to understand the forces behind changes in the education landscape across the US and the implications for Pearson's brand and reputation in our largest, most successful market. Specifically, the presentations and discussions focused on four key areas, outlined opposite...

Key activities in 2014

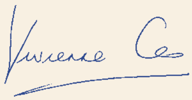
In the second year of Pearson's transformation, the committee acted to scrutinise and challenge the long-term strategy and approach throughout 2014, meeting three times and receiving presentations from business leaders across a number of key areas.

In particular, the committee reviewed and provided input on:

- Our long-term vision for corporate transparency and reporting, in particular adopting oversight of our political contributions policy and spending
- The wind-down of the Pearson Charitable Foundation and our revised approach to social impact activity
- The rationale and future strategy for the Pearson Affordable Learning Fund
- The review of the Pearson master brand and employee values, and our approach to tracking the equity of the Pearson brand globally.

Committee aims for 2015

In 2015 the committee will continue to focus on how our strategy for managing our reputation and maximising our contribution to society is changing with the organisation. The committee will adopt oversight of health & safety management, policy and issues, reflecting its increasingly significant role in safeguarding our reputation as we become more active in the direct delivery of education to students. In particular, the committee will review progress on the integration of social impact into Pearson's business following the closure of the Pearson Charitable Foundation, the development of our reputation management approach in our newer markets, and our progress towards our 2018 efficacy commitment.



Vivienne Cox Chairman of reputation & responsibility committee

1. How to increase productivity and demonstrate return on investment in our schools and colleges, and how to prepare more students to compete and succeed in a 21st century global economy

2. Increasing polarisation and politicisation of education issues and how the explosion of social media has altered the public policy landscape and the rules of the game

3. Learning to engage with new players and new issues that come from increasing private sector investment in education, particularly from venture capital and philanthropy, and the shift into new digital and services-led businesses

4. Growing public scrutiny of Pearson's role in education, in particular how our size and our success makes Pearson a target for critics and competitors and how the public demand for transparency and proof of positive social impact is posing new challenges – and opportunities – for companies.

The board had a deep dive session examining how Pearson was building and executing a more robust, proactive government relations and reputation management capability.

The board spent time getting a first-hand look at blended learning in action meeting educators, parents and learners during a visit to College Park Academy, an innovative charter school run by our Connections team in partnership with the University of Maryland's School of Education.

There was an opportunity for the board to engage with key national opinion leaders, policymakers, reformers and innovators in education, including Melody Barnes, former domestic policy adviser to President Obama, and Ted Mitchell, US Under Secretary of Education.

Finally, the board heard from the Pearson executive team about how our new operating model was helping to accelerate our shift to digital and services business across K-12 and higher education, followed by an update on the efficacy initiative.

Engagement continued

SHAREHOLDER ENGAGEMENT

Engaging with shareholders

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

Shareholder outreach In 2014, we continued with our shareholder outreach programme, seeing approximately 690 institutional and private investors at more than 420 different institutions in Australia, Brazil, Brunei, Canada, Greater China, Continental Europe, Japan, Singapore, South Korea, the UK and the US.

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

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

Consultations During the year we also consulted with our major shareholders and with shareholder representative bodies on our directors' remuneration policy. Read about Remuneration on p82

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

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

We encourage our private shareholders to become more informed investors and have provided a wealth of information on our website about managing Pearson shareholdings, see www.pearson.com/investors/shareholder-information.html for further information, or turn to page 212 of this report. We also encourage all shareholders, who have not already done so, to register their email addresses through our website and with our registrar. This enables them to receive email alerts when trading updates and other important announcements are added to our website.

See additional Shareholder information on p212

AGM
24 April 2015
8 Northumberland Avenue
London, England WC2N 5BY

690
institutional and private investor meetings in 2014

Our programme of educational seminars is available for institutional investors via webcast on pearson.com

Share dealing

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

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

Annual General Meeting

Our AGM, on 24 April 2015, is an opportunity for all shareholders to meet the board and to hear presentations about Pearson's businesses and results.

WIDER ENGAGEMENT

Engaging with all stakeholders

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.

Learn more about our approach to corporate responsibility in the Social impact section on p45-56

Visit pearson.com for:

- Investor relations information
- Company announcements and shareholder presentations, webcasts and conference calls
- Past announcements and presentations
- Historical financial performance
- Share price data
- Calendar of events
- Information about our businesses and their websites
- Corporate responsibility policies and activities

Report on directors' remuneration

PART 1 – LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Chairman
David Arculus

Members David Arculus, Elizabeth Corley, Vivienne Cox, Ken Hydon, Josh Lewis and Glen Moreno

The committee believes that Pearson's remuneration policy supports the company's strategy to deliver sustained performance and create long-term value in the interests of all stakeholders.

David Arculus Chairman of remuneration committee

In this remuneration section:

Terms of reference

The committee's full charter and terms of reference are available on the Governance page of the company's website at www.pearson.com/governance

Introduction

I am pleased to present our report on directors' remuneration for 2014.

The 2014 annual remuneration report will be put forward for your consideration and approval by advisory vote at the Annual General Meeting on 24 April 2015.

In accordance with the UK remuneration reporting requirements, this report contains:

› A summary of the directors' remuneration policy on p85. The full policy was approved by shareholders at the Annual General Meeting on 25 April 2014 and can be found on the Governance page of the company's website at www.pearson.com/governance

› The annual remuneration report, on p89-106, describing all aspects of remuneration practice in 2014.

We believe this report clearly demonstrates the link between our remuneration policy and practice, and the company's strategy and performance, as well as our commitment to shareholder engagement.

Principles of remuneration policy

The purpose of the remuneration policy is to support the company's strategy to deliver sustained performance and create long-term value in the interests of all stakeholders. This is summarised in the panel overleaf.

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

REMUNERATION POLICY PRINCIPLES

1. Sustainability and affordability We seek a careful and sustainable balance between market competitiveness, affordability and the long-term interests of the company and its shareholders, whilst also being mindful of pay conditions elsewhere in the Group and the wider social and economic context. The process for setting levels of executive remuneration is robust and transparent.

2. Pay for performance A high proportion of total remuneration is delivered as variable pay that is directly linked to both short and long-term performance of the company, through annual incentives that reward the achievement of annual strategic goals and long-term incentives that drive long-term earnings and share price growth. Performance conditions are sufficiently stretching and recognise individual contribution as well as the company's financial results.

3. Alignment We encourage executives to acquire and hold Pearson shares in line with shareholders' interests. Long-term incentives reward the achievement of sustainable, long-term value creation that will be beneficial to shareholders. We actively seek feedback from shareholders on all aspects of executive remuneration.

Remuneration supporting strategy

Pearson's executive remuneration arrangements were reviewed last year to align with and support the company's new strategy. Executive remuneration decisions have been made after consultation with shareholders, careful consideration of the needs of the business, the transformation and reorganisation of the company, changes in roles and responsibilities, the pay markets in which Pearson operates and pay elsewhere in the organisation.

Pearson's strategy informs our remuneration philosophy and policy and complements our more traditional financial goals, which are to achieve sustainable growth on three key measures (earnings, cash, and return on invested capital) and to deliver 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. These measures (or others that contribute to them) therefore form the basis of our annual budgets and strategic plans and the basis for annual and long-term incentives.

What we did in 2014

We consulted with our major shareholders and with shareholder representatives on the directors' remuneration policy prior to its publication. However, following publication a number of shareholders expressed concern that the policy allowed the committee to exercise discretion to approve remuneration elements outside of the normal limits in exceptional and unforeseen circumstances. In response to this, prior to the Annual General Meeting, on 9 April 2014, and following further consultation, we issued a RNS statement to clarify the basis on which certain elements of the policy would apply and, in particular, to define and limit when and how remuneration arrangements outside the normal terms of the policy might be applied. The policy was approved at the Annual General Meeting on 25 April 2014.

Performance in 2014 at a glance

In 2014, despite continuing challenging market conditions, we had a good competitive performance. Overall, we saw:

- Growth in sales of 2% and in adjusted operating profit of 5% at constant exchange rates
- An increase in our dividend of 6% which was Pearson's 23rd 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 £2.9bn to shareholders.

Remuneration in 2014 at a glance

Base salary	+2%
Allowances and benefits	No change in arrangements from 2013
Retirement benefits	
Annual incentives	Pay-out below target
Long-term incentives	Nil vesting

Note This reflects changes to remuneration for the chief executive and the chief financial officer, not for the rest of the Pearson executive.

Report on directors' remuneration continued

PART 1 – LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Looking back to some specific aspects of policy and practice in 2014:

- We established maximum opportunities for each element of remuneration
- We changed the weighting of the performance metrics under the Pearson long-term incentive plan from one-third on each measure to half on earnings per share growth, one-third (no change) on return on invested capital and one-sixth on relative total shareholder return
- We introduced a mandatory restriction on participants' ability to dispose of the 75% of vested long-term incentive shares that are released after three years (other than to meet personal tax liability) for a further two years and for the remaining 25% of vested shares to be subject to continuing employment over the same period
- We increased the mandatory shareholding guidelines to 300% of salary for the CEO and 200% of salary for other executive directors
- These shareholding guidelines were also extended to other members of the Pearson executive at 100% of salary
- We clarified the arrangements for malus and strengthened the clawback provisions
- The annual bonus share matching plan was ceased. The last award under this plan will vest or not, subject to performance, during 2016
- We undertook a regular periodic review of base salaries for 2014 taking into account general economic and market conditions, the level of increases made across the company as a whole, the remuneration of executives in similar positions in comparable companies, and individual performance
- Annual incentives paid to executives for 2014 were below target, as they were in 2013, reflecting below target performance in a tough trading environment
- There was the second consecutive nil pay-out on long-term incentives, reflecting below threshold performance for 2014 against the company's three-year targets for earnings per share growth, return on invested capital and relative total shareholder return
- To increase alignment with shareholder interests and the long-term growth of the company, we reviewed the operation of the long-term incentive plan for the senior leadership population below the Pearson executive.

For 2014 and beyond, awards for this group of employees will be subject to performance based on an earnings per share growth target.

What we've planned for 2015

Looking forward, for 2015:

- We will continue to operate directors' remuneration in line with the approved remuneration policy and anticipate putting the policy to shareholder vote next at the 2017 Annual General Meeting
- As approved in the 2013 directors' remuneration report, for performance-related long-term incentive awards for 2015 and onwards, the averaging period for the calculation of relative total shareholder return will be moved to the period running up to the year end and the length of the averaging period will be increased to three months
- On long-term incentives, we have reduced the proportion of the maximum award that vests for threshold performance from 30% to 25% in line with institutional investors' preferences
- Based on our guidance for 2015, we will face a challenge in delivering a pay-out under the long-term incentive plan award for 2013.

The committee welcomes the positive engagement with shareholders on our approach to this year's report on directors' remuneration and, specifically, on the issue of the vote against our annual remuneration report at the 2013 Annual General Meeting.

The committee is committed to an ongoing dialogue with shareholders regarding executive remuneration and would therefore welcome any observations or questions that individual shareholders may wish to raise.

I would like to thank my fellow members of the committee and the people who have assisted us for their contribution over the past year.

Finally, as I step down from the board and from chairing the committee, I look forward to handing over the reins to my successor, Elizabeth Corley.

Yours sincerely,

David Arculus Chairman of the remuneration committee

PART 2 – SUMMARY OF REMUNERATION POLICY

Introduction to summary of remuneration policy

The company's policy on directors' remuneration was approved by shareholders at the Annual General Meeting on 25 April 2014. We issued an RNS statement of further information on the remuneration policy on 9 April 2014, to clarify the use of the committee's discretion over certain elements of remuneration in exceptional circumstances.

To help shareholders understand the context of remuneration practice reported in the annual remuneration report that follows, and specifically the limits applied to directors' remuneration, we have included below some key points and a summary of pertinent sections of the remuneration policy for information only. For further detail, please refer to the full remuneration policy and the clarification statement on the Governance page of the company's website at www.pearson.com/governance

Scope of policy

The policy applies to executive directors, the chairman and non-executive directors.

Reference is also made to the remuneration policy for other members of the Pearson executive (currently 12 in number) who are not directors but who fall within the committee's remit.

Duration of policy

The policy took effect on 25 April 2014 and is expected to last until the next binding vote on our remuneration policy which at present is planned for the 2017 AGM.

Use of discretion

The committee has avoided, where possible, including general discretions in the policy table. However, exceptional or genuinely unforeseen circumstances may arise in the future and in those circumstances it may be in shareholders' interests for Pearson to put in place remuneration arrangements that are outside the terms of the policy. If this happens, the committee will be permitted to implement remuneration arrangements that it considers appropriate in the circumstances. In these circumstances, Pearson would consult in advance with major shareholders before it does so and would explain the exercise of this discretion in the following year's directors' remuneration report.

As clarified in the RNS statement of further information on the remuneration policy on 9 April 2014, this discretion would only be used in the very narrow circumstances articulated in the policy – that is, in exceptional or genuinely unforeseen circumstances. The committee considers that these circumstances would arise highly infrequently, if at all, in the lifetime of the policy. The committee would regard reliance on this discretion as a matter of utmost seriousness and, in relation to our stated obligation to consult in advance with major shareholders, would not proceed unless there was clear consensus in favour among those consulted. Further, the committee would ensure that the value of the remuneration arrangement put in place in reliance on this discretion would fall within the normal limit (as stated in the policy) for the element of remuneration to which the arrangement relates.

As part of the approved policy, the committee also has discretion to award base salary increases, allowances and benefits, and long-term incentive plan awards in excess of the normal maximum limits to current or new directors. As clarified in the RNS statement, this discretion will only be exercised in exceptional circumstances other than in the case of increases in the cost of benefits that are outside Pearson's control and changes in benefit providers. Again, Pearson would consult with major shareholders before exercising any such discretion and such exercise would be limited by reference to the safeguards described above, including only proceeding where there was clear consensus in favour among those consulted. In these circumstances, the committee would ensure that the maximum value of the remuneration arrangement put in place in reliance on this discretion did not exceed a margin of 25% over the normal maximum limit for the element in question (as stated in the policy).

Legacy arrangements

Given the long-term nature of some of Pearson's remuneration structures – including obligations under service contracts, incentive plans and pension arrangements – a number of pre-existing obligations remained in place at the time that the new policy became effective, including obligations that are 'grandfathered' by virtue of being in force at 27 June 2012. Pearson's policy is to honour all pre-existing obligations, commitments or other entitlements that were entered into before the effective date of this policy.

Summary of remuneration policy table

For more information on how remuneration is operated, please refer to the full remuneration policy on the Governance page of the company's website at www.pearson.com/governance

Report on directors' remuneration continued

PART 2 – SUMMARY OF REMUNERATION POLICY

Element of remuneration	Purpose and link to strategy	Performance conditions	Normal limit	Exceptional limit as clarified in RNS statement of 9 April 2014
Base salary	Helps to recruit, reward and retain. Reflects competitive market level, role, skills, experience and individual contribution.	None, although performance of both the company and the individual are taken into account when determining an appropriate level of base salary increase each year.	Base salary increases are not ordinarily more than 10% per annum.	Up to 25% over normal limit in specific individual situations including internal promotions and material changes to the business or the role.
Allowances and benefits	Help to recruit and retain. Reflect the local competitive market.	None.	Total value not ordinarily in excess of 15% of base salary in any year.	Up to 25% over normal limit in specific individual situations including changes in individual circumstances such as health status and changes in the role such as relocation. In excess of 25% over normal limit in the case of increases in the cost of benefits that are outside of Pearson's control and changes in benefit providers.
Retirement benefits	Help to recruit and retain. Recognise long-term commitment.	None.	As set out in approved remuneration policy.	None.
Annual incentives	Motivate achievement of annual strategic goals. Focus on key financial metrics. Reward individual contribution.	The committee has the discretion to select the performance measures, targets and relative weightings from year to year. Funded by Pearson global annual financial results and weighted: 60% on adjusted earnings per share 20% on sales 20% on operating cash flow. Pay-outs take into account individual performance against personal objectives.	Overall limit 200% of base salary. 2015 maximum opportunity is 180% for the chief executive and no more than 170% for other executive directors and members of the Pearson executive.	None.
Long-term incentives	Help to recruit, reward and retain. Drive long-term earnings, share price growth and value creation, and align interests of executives and shareholders. Encourage long-term shareholding and commitment to company. Link management's long-term reward and wealth to corporate performance in a flexible way.	The committee will determine the performance measures, weightings and targets governing an award of restricted shares prior to grant to ensure continuing alignment with strategy and to ensure the targets are sufficiently stretching. Awards vest subject to the following performance conditions: one-half on earnings per share growth; one-third on return on invested capital (ROIC); one-sixth on relative total shareholder return (TSR). Performance tested over three years.	Maximum face value of 400% of base salary. Other than in exceptional circumstances on recruitment, it is the company's normal policy not to award restricted shares to executive directors and other members of the Pearson executive without performance conditions.	Up to 25% over normal limit in exceptional circumstances, for example, for retention purposes or to reflect particular business situations. The discretion to award restricted shares without performance conditions to executive directors will not be used other than where it is appropriate to compensate a new director on a 'like-for-like' basis for incentives foregone at a previous employer.

Total shareholder return (TSR) is the return to shareholders from any growth in Pearson's share price and reinvested dividends over the performance period. For long-term incentive awards, TSR is measured relative to the constituents of the FTSE World Media Index over a three-year period. Companies that drop out of the index are normally excluded, i.e. only companies in the index for the entire period are counted. Share price is averaged over three months at the start and end of the performance period. 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.

Return on invested capital (ROIC) is adjusted operating profit less cash tax expressed as a percentage of gross invested capital (net operating assets plus gross goodwill).

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

Non-executive directors and chairman

Non-executive director remuneration has been designed to attract and retain high calibre individuals, with appropriate experience or industry relevant skills, by offering market competitive fee levels.

The structure of non-executive directors' fees with effect from 1 May 2014 is as follows:

Director	Fee
Non-executive director	£70,000
Chairmanship of audit committee	£27,500
Chairmanship of remuneration committee	£22,000
Chairmanship of reputation & responsibility committee	£10,000
Membership of audit committee	£15,000
Membership of remuneration committee	£10,000
Membership of reputation & responsibility committee	£5,000
Senior independent director	£22,000

The total fees payable to the non-executive directors are subject to the limit set out in the articles of association of the company (currently £750,000) and are increased by ordinary resolution from time to time.

The chairman's fees remain unchanged at £500,000 per year.

For more information on non-executive directors' remuneration, please refer to the full remuneration policy on the Governance page of the company's website at www.pearson.com/governance

Pay and performance scenario analysis

The remuneration policy approved by shareholders in 2014 required a scenario chart in the format set out below for 2014 remuneration. Although not required, the company has updated the scenario charts below so as to apply to 2015 remuneration.

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

The chart below shows what each director could expect to receive in 2015 under different performance scenarios, based on the following definitions of performance:

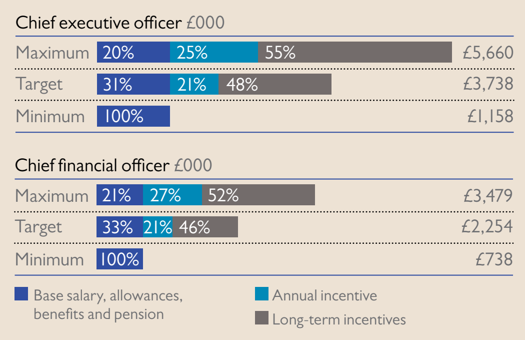
Performance scenario	Elements of remuneration and assumptions
Maximum	2015 base salary; allowances, benefits, and retirement benefits at the same percentage of base salary as in 2014; maximum individual annual incentive as per policy; maximum value of 2014 long-term incentive award
Target	2015 base salary; allowances, benefits, and retirement benefits at the same percentage of base salary as in 2014; target individual annual incentive as per policy; target value of 2014 long-term incentive award (Towers Watson's independent assessment of the expected value of the award, i.e. the net present value taking into account all the conditions)
Minimum	2015 base salary; allowances, benefits, and retirement benefits at the same percentage of base salary as in 2014; no annual or long-term incentives

Note The value of long-term incentives does not take into account dividend awards that are payable on the release of restricted shares nor any changes in share price.

On this basis, the relative weighting of fixed and performance related remuneration and the absolute size of the remuneration packages for the chief executive and the chief financial officer (as represented by the current incumbent) are as follows on the next page.

Report on directors' remuneration continued

PART 2 – SUMMARY OF REMUNERATION POLICY



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

Recruitment

The committee expects any new executive directors to be engaged on the same terms and to be awarded variable remuneration within the same normal limits and subject to the same conditions as for the current executive directors outlined in the policy. As clarified in the RNS statement of further information on the remuneration policy on 9 April 2014, this applies other than in the circumstances set out below where it is appropriate to take account of the terms of the new directors' existing employment and/or their personal circumstances.

The committee recognises that it cannot always predict accurately the circumstances in which any new directors may be recruited. The committee may determine that it is in the interests of the company and shareholders to secure the services of a particular individual which may require the committee to take account of the terms of that individual's existing employment and/or their personal circumstances. Examples of circumstances in which the committee expects it might need to do this are outlined in full in the remuneration policy on the Governance page of the company's website at www.pearson.com/governance

In light of the various legacy pension arrangements enjoyed by the incumbent executive directors, in determining the pension arrangements for any new recruit, the committee expects to offer a defined contribution arrangement with company contributions not exceeding those set in our approved policy on the Governance page of the company's website at www.pearson.com/governance but would have regard for the recruit's existing arrangements, the market norms in the home country and the existing pension vehicles available within the company.

In making any decision on any aspect of the remuneration package for a new recruit, the committee would balance shareholder expectations, current best practice and the requirements of any new recruit and would strive not to pay more than is necessary to achieve the recruitment. The committee would give full details of the terms of the package of any new recruit in the next annual remuneration report.

Pearson expects any new chairman or non-executive director to be engaged on terms that are consistent with the general remuneration principles outlined in the relevant sections of this policy. However, in the case of the chairman, the committee may consider it appropriate to offer a remuneration package that differs from that of the existing incumbent if that is necessary to attract the most capable candidate or to reflect the individual's expected duties.

Further information on remuneration policy

For further information on the following aspects of the remuneration policy, please refer to the full remuneration policy and the RNS statement of further information on the remuneration policy on 9 April 2014 on the Governance page of the company's website at www.pearson.com/governance

- Selection of performance measures and target setting
- Legacy arrangements under the annual bonus share matching plan
- Remuneration policy for other employees
- Service contracts and termination provisions
- Employment conditions elsewhere in the company
- Executive directors' non-executive directorships
- Shareholder views

PART 3 – ANNUAL REMUNERATION REPORT

Annual remuneration report

The remuneration committee presents the annual remuneration report, which will be put to shareholders as an advisory (non-binding) vote at the Annual General Meeting to be held on 24 April 2015.

Remuneration compliance

This report was compiled in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and was approved by the board of directors on 9 March 2015.

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

This report comprises of a number of sections:

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

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

The remuneration committee and its activities

Composition

Chairman	David Arculus	Independent non-executive director
Members	Elizabeth Corley	Independent non-executive directors
	Vivienne Cox	
	Ken Hydon	
	Josh Lewis	
	Glen Moreno	Chairman of the board
Internal advisers	John Fallon	Chief executive
	Robin Freestone	Chief financial officer
	Melinda Wolfe	Chief human resources officer
	Robert Head	VP, executive reward & global share plans
	Stephen Jones	SVP, company secretarial
External advisers	Towers Watson	

Glen Moreno is a member of the committee as permitted under the UK Corporate Governance Code.

Internal advisers provided material assistance to the committee during the year. They attended meetings of the committee, although none of them was involved in any decisions relating to his or her own remuneration.

To ensure that the committee receives independent advice, Towers Watson supplies survey data and advises on market trends, long-term incentives and other general remuneration matters. Towers Watson was selected and appointed by the committee through a formal tendering process. Towers Watson also advised the company on health and welfare benefits in the US and provided consulting advice directly to certain Pearson operating companies. Towers Watson is a member of the Remuneration Consultants' Group, the body which oversees the Code of Conduct in relation to executive remuneration consulting in the UK.

During the year, Towers Watson was paid fees for advice to the committee, which were charged on a time spent basis, of £95,100. As part of its annual review of its performance and effectiveness, the committee remains satisfied that Towers Watson's advice was objective and independent and that Towers Watson's provision of other services in no way compromises its independence.

Committee performance

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

The committee participated in a survey to review its performance and effectiveness in July 2014, looking at areas such as the clarity of roles and responsibilities, the composition of the committee, the use of time, the quality and timeliness of meeting materials, the opportunity for discussion and debate, dialogue with management and access to independent advice.

The committee concluded that it is operating effectively and noted the challenges for the year ahead.

The committee and its members were subject to a formal third-party external evaluation by JCA Group of the board, its committees and individual directors' performance which was completed at the end of 2014.

REMUNERATION COMMITTEE RESPONSIBILITIES

The committee's principal duties are to:

1. Determine and review policy Determine and regularly review the remuneration policy for the executive directors, the presidents of the principal geographic markets and Lines of Business and other members of the Pearson executive who report directly to the CEO (executive management). This policy includes base salary, annual and long-term incentives, pension arrangements, any other benefits and termination of employment.

2. Review and approve implementation Regularly review the implementation and operation of the remuneration policy for executive management and approve the individual remuneration and benefits packages of the executive directors.

3. Approve performance related plans Approve the design of, and determine targets for, any performance-related pay plans operated by the company and approve the total payments to be made under such plans.

4. Review long-term plans Review the design of the company's long-term incentive and other share plans for approval by the board and shareholders.

5. Set termination arrangements Advise and decide on general and specific arrangements in connection with the termination of employment of executive directors.

6. Review targets Review and approve corporate goals and objectives relevant to CEO remuneration and evaluate the CEO's performance in light of those goals and objectives.

7. Determine chairman's remuneration Have delegated responsibility for determining the remuneration and benefits package of the chairman of the board.

8. Appoint remuneration consultants Appoint and set the terms of engagement for any remuneration consultants who advise the committee and monitor the cost of such advice.

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Meetings, activities and decisions in 2014

The remuneration committee met four times during 2014, as described below.

19 and 20 February
2014

MARKET

Noted Towers Watson's overview of the current remuneration environment and 2013/2014 market data

PERFORMANCE

Noted management's overview of 2013 and 2014 performance and plans

IMPLEMENTATION

Reviewed and approved the 2013 annual incentive pay-out and 2014 remuneration package for John Fallon

Reviewed chairman's remuneration which remained unchanged

Reviewed and approved 2013 annual incentive plan pay-outs

Reviewed and approved provisional 2011 long-term incentive plan pay-outs (pending confirmation of TSR performance)

Approved vesting of 2011 annual bonus share matching awards and release of shares

GOVERNANCE

Noted the activity of the standing committee of the board in relation to the operation of the company's equity-based reward programmes

Noted company's use of equity for employee share plans

POLICY

Reviewed and approved 2013 directors' remuneration report

Reviewed and approved increases in base salaries for 2014 for the Pearson executive

Reviewed and approved 2014 Pearson annual incentive plan targets

Reviewed and approved 2014 individual annual incentive opportunities for the Pearson executive

Reviewed long-term incentive awards and associated performance conditions for the Pearson executive

23 April
2014

IMPLEMENTATION

Reviewed and noted total remuneration for members of the Pearson executive for 2013 and 2014

Confirmed nil pay-out under 2011 long-term incentive plan

Reviewed and approved 2014 long-term incentive awards and associated performance conditions for the Pearson executive

GOVERNANCE

Reviewed and approved amendments to plan rules for the worldwide save for shares and long-term incentive plans

POLICY

Considered approach to 2014 long-term incentive awards for senior leaders and managers below the Pearson executive

DISCLOSURE

Noted shareholder feedback on 2013 directors' remuneration report and RNS statement of further information on the remuneration policy

REMUNERATION IN ACTION

Shareholding by executives supporting performance and strategy

Following consultation on our remuneration policy approved by shareholders in 2014, we introduced two arrangements designed to encourage shareholding by executives and support performance and strategy.

First, under the long-term incentive plan, we introduced a mandatory restriction on participants' ability to dispose of the 75% of shares that vest based on performance after three years (other than to meet personal tax liabilities) for a further two years. Furthermore, participants' rights to the release of the remaining 25% of the vested shares is subject to continued employment over the same period.

Secondly, we increased our mandatory shareholding guidelines to 300% of salary for the CEO and 200% of salary for other executive directors. These shareholding

23 July
2014

PERFORMANCE

Noted management's overview of 2014 performance

GOVERNANCE

Reviewed the committee's charter and terms of reference

Reviewed the committee's performance

POLICY

Noted update on 2014 long-term incentive awards for senior leaders and managers below the Pearson executive

STAKEHOLDERS

Reviewed 2014 Annual General Meeting season, shareholder voting and engagement strategy

4 December
2014

MARKET

Noted update to remuneration aspects of the UK Corporate Governance Code and principles of remuneration of the Investment Management Association

PERFORMANCE

Noted management's overview of 2014 performance

Noted and reviewed the status of the outstanding long-term incentive awards based on the current view of likely Pearson financial performance

DISCLOSURE

Noted template and outline of 2014 report on directors' remuneration and considered shareholder engagement strategy

IMPLEMENTATION

Noted remuneration package for new appointment to the Pearson executive, effective 1 January 2015

Noted exit arrangements for a member of the Pearson executive

Reviewed operation of the 2014 annual incentive plan particularly with regard to the Pearson executive

Noted 2014 long-term incentive awards for senior leaders and managers below Pearson executive

Considered matter of former CEO's double taxation in the US and UK and related issues

guidelines have also been extended to other members of the Pearson executive at 100% of salary.

Together, these arrangements clearly demonstrate the commitment to sustained performance and long-term value creation and alignment with shareholders' interests.

"Shareholding by senior executives demonstrates commitment to sustained performance and long-term value creation and alignment with shareholders' interests."

David Arculus Chairman of the remuneration committee

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Voting outcome at 2014 Annual General Meeting

The following table summarises the details of votes cast in respect of the resolutions on the report on directors' remuneration at the 2014 Annual General Meeting.

Report	Votes for	Votes against	Total votes cast	Votes withheld (abstentions)
Remuneration policy	517,308,446 95.76% of votes cast	22,905,879 4.24% of votes cast	540,214,325 65.96% of issued share capital	6,004,239
Annual remuneration report	349,696,505 65.83% of votes cast	181,521,643 34.17% of votes cast	531,218,148 64.86% of issued share capital	15,000,416

The committee took this significant vote against the 2013 annual remuneration report very seriously and considered the voting result and shareholder engagement strategy at their April, July and December 2014 meetings.

The primary reason for the vote against was clear: investors' objection to the committee exercising its discretion to allow a portion of Rona Fairhead's 2011 LTIP award to vest without reference to performance. The committee acknowledges that the approved remuneration policy provides a comprehensive remuneration framework with clear limits and as a result issues of a similar nature will not arise in the future.

We consulted on this voting outcome and this disclosure in the 2014 annual remuneration report with our major shareholders and shareholder representative bodies, who were broadly satisfied with both the process for engagement and the explanation given.

As in previous years and as required by law, details of the voting on all resolutions at the 2015 Annual General Meeting will be announced via the RNS and posted on the Pearson website following the Annual General Meeting.

Single total figure of remuneration and prior year comparison

Total aggregate emoluments for executive and non-executive directors were £4,206m in 2014. These emoluments are included with total employee benefit expense in note 5 to the financial statements (page 141).

Executive directors

The remuneration received by executive directors in respect of the financial years ending 31 December 2014 and 31 December 2013 is set out below.

Executive director remuneration

Element of remuneration £000s	John Fallon 2014	John Fallon 2013	Robin Freestone 2014	Robin Freestone 2013	Total 2014	Total 2013
Base salary	761	750	553	545	1,314	1,295
Allowances and benefits	83	43	15	14	98	57
Travel	50	15	12	12	62	27
Healthcare	2	3	2	2	4	5
Risk	31	25	1	–	32	25
Annual incentives	692	463	365	341	1,057	804
Percentage of maximum (%)	51%	34%	39%	37%	–	–
Percentage of target (%)	91%	62%	78%	74%	–	–
Percentage of salary (%)	91%	62%	66%	63%	–	–
Long-term incentives	74	141	63	181	137	322
LTIP	–	–	–	–	–	–
ABSMP	–	–	–	–	–	–
Dividend equivalents	74	141	63	181	137	322
Retirement benefits	285	330	166	163	451	493
Defined contribution cost	–	–	23	22	23	22
Defined benefit accrual	87	135	–	–	87	135
Allowances in lieu of benefits	198	195	143	141	341	336
Total remuneration	1,895	1,727	1,162	1,244	3,057	2,971

Single total figure of remuneration In accordance with the regulations, we show a single total figure of remuneration, which includes retirement benefits and long-term incentives in addition to the other elements of remuneration that have been shown in previous reports.

Base salary In accordance with policy, the committee considered a report from the chief executive and chief human resources officer on general pay trends in the market and the level of pay increases across the company as a whole. For 2014, the company had reiterated its starting principles that base compensation provides the appropriate rate of remuneration for the job, taking into account relevant recruitment markets, business sectors and geographic regions and that total remuneration should reward both short and long-term results, delivering competitive rewards for target performance, but higher rewards for exceptional company performance. For the US and UK, the budget guideline issued at the end of September 2013 for adjustments to base pay for 2014 was 3% although business units with an April review date operated to a 2% salary increase pool. Local inflation rates and market conditions were taken into account in particular markets.

Allowances and benefits Travel benefits comprise company car, car allowance and private use of a driver. Health benefits comprise healthcare, health assessment and gym subsidy. Risk benefits comprise additional life cover and long-term disability insurance. In addition to the above benefits and allowances, executive directors may also participate in company benefit or policy arrangements that have no taxable value.

The increase in travel benefits for John Fallon is attributable to the first full-year of reporting of his private use of a driver based on the benefit-in-kind charge for the 2013/2014 tax year.

Annual incentive For more detail, see table on page 97. Annual incentives for the directors are funded by Pearson global annual financial results and pay-outs take into account individual performance against personal objectives.

Long-term incentives The single figure of remuneration for 2014 includes all long-term incentive awards that were subject to a performance condition where the performance period ended, or was substantially (but not fully) completed, at 31 December 2014, and awards where the performance condition has been satisfied but where the release of shares is subject to a further holding period. The same methodology has been applied for the single figure of remuneration for 2013.

In 2014, the performance conditions for the 2012 LTIP and 2012 ABSMP were not met so there is nothing to report in the single figure of remuneration for 2014. The executive directors both held vested shares under the 2009 LTIP that were released on 1 April 2014 at the end of the two-year holding period and these shares were part of the single figure of remuneration for 2012 as reported in the 2012 report on directors' remuneration. However, the dividend-equivalent shares that were awarded and released on 1 April 2014 have been included in the single figure of remuneration for 2014, as below:

Director	Date of award and release	Number of shares	Value	Share price on release
John Fallon	1 Apr 14	7,054	£73,644	1,044.0p
Robin Freestone	1 Apr 14	6,046	£63,120	1,044.0p

Retirement benefits For more detail, see table on page 96.

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Chairman and non-executive director remuneration

The remuneration paid to the chairman and non-executive directors in respect of the financial years ending 31 December 2014 and 31 December 2013 is as follows:

Director £000s	2014 Salary/ basic fee	2014 Committee chairmanship	2014 Committee membership	2014 SID	2014 Taxable benefits	2014 Total	2013 Salary/ basic fee	2013 Committee chairmanship	2013 Committee membership	2013 SID	2013 Taxable benefits	2013 Total
Glen Moreno	500	–	–	–	–	500	500	–	–	–	–	500
David Arculus	68	21	14	–	2	105	65	20	10	–	1	96
Elizabeth Corley (appointed 1 May 2014)	47	–	4	–	1	52	–	–	–	–	–	–
Vivienne Cox	68	7	22	21	6	124	65	–	15	20	5	105
Ken Hydon	68	27	8	–	8	111	65	25	5	–	5	100
Josh Lewis	68	–	8	–	9	85	65	–	13	–	9	87
Linda Lorimer	68	–	17	–	8	93	33	–	–	–	3	36
Harish Manwani	68	–	4	–	7	79	16	–	–	–	1	17
Total	955	55	77	21	41	1,149	809	45	43	20	24	941

Note Taxable benefits refer to travel, accommodation and subsistence expenses incurred while attending board meetings during 2014 that were paid or reimbursed by the company which are deemed by HMRC to be taxable in the UK. The amounts in the table above include the grossed-up cost of UK tax to be paid by the company on behalf of the directors. Total remuneration for 2013 is re-stated to include these taxable expenses. The company has made a voluntary disclosure to HMRC to settle the tax liability for taxable expenses in prior tax years.

Retirement benefits

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

Director	Plans	Normal retirement age	Accrued pension at 31 Dec 14 £000[1]	Value of defined benefit pension over the period £000[2]	Other pension costs to the company over the period £000[3]	Other allowances in lieu of pension £000[4]	Total annual value in 2014 £000[5]
John Fallon	Pearson Group Pension Plan. Accrual rate of 1/30th of pensionable salary per annum. Taxable and non-pensionable cash supplement	62	80.7	86.7	–	197.7	284.4
Robin Freestone	Money Purchase 2003 section of the Pearson Group Pension Plan. Taxable and non-pensionable cash supplement	62	–	–	22.6	143.4	166.0

Note 1 The accrued pension at 31 December 2014 is the deferred pension to which the member would be entitled on ceasing pensionable service on 31 December 2014. For John Fallon it relates to the pension payable from the UK plan. Robin Freestone does not accrue defined benefits.

Note 2 This column comprises the increase in the directors' accrued pension over the period (net of inflation) multiplied by 20 and from which the directors' contributions are deducted.

Note 3 This column comprises contributions to defined contribution arrangements for UK benefits.

Note 4 This column represents the cash allowances paid in lieu of the previous FURBS arrangements for John Fallon and Robin Freestone.

Note 5 Total annual value is the sum of the previous three columns.

Note 6 There are no additional benefits or special arrangements under the retirement plans for directors who retire before their normal retirement date.

Annual incentive pay-out in 2014

For 2014, annual incentives were funded by Pearson global annual financial results based on the performance measures set out below. Individual pay-outs take into account performance against personal objectives. Actual performance against the financial targets for 2014 was as follows:

Measures	Weighting	Threshold for 2014	Target for 2014	Maximum for 2014	Actual performance in 2014	Pay-out in 2014 (% of target)
Group EPS (p)	60%	57.0	68.2	79.5	66.7	86%
Group sales (£m)	20%	4,695	4,995	5,295	4,883	63%
Operating cash flow (£m)	20%	565.5	678.6	791.7	648.9	74%
Total	100%					79%

Note 1 Pearson's reported financial results for the relevant period were used to measure performance.

Note 2 The annual incentive plan is designed to incentivise and reward underlying performance excluding the effect of foreign exchange and portfolio changes (acquisitions and disposals) and other factors that the committee considers relevant in the performance year. Targets, thresholds and maxima are expressed at 2014 actual exchange rates (£1:$1.6488). The targets, thresholds and maxima were originally set at plan exchange rates (£1:$1.60) and have been adjusted to actual exchange rates for comparison against actual performance to negate the effect of exchange rate movements.

Note 3 No discretion has been exercised to adjust the resulting underlying pay-outs.

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Long-term incentives

The status of outstanding awards under the long-term incentive plan (LTIP) and the legacy annual bonus share matching plan (ABSMP) and performance against the performance conditions as at 31 December 2014 are described in the table below.

For each executive director, details of awards under the LTIP and ABSMP that were awarded, vested, released, lapsed or held during 2014 are summarised in the adjacent table.

Status of outstanding awards under the long-term incentive plan and annual bonus share matching in 2014

Plan	Date of award	Share price on date of award	Vesting date	Performance measures	Performance period	Pay-out at threshold	Pay-out at maximum	Actual performance	% of award vested	Status
LTIP	1 May 2014	1,102.0p	1 May 2017	Relative TSR	2014 to 2017	30% at median	100% at upper quartile	–	–	Outstanding subject to performance
				ROIC	2016	30% for ROIC of 6.5%	100% for ROIC of 7.5%			
				EPS growth	2016 compared to 2013	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%			
LTIP	1 May 2013	1,183.0p	1 May 2016	Relative TSR	2013 to 2016	30% at median	100% at upper quartile	–	–	Outstanding subject to performance
				ROIC	2015	0% for ROIC of 8.5%	100% for ROIC of 10.5%			
				EPS growth	2015 compared to 2012	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%			
LTIP	2 May 2012	1,161.0p	2 May 2015	Relative TSR	2012 to 2015	30% at median	100% at upper quartile	19th percentile	Nil	Estimated to lapse in 2015
				ROIC	2014	0% for ROIC of 8.5%	100% for ROIC of 10.5%	5.6%	Nil	Will lapse in 2015
				EPS growth	2014 compared to 2011	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	-8.3%	Nil	Will lapse in 2015
ABSMP	15 May 2013	1,206.0p	15 May 2016	Real compound annual EPS growth	2012 to 2015	50% of matching award for EPS growth of 3.0%	100% of matching award for EPS growth of 5.0%	–	–	Outstanding subject to performance
ABSMP	15 May 2012	1,152.0p	15 May 2015	Real compound annual EPS growth	2011 to 2014	50% of matching award for EPS growth of 3.0%	100% of matching award for EPS growth of 5.0%	-10.5%	Nil	Performance condition not met. Will lapse in 2015

Movements in directors' interests in share awards during 2014

Plan	Date of award	Vesting date	Number of shares as at 1 Jan 2014	Awarded	Released	Dividends awarded and released	Lapsed	Number of shares as at 31 Dec 2014	Status
John Fallon									
LTIP	1 May 2014	1 May 2017	0	274,000	–	–	–	274,000	Outstanding subject to performance
LTIP	1 May 2013	1 May 2016	250,000	–	–	–	–	250,000	Outstanding subject to performance
LTIP	2 May 2012	2 May 2015	100,000	–	–	–	100,000	0	Expected to lapse in 2015
LTIP	3 Mar 2010	3 Mar 2013	13,752	–	–	–	–	13,752	Vested and held until 3 Mar 2015 (75% vested shares released in 2013)
LTIP	3 Mar 2009	3 Mar 2012	29,887	–	29,887	7,054	–	0	Released 1 Apr 2014 (75% vested shares released in 2012)
ABSMP	15 May 2013	15 May 2016	6,083	–	–	–	–	6,083	Outstanding subject to performance
ABSMP	15 May 2012	15 May 2015	8,917	–	–	–	8,917	0	Will lapse in 2015
Total			408,639	274,000	29,887	7,054	108,917	543,835	

Plan	Date of award	Vesting date	Number of shares as at 1 Jan 2014	Awarded	Released	Dividends awarded and released	Lapsed	Number of shares as at 31 Dec 2014	Status
Robin Freestone									
LTIP	1 May 2014	1 May 2017	0	162,000	–	–	–	162,000	Outstanding subject to performance
LTIP	1 May 2013	1 May 2016	150,000	–	–	–	–	150,000	Outstanding subject to performance
LTIP	2 May 2012	2 May 2015	100,000	–	–	–	100,000	0	Expected to lapse in 2015
LTIP	3 Mar 2010	3 May 2013	11,460	–	–	–	–	11,460	Vested and held until 3 Mar 2015 (75% vested shares released in 2013)
LTIP	3 Mar 2009	3 Mar 2012	25,617	–	25,617	6,046	–	0	Released 1 Apr 2014 (75% vested shares released in 2012)
ABSMP	15 May 2012	15 May 2015	17,833	–	–	–	17,833	0	Will lapse in 2015
Total			304,910	162,000	25,617	6,046	117,833	323,460	

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

Note 2 Vested means where awards are no longer subject to performance conditions. Released means where shares have been transferred to participants. Held means where awards have vested but shares are held pending release on the relevant anniversary of the award date. Outstanding means awards that have been granted but are still subject to the achievement of performance conditions. Dividends refers to dividend equivalent shares that have been added without performance conditions to vested shares under the LTIP and released immediately on award.

Note 3 No variations to terms and conditions of plan interests were made during the year.

Note 4 In relation to the LTIP award made on 1 May 2014, pay-out is 50% of maximum for attainment of ROIC of 7%.

Note 5 For the LTIP award made on 2 May 2012 and due to vest on 2 May 2015, we have estimated the out-turn of the relative TSR performance condition based on performance as at 9 February 2015 at nil. If actual relative TSR performance is different on the date of vesting, we will set this out in the annual remuneration report for 2015.

Note 6 The single figure of remuneration for 2014 includes all awards that were subject to a performance condition where the performance period ended, or was substantially (but not fully) completed, at 31 December 2014 and awards where the performance condition has been satisfied but where the release of shares is subject to a further holding period. The same methodology has been applied for earlier periods and the single figure for earlier reporting periods has been restated where necessary.

Note 7 The value of shares included in the single figure of remuneration is the number of shares multiplied by the share price on release.

Note 8 The value of the LTIP awards in 2014 for the executive directors is shown below, based on a share price on the date of award of 1,102.0p:

Director	Date of award	Vesting date	Number of shares	Face value (£)	Face value (% of 2014 salary)	Value for threshold performance (% of 2014 salary)
John Fallon	1 May 2014	1 May 2017	274,000	£3,019,480	397%	119%
Robin Freestone	1 May 2014	1 May 2017	162,000	£1,785,240	323%	97%

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Movements in directors' interests in share options during 2014

John Fallon and Robin Freestone also hold options under the worldwide save for shares plan as follows:

Director	Date of grant	Number of shares under option held as at 31 Dec 2014	Option price	Earliest exercise date	Expiry date	Value in 2014 single figure £000
John Fallon	7 May 2010	1,930	805.6p	1 Aug 15	1 Feb 16	0
	30 Apr 2014	1,109	811.2p	1 Aug 17	1 Feb 18	0
Robin Freestone	4 May 2012	990	909.0p	1 Aug 15	1 Feb 16	0
	30 Apr 2014	1,109	811.2p	1 Aug 17	1 Feb 18	0

Note 1 No share option awards were vested or were exercised in the year.

Note 2 No variations to terms and conditions of share options were made during the year.

Note 3 Acquisition of shares under the worldwide save for shares plan is not subject to a performance condition.

Note 4 All share options that become exercisable during a year are included in the single figure of total remuneration for that year. The value included in the single figure of total remuneration is the number of options multiplied by the difference between the value on grant and the market value on the earliest exercise date. No share options were exercisable during 2014 and so there is nothing to include in the single figure of total remuneration for 2014.

Note 5 The market price on 31 December 2014 was 1,190.0p per share and the range during the year was 998.0p to 1,340.0p.

Payments to former directors

It is the committee's intention to disclose any payments to past directors, including the release of share-based awards post-departure.

The number of shares retained from the number of shares originally awarded takes into account lapses due to performance, releases prior to ceasing to be a director and pro-rating for service in the performance period (where applied).

2012 long-term incentive awards

As set out in the annual remuneration report for 2013, Marjorie Scardino, Rona Fairhead, John Makinson and Will Ethridge retained long-term incentive plan awards made on 2 May 2012, all subject to performance. As disclosed elsewhere in this report, these awards are expected to lapse in 2015.

Will Ethridge

As set out in the annual remuneration report for 2013, Will Ethridge stepped down from the board on 31 December 2013. He continued to be eligible for the same base salary, annual incentive and other benefits in accordance with his service agreement with the company until he retired on 31 December 2014. No compensation for loss of office or severance was paid on his stepping down from the board, or on his retirement.

As also reported in the annual remuneration report for 2013, Will Ethridge retained 100,000 (two-thirds) of the shares awarded on 1 May 2013. The committee also approved an award of 116,000 performance related shares for Will Ethridge for 2014 on the same terms as the 2014 awards for members of the Pearson executive. In accordance with policy and after having carefully considered all relevant factors, the committee further determined in its absolute discretion that on his retirement from the company on 31 December 2014, Will Ethridge would retain a pro-rata entitlement of one-third of this award (i.e. 38,666 shares) which would vest or not, subject to performance, in 2017.

Marjorie Scardino

Because of payroll processing errors during the years 2007 to 2010, taxes deducted from Marjorie Scardino's compensation were incorrectly allocated by Pearson among tax authorities in the UK and the US. This resulted in her being subject to temporary double taxation. The committee has concluded in principle that Pearson should reimburse (on an after-tax basis) certain costs incurred by Marjorie Scardino in funding a proportion of the double-tax obligation. Details of any reimbursement will be included in a subsequent annual remuneration report.

Non-executive directors

The company's voluntary disclosure to HMRC regarding the taxable reimbursement of expenses for tax years prior to 2014 includes non-executive directors who are no longer employed by the company.

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Payments for loss of office

As announced to the stock exchange on 24 October 2014 and 27 February 2015, Robin Freestone will be stepping down from the board on 1 August 2015 and leaving the company during 2015. There will be no payment for loss of office.

At the time of writing, no further decisions have been made about whether and how the committee might exercise its discretion under Pearson's discretionary share plans. In accordance with policy, the committee will have regard to all relevant circumstances including distinguishing between different types of leaver, the circumstances at the time the award was originally made, his performance, and the circumstances in which he left employment. In the event that discretion is so exercised in Robin's favour, the details will be included in a subsequent annual remuneration report.

Directors' interests in shares and value of shareholdings

Directors' interests

The share interests of the continuing directors and their connected persons are as follows:

Director	Number of ordinary shares at 31 Dec 14	Number of conditional shares at 31 Dec 14	Total number of ordinary and conditional shares at 31 Dec 14	Value (% salary)	Guideline (% salary)	Guideline met
Chairman						
Glen Moreno	200,000	–	–	–	–	–
Executive directors						
John Fallon	282,147	13,752	295,899	549%	300%	✓
Robin Freestone	504,283	11,460	515,743	1,317%	200%	✓
Non-executive directors						
David Arculus	17,117	–	–	–	–	–
Elizabeth Corley	468	–	–	–	–	–
Vivienne Cox	2,123	–	–	–	–	–
Ken Hydon	18,634	–	–	–	–	–
Josh Lewis	6.632	–	–	–	–	–
Linda Lorimer	1,581	–	–	–	–	–
Harish Manwani	1,392	–	–	–	–	–

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

Note 2 The current value of the executive directors' holdings of ordinary and conditional shares is based on the middle market value of Pearson shares of 1,420p on 27 February 2015 against base salaries in 2014. All executive directors comfortably exceeded the shareholding guidelines. The shareholding guidelines do not apply to the chairman and non-executive directors.

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

Note 4 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 2014 was 1,190.0p per share and the range during the year was 998.0p to 1,340.0p.

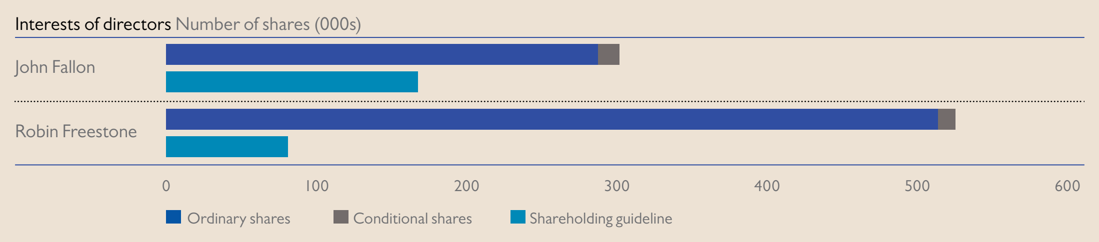
Note 5 There were no movements in ordinary shares between 1 January 2015 and a month prior to the sign-off of this report.

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

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Interests of directors and value of shareholdings



Shareholding guidelines

Executive directors are expected to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee ownership and to align further the interests of executives and shareholders. With effect from 2014, target holding is 300% of salary for the chief executive and 200% of salary for the other executive directors.

Shares that count towards these guidelines include any shares held unencumbered by the executive, their spouse and/or dependent children plus any shares vested but held pending release under a restricted share plan. Executive directors have five years from the date of appointment to reach the guideline.

With effect from 2014, these guidelines have been extended to include all members of the Pearson executive at 100% of salary.

The shareholding guidelines do not apply to the chairman and non-executive directors. However, a minimum of 25% of the basic non-executive directors' fee is paid in Pearson shares that the non-executive directors have committed to retain for the period of their directorships.

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 share 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 2014, 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 2014 amounted to 0.9% 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	2014	2013	2012
All Pearson plans	8.3%	8.4%	8.3%
Executive or discretionary plans	5.0%	5.0%	5.0%
Shares held in trust	4.1%	3.8%	3.8%

Executive directors' non-executive directorships

Executive directors served as non-executive directors elsewhere but either waived or did not receive fees.

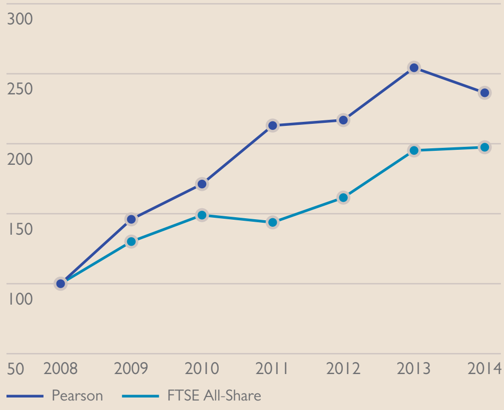
Historical performance and remuneration

Total shareholder return performance

We set out below Pearson's total shareholder return (TSR) performance relative to the FTSE All-Share index on an annual basis over the six-year period 2008 to 2014. This comparison has been chosen because the FTSE All-Share represents the broad market index within which Pearson Shares are traded. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. (source: *DataStream*)

In accordance with the reporting regulations, this section also presents Pearson's TSR performance alongside the single figure of total remuneration for the CEO over the last six years and a summary of the variable pay outcomes relative to the prevailing maximum at the time. The table below summarises the total remuneration for the CEO over the last five years, and the outcomes of annual and long-term incentive plans as a proportion of maximum.

Total shareholder return: six years to 31 December 2014



Financial year ending	2009	2010	2011	2012	2013	2014
Total remuneration – John Fallon (single figure, 000s)	–	–	–	–	1,727	1,895
Total remuneration – Marjorie Scardino (single figure, 000s)	6,370	8,466	8,340	5,330	–	–
Annual incentive – incumbent (% of maximum)	91.3%	92.1%	75.7%	24.2%	34.3%	50.5%
Long-term incentive – incumbent (% of maximum)	80.0%	97.5%	68.3%	36.7%	Nil	Nil

Annual incentive is the actual annual incentive received by the incumbent as a percentage of maximum opportunity.

Long-term incentive is the pay-out of performance related restricted shares under the long-term incentive plan where the year shown is the final year of the performance period for the purposes of calculating the single total figure of remuneration.

Total remuneration - John Fallon John Fallon's total remuneration opportunity is lower than that of the previous incumbent. Variable pay-outs under the annual and long-term incentive plans reflect performance for the relevant periods.

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Comparative information

The following information is intended to provide additional context regarding the total remuneration for executive directors.

Relative percentage change in remuneration for CEO

The following table sets out the change between 2013 and 2014 in three elements of remuneration for the CEO, in comparison to the average for all employees.

While the committee considers the increase in base pay for the CEO relative to the broader employee population, benefits are driven by local practices and eligibility is determined by level and individual circumstances which do not lend themselves to comparison.

	Base salary	Allowances and benefits	Annual incentives	Total
CEO	1.5%	93%	49%	22%
All employees	1%	-9%	4%	0%

Note 1 The figures for all employees reflect average salaries and average employee numbers each year. Annual incentives include all plans, including sales incentives.

Note 2 The increase in allowances and annual incentives for John Fallon is attributable respectively to (a) the first full-year of reporting of his private use of a driver based on the benefit-in-kind charge for the 2013/2014 tax year and (b) the year-on-year increase in his payout under the Pearson annual incentive plan.

Relative importance of pay spend

The committee considers directors' remuneration in the context of the company's allocation and disbursement of resources to different stakeholders.

In particular, we chose operating profit because this is a measure of our ability to reinvest in the company. We include dividends because these constitute an important element of our return to shareholders.

£m	2014	2013	Year-on-year change £m	Year-on-year change %
Operating profit	722	736	-14	-2%
Dividends	397	372	25	7%
Total wages and salaries	1,728	1,836	-108	-6%

Note 1 Operating profit is as set out in the financial statements.

Note 2 Wages and salaries include continuing operations only and include directors. 2013 is restated on the same basis. Average employee numbers for continuing operations for 2014 were 40,876 (2013: 42,115). Further details are set out in note 5 to the financial statements on page 141.

Information on changes to remuneration for 2015

Executive directors' base salaries

We have undertaken a regular periodic review of base salaries for 2015, taking into account general economic and market conditions, the level of increases made across the company as a whole, the remuneration of executives in similar positions in comparable companies and individual performance.

As a result of this review, the 2015 base salaries for the CEO and CFO are as follows:

£000s	John Fallon	Robin Freestone
Base salary at 31 December 2014	£765	£556
Increase	£15.3 2%	£0 0%
Base salary at 1 April 2015	£ 780.3	£ 556

Annual incentive

The key design principles underlying the company's approach to annual incentives for 2015 are the same as for 2014, namely:

- Full alignment of annual incentives with the global education strategy to reinforce a 'one Pearson' focus
- A clear, transparent, coherent, consistent, organisation-wide approach to incentives and performance management with a common incentive framework for Lines of Business, Geographies and enabling functions
- The size of the overall annual incentive pay-out will be linked to overall Pearson performance.

For 2015, there will be no change to the overall Pearson performance measures, namely adjusted earnings per share (60% weighting), sales (20%) and cash flow (20%).

The Pearson financial targets will be set each year as part of the normal operating plan process. The CEO and CFO will recommend the overall Pearson incentive funding metrics (including performance measures, targets and weightings) to the committee for approval in the normal way.

There will be no change in individual annual incentive opportunities for the executive directors and the Pearson executive.

Annual incentive pay-outs are determined according to a combination of Pearson-wide performance and individual goals. The sum of the CEO's and the Pearson executives' 'on-target' annual incentive constitutes the incentive pool for this group which flexes up or down based on overall Pearson performance. Individual performance is assessed against goals set at the start of the year. Individual pay-outs up to individual maximum opportunities and within the total pool are recommended by the CEO (or by the chairman in the case of the CEO himself) for review and, in the case of the executive directors, for approval by the committee.

The committee considers the performance targets for 2015 to be commercially sensitive. Details of performance measures, weightings and targets will be disclosed in the annual remuneration report for 2015 if and to the extent that the committee deems them to be no longer commercially sensitive.

Long-term incentives

The committee will continue to operate the long-term incentive plan for the executive directors and other members of the Pearson executive in line with the arrangements outlined in the 2013 report on directors' remuneration:

- The weighting of the performance metrics will be half on earnings per share growth, one-third on return on invested capital and one-sixth on relative total shareholder return
- Performance will be tested over three years and 75% of the vested shares will be released at that point. However, there is a mandatory restriction on participants' ability to dispose of the 75% of the vested shares (other than to meet personal tax liabilities) for a further two years. Furthermore, participants' rights to the release of the 25% of the vested shares is subject to continued employment over the same period
- For 2015 and onwards, the averaging period for the calculation of relative total shareholder return will be moved to the period running up to the year end and the length of the averaging period will be increased to three months.

In addition, we will reduce the proportion of the maximum award that vests for threshold performance on all measures from 30% to 25% in line with institutional investors' preferences.

At the time of writing, the committee has yet to approve the 2015 long-term incentive awards and the associated performance targets for the executive directors and other members of the Pearson executive.

We will set the level of individual awards consistent with those seen in recent years and within the policy maximum taking into account:

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

We will set targets for the 2015 awards that are consistent with the company's strategic objectives over the period to 2017.

Full details of individual awards for the executive directors and the performance targets for 2015 will be set out in the annual remuneration report for 2015.

Report on directors' remuneration continued

PART 3 – ANNUAL REMUNERATION REPORT

Appointment of CFO

As announced to the stock exchange on 27 February 2015, Coram Williams will join Pearson as CFO designate on 1 July, and succeed Robin Freestone as CFO on 1 August, when he will also replace Robin on the Pearson board as an executive director. Full details of the terms of Coram's remuneration package will be included in the annual remuneration report for 2015.

The package will be in accordance with, and within the limits of, our approved remuneration policy and will comprise inter alia: a base salary of £515,000 per year; an annual incentive opportunity of 85% of salary at target (up to 170% of salary at maximum) with any pay-out for 2015 being calculated pro-rata for his service; miscellaneous and family relocation allowances and temporary accommodation assistance in accordance with policy; membership of the Final Pay Section of the Pearson Group Pension Plan with an accrual rate of 1/60th of pensionable salary, subject to the Plan earnings cap (£145,800 per year for the 2014/2015 tax year), in accordance with earlier commitments given to him about the arrangements that would apply should he rejoin Pearson in the UK having moved from Pearson to Penguin US and subsequently Penguin Random House; and eligibility for long-term incentive awards on the terms normally applicable to executive directors and other members of the Pearson executive. Full details of his award will be disclosed in the 2015 report on directors' remuneration. There will be no compensation for incentives foregone at his previous employer.

In accordance with policy, the period of notice he would be required to give to terminate his employment would be 6 months and that which he would be entitled to receive from the company would be 12 months. In circumstances of termination of employment without cause, he would be entitled to contractual pay-in-lieu of notice comprising 12 months' base salary and annual cost of providing pension and other benefits (but excluding annual incentive). Payment in lieu may be paid in instalments and subject to reduction taking into account alternative employment.

Chairman and non-executive directors

The salary for the chairman and fees for the non-executive directors remain unchanged for 2015. Full details will be set out in the annual remuneration report and included in the single figure of total remuneration for 2015.

David Arculus Director
9 March 2015

Additional disclosures

REPORT OF THE DIRECTORS

Pages 57 to 112 of this document comprise the directors' report for the year ended 31 December 2014.

Other information that is required by the Companies Act 2006 (the Act) to be included in the directors' report, and which is incorporated by reference, can be located as follows:

There is no information to be disclosed in accordance with Listing Rule 9.8.4.

Going concern

Having reviewed the Group's liquid resources and borrowing facilities and the Group's 2015 and 2016 cash flow forecasts, the directors believe that the Group has adequate resources to continue as a going concern for at least the next 12 months. 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 164 to 172.

Share capital

Details of share issues are given in note 27 to the accounts on page 186. 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 2014, 819,882,967 ordinary shares were in issue. At the AGM held on 25 April 2014, the company was authorised, subject to certain conditions, to acquire up to 81,903,781 ordinary shares by market purchase. Shareholders will be asked to renew this authority at the AGM on 24 April 2015.

Information provided to the company pursuant to the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published on a Regulatory Information Service and on the company's website.

As at 4 March 2015, being the latest practicable date before the publication of this report, the company had been notified under DTR5 of the following significant voting rights in its shares.

	Number of voting rights	Percentage as at date of notification
BlackRock, Inc.	41,458,030	5.05%

Annual General Meeting

The notice convening the AGM, to be held at 12 noon on Friday, 24 April 2015 at 8 Northumberland Avenue, London WC2N 5BY, is contained in a circular to shareholders to be dated 20 March 2015.

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

Additional disclosures continued

REPORT OF THE DIRECTORS

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

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

The audit committee receives regular reports summarising the amount of fees paid to the auditors. During 2014, Pearson spent considerably less on non-audit fees with PwC compared to 2013, when there was significant expenditure related to specific assurance and tax advisory services associated with the creation of the venture between Penguin and Random House. For 2014, non-audit fees represented 37% of external audit fees (89% in 2013).

For all non-audit work in 2014, PwC were selected only after consideration that they were best able to provide the services we required at a reasonable fee and within the terms of our external auditors policy. To assist in ensuring that independence and objectivity is maintained, for forward-looking tax advisory and due diligence work PwC assign a different partner from the one leading the external audit.

Significant non-audit work performed by PwC during 2014 included:

- Tax compliance services related to a routine audit by the US Internal Revenue Service
- Tax advisory work on a number of UK, US and international tax matters
- Audit-related work in relation to potential and actual corporate finance transactions
- Assurance services on a corporate bond issued in May 2014.

A full statement of the fees for audit and services is provided in note 4 to the accounts on page 140.

Fair, balanced and understandable reporting

As required by the Code, we have established arrangements to ensure that all information we report to investors and regulators is fair, balanced and understandable. A process and timetable for the production and approval of this year's report was agreed by the board and audit committee at their meetings in December 2014. The full board then had opportunity to review and comment on the report as it progressed.

Representatives from financial reporting, corporate affairs, company secretarial and internal audit and compliance are involved in the preparation of the Annual report to ensure a cohesive and balanced approach and, as with all of our financial reporting, our disclosure committee conducts a thorough verification of narrative and financial statements.

The audit committee is also available to advise the board on certain aspects of the report, to enable the directors to fulfil their responsibility in this regard.

Directors in office

The following directors were in office during the year and up until signing of the financial statements:

G R Moreno
J J Fallon
R A D Freestone
T D G Arculus
E P L Corley (appointed 1 May 2014)
V Cox
K J Hydon
S J Lewis
L K Lorimer
H Manwani
T Score (appointed 1 January 2015)

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 whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 and enable 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 hence 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 listed above confirms that to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and company
- 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:

- So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware
- 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.

In addition, the directors as at the date of this report consider that the Annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Approved by the board on 9 March 2015 and signed on its behalf by

Philip Hoffman Secretary

Additional disclosures continued

ADDITIONAL SHAREHOLDER INFORMATION

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 Act by way of a special resolution.

Rights attaching to shares

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

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

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

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

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

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

Voting at general meetings

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

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

Pearson operates two employee benefit trusts to hold shares, pending employees becoming entitled to them under the company's employee share plans. There were 7,192,412 shares held as at 31 December 2014. 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 4,709,325 shares so held as at 31 December 2014. The beneficial owners of shares held through Sharestore are invited to submit voting instructions online at www.shareview.co.uk. If no instructions are given by the beneficial owner, the trustees holding these shares will not exercise the voting rights.

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 be no less than two in number. 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 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.

Additional disclosures continued

ADDITIONAL SHAREHOLDER INFORMATION

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 August 2014 which matures in August 2019 between, amongst others, the company, Barclays Bank plc (as facility agent) and the banks and financial institutions named therein as lenders (the Facility), any such bank may, upon a change of control of the company, require its outstanding advances, together with accrued interest and any other amounts payable in respect of such Facility, and its commitments, to be cancelled, each within 60 days of notification to the banks by the facility agent. For these purposes, a 'change of control' occurs if the company becomes a subsidiary of any other company or one or more persons acting either individually or in concert, obtains control (as defined in section 1124 of the Corporation Tax Act 2010) of the company.

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