Governance report

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

Governance overview

From Vivienne Cox, Senior independent director

Vivienne Cox
Senior independent director

During times of change, good governance is paramount. As a board we organise our work around four major themes where we believe we can add value: governance, strategy, performance and people.

In this Governance section

Dear shareholders

The past year has seen some notable changes at Pearson, in terms of both personnel and portfolio, and as senior independent director, the board felt it was appropriate for me to set out these changes for you in greater detail.

After ten years at Pearson, during which our business and the wider economy in which we operate have transformed markedly, Glen Moreno stepped down as chairman at the end of 2015. Whilst the last few months of 2015 were challenging for Pearson, Glen's legacy to the company can be seen in the well balanced and forward-thinking board of directors he has assembled which is working hard to steer Pearson back to growth. Having worked alongside Glen for the past four years on the board, and on behalf of Pearson as a whole, I would like to thank him for his deep commitment to Pearson and its mission and wish him the very best for the future.

Glen's successor as Pearson chairman, Sidney Taurel, officially took up his post in January 2016 and we are confident that his experience and dedication will help guide Pearson towards successful delivery of its key priorities. Read more about Chairman succession on p79

Governance principles

During times of change, good governance is paramount. The board was closely involved with the strategic decisions to sell Pearson's interests in the Financial Times, The Economist and PowerSchool, providing input and challenge as matters progressed. We will continue to do so throughout the current phase of change.

Our role and activities As a board we organise our work around four major themes where we believe we can add value: governance, strategy, 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 p75

UK Corporate Governance Code This year, for the first time, we are reporting against the 2014 edition of the UK Corporate Governance Code (the Code). The board believes that during 2015 the company was in full compliance with all relevant provisions of the Code. A detailed account of the provisions of the Code can be found on the FRC's website at www.frc.org.uk and we encourage readers to view our compliance schedule on the company website at www.pearson.com/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. In April 2015 we also bid farewell to David Arculus and Ken Hydon, who each served on the board for nine years, as remuneration and audit committee chairmen respectively. In addition to our new chairman, we have also welcomed two other directors to our board since our last report to shareholders. Coram Williams – a long-time Pearson and Penguin Random House colleague – joined the board on 1 August 2015, assuming the role of chief financial officer following Robin Freestone's departure, and in January 2016, Lincoln Wallen joined the board as a non-executive director bringing with him a wealth of digital and technology experience. We welcome Coram and Lincoln to the board, where they are already making valuable contributions to our governance and deliberations. Learn more about our Board of directors on p72-73

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 Coram Williams. In addition, we invite members of the Pearson executive to attend a number of the board's sessions to bring insights and thoughts from across the business, such as at the board's overseas strategy sessions in Palo Alto, California and New Delhi, India. Learn more about the Overseas strategy sessions on p93

Accountability

See full section on p82-89

A key element of the board and audit committee's work each year is consideration of Pearson's risk appetite and the review of our principal risks. The 2014 edition of the Code introduced a requirement for the board to assess the company's prospects taking into account the current position and principal risks, and to make a viability statement on this basis. The audit committee supported the board in this process by examining the analysis and assumptions underlying the viability statement, considering the required inputs and evaluating the proposed disclosures resulting from the process.
Learn more about Risk management on p38-40
and read the Viability statement on p118

Engagement

See full section on p90-93

Engagement with shareholders and society as a whole is key to Pearson's mission to help people make progress in their lives through access to better learning. We have announced important partnerships during the past year, such as Project Literacy and our partnership with Save the Children, and the launch of the UN's Sustainable Development Goals has presented an opportunity for Pearson to become engaged with a wide section of stakeholders. As a result, our reputation & responsibility committee continues to expand its areas of focus, with increased sight of Pearson's social impact initiatives, social and traditional media engagement activity, and employee engagement matters. We also welcomed a number of shareholders to our Annual General Meeting (AGM) 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 p94-117

This year's directors' remuneration report refers to further incremental changes we have made in line with policy in 2015 to better align executive director compensation with the interests of our shareholders and how this policy was operated in 2015. To put our report into context, we have included a summary of the approved directors' remuneration policy report from 2013 which is not subject to a vote. Our remuneration policy was reviewed in 2013 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.

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.

Vivienne Cox
Senior independent director

Our business
Our performance
Our Social impact
Governance
Financial statements

Board of directors

Chairman

Sidney Taurel Chairman
aged 67, appointed 1 January 2016

Sidney has over 40 years of experience in business and finance, and is currently a board director and chairman of the Compensation Committee at IBM Corporation. He is also a director at McGraw Hill Financial, Inc., a role from which he will step down during 2016. Sidney is senior advisor at global investment bank Moelis & Co and an advisory board member at pharmaceutical firms Takeda Pharmaceutical and Almirall. He was chief executive officer of global pharmaceutical firm Eli Lilly and Company from 1998 until 2008, chairman of the business from 1999 until 2008, and has been chairman emeritus since 2009. Sidney has received three US presidential appointments: to the Homeland Security Advisory Council, the President's Export Council and the Advisory Committee for Trade Policy and Negotiations, and is an officer of the French Legion of Honour.

Key to committees

A Audit Committee

◯ Committee Chair

N Nomination Committee

R Remuneration Committee

RR Reputation & Responsibility

Executive directors

John Fallon Chief executive
aged 53, 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., in 2000. In 2003, he was appointed CEO of Pearson's educational publishing businesses for Europe, Middle East and Africa. Prior to joining Pearson, John was director of corporate affairs at Powergen plc, and 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 and a member of the Council of the University of Hull.

Coram Williams Chief financial officer
aged 42, appointed 1 August 2015

Coram joined Pearson in 2003 and has held a number of senior positions including finance and operations director for Pearson's English Language Teaching business in Europe, Middle East & Africa, interim president of Pearson Education Italia and head of financial planning and analysis for Pearson. In 2008 Coram became CFO of The Penguin Group and was latterly appointed CFO of Penguin Random House in 2013. Coram was trained at Arthur Andersen, and subsequently worked in both the auditing and consulting practices of the firm.

Non-executive directors

Linda Lorimer Non-executive director
aged 63, appointed 1 July 2013

Linda has a deep background in education strategy, administration and public affairs. She is senior counsellor to the president and provost of Yale University and until recently served as vice president for Global & Strategic Initiatives at Yale, where her duties included 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 was chair of the board of the Association of American Colleges and Universities. She also served on the boards of several public companies, including as presiding director of the McGraw-Hill Companies.

Harish Manwani Non-executive director
aged 62, appointed 1 October 2013

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 Holdings. He is also on the board of the Indian School of Business and the Economic Development Board (EDB) of Singapore, and is global executive advisor at Blackstone Private Equity.

Non-executive directors

Elizabeth Corley, CBE
Non-executive director
aged 59, appointed 1 May 2014

Elizabeth is non-executive vice chair of Allianz Global Investors, where she was chief executive officer from 2005 to 2016. She was previously at Merrill Lynch Investment Managers (formerly Mercury Asset Management) and Coopers & Lybrand. Elizabeth is acting-chair of the FICC Markets Standards Board, a member of the ESMA stakeholder group and an advisory council member of TheCityUK. She is a non-executive director of BAE Systems plc and the Financial Reporting Council. In addition, she is a member of FEAM's management committee, the CFA Future of Finance Council, the Supervisory Board of Euler SA, a council member of the City of London IRSG and a member of the Committee of 200. She is a fellow of the CFA and the Royal Society of Arts and is also a crime fiction author.

Vivienne Cox, CBE
Senior independent director
aged 56, appointed 1 January 2012

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 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 was appointed Commander of the Order of the British Empire (CBE) in the 2016 New Year Honours for services to the UK Economy and Sustainability.

Josh Lewis Non-executive director
aged 53, appointed 1 March 2011

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 several enterprises in the fin-tech/data, education, and other sectors.

Non-executive directors

Tim Score Non-executive director
aged 55, appointed 1 January 2015

Tim has extensive experience of the technology sector in both developed and emerging markets, having served as chief financial officer of ARM Holdings plc, the world's leading semiconductor IP company, a position he held for 13 years. He is an experienced non-executive director and currently sits on the boards of The British Land Company plc and HM Treasury. 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.

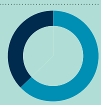
Lincoln Wallen Non-executive director
aged 55, appointed 1 January 2016

Lincoln is chief technology officer for DreamWorks Animation, the global family entertainment company, a position he has held since 2012, having joined the company as head of research and development in 2008. Prior to this, Lincoln served as chief technology officer for the mobile business of Electronic Arts, Inc., a leading interactive entertainment software company. He has held senior positions at Criterion Software, MathEngine plc and is a non-executive director of the Smith Institute for Industrial Mathematics & System Engineering. Lincoln is also an advisory board member of Hewlett Packard Enterprise and a member of the STEM Advisory Committee of the National Academy foundation. Lincoln was formerly a lecturer and reader in computation at the University of Oxford.

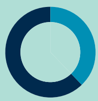
Pearson board members bring a wide range of experience, skills and backgrounds which complement our strategy.

Experience of chairman and non-executive directors

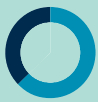
Digital/technology experience
63%



Emerging market experience
38%



Education/learning sector experience
63%



Our business
Our performance
Our Social impact
Governance
Financial statements

Board governance and activities

Board of directors

Composition of the board The board currently consists of the chairman, Sidney Taurel, two executive directors including the chief executive, John Fallon, and seven independent non-executive directors.

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 There were no changes to the chairman's significant commitments between his appointment to the Pearson board on 1 January 2016 and the date of this report. Mr Taurel has announced that he will step down from the board of McGraw Hill Financial, Inc. at its 2016 annual shareholders' meeting.

Independence of chairman Sidney Taurel was considered to be independent upon his appointment as chairman on 1 January 2016.

Independence of directors All of the non-executive directors who served during 2015 were considered by the board to be independent for the purposes of the Code. Lincoln Wallen was considered to be independent upon his appointment to the board on 1 January 2016. 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 matters 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.

Key roles

Role	Name	Responsibility
Chairman	Sidney Taurel	The chairman is primarily responsible for the leadership of the board and ensuring its effectiveness. The chairman sets the board's agenda and promotes open, constructive debate of all agenda items and effective decision-making. He also ensures that the views of shareholders are communicated to the board.
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 management. He is responsible for developing operational proposals and policies for approval by the board, and promotes Pearson's culture and standards.
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 should they have concerns that have not been addressed through the normal channels.
Committee chairmen	Tim Score, Elizabeth Corley, Vivienne Cox and Sidney Taurel	The committee chairmen are responsible for leading the board committees and ensuring their effectiveness. They set the committees' agendas, in consultation with the company's management, and report to the board on committee proceedings.
Company secretary	Stephen Jones	The company secretary acts as secretary to the board and its committees, ensuring compliance with board procedures and advising on governance matters. He is responsible, under the direction of the chairman, for ensuring the board receives accurate, timely and clear information. The company secretary organises new director inductions and ongoing director training.

Gender split of board

Men	7
Women	3

Figures as at 4 March 2016

Length of tenure of non-executive directors

Under 3 years	5
3 to 6 years	2

Figures as at 4 March 2016

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 scheduled meetings in 2015, with discussions and debates focused on the key strategic issues facing the company. Major items covered by the board in 2015 are shown in the table below. In addition to the six formal meetings, the board met by telephone in January 2015 to consider the January trading update to be issued to the market, and by telephone in October 2015 to consider the market's reaction to Pearson's October trading update and to begin to plan the proposed strategic course of action.

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 an additional discipline to major decisions.

Board meeting focus during the year 2015

Topic	Activity	
Governance	Annual review of authorised conflicts of interest	Focus on forthcoming AGM and review of shareholder issues
	Review of division of responsibilities between chairman and chief executive	Shareholder activism and defence plan
	Appointment of company secretary	Treasury policy approval
	Update on Pearson System of Courses (PSoC) including hands-on demonstration of courseware	Risk appetite
	South African Black Economic Empowerment (BEE) overview	Approval of committee terms of reference
	Supply chain outsourcing arrangements	Enterprise risk management review Read more on p38
		Approval of schedule of authority limits
Strategy	Operating and strategic plan updates	Offsite strategy meeting in California focusing on digital disruption in education
	Brand strategy Read more on p7	Offsite strategy meeting in New Delhi focusing on Brazil, China, India and South Africa Read more on p93
	Regular product demonstrations	
	Consideration of proposed corporate transactions including sales of PowerSchool, the Financial Times and The Economist	
Performance	2014 preliminary results and annual report and accounts	Triennial pension valuation
	Review of investor relations strategy and share price performance	Final and interim dividend proposals
	Interim results and trading updates	Monthly management reports
	Balance sheet strategy	Draft 2016 operating plan and three-year financials
People	Overview of 'The Summit' – Pearson's senior leadership conference	India key talent and leadership team dinner at New Delhi strategy meeting
	Rising Stars breakfast at overseas strategy meetings	

Board governance and activities continued

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 meetings are held at the locations of operating companies, such as during the board's 2015 visits to Palo Alto, California and New Delhi, India. 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 was established to approve certain ordinary course of business items such as banking matters, guarantees, intra-group transactions and to make routine approvals 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 evidenced during its externally facilitated evaluation in 2014, as a whole and at an individual level, the board feels wholly committed to Pearson's values and mission. The reputation & responsibility committee's remit includes oversight of Pearson's values and culture, and it has continued to monitor work in these areas throughout the year.

Board attendance

The following table sets out the attendance of the company's directors at scheduled board meetings during 2015:

	Board meetings attended
Chairman	
Glen Moreno	6/6
Executive directors	
John Fallon	6/6
Robin Freestone (note 1)	4/4
Coram Williams (note 2)	2/2
Non-executive directors	
David Arculus (note 3)	2/2
Elizabeth Corley	6/6
Vivienne Cox	6/6
Ken Hydon (note 4)	1/2
Josh Lewis	6/6
Linda Lorimer	6/6
Harish Manwani	6/6
Tim Score	6/6

Note 1: Stood down on 1 August 2015
Note 2: Appointed on 1 August 2015
Note 3: Stood down on 24 April 2015
Note 4: Stood down on 24 April 2015. Unable to attend one meeting due to personal reasons

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 during the year was to identify suitable candidates for the role of chairman.

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 is considered annually, and as part of the recent restructuring programme, there has been a review of key positions at executive management level.

Board evaluation

As reported last year, towards the end of 2014, an externally facilitated board effectiveness review was conducted by external evaluator, JCA Group. In addition to facilitating this review, JCA Group used the information and insight they had gleaned from the individual members of the board to help them form a brief and an overview of the characteristics that Pearson would be looking for in a new chairman. JCA then used this insight to inform the chairman search which took place during 2015, and resulted in the eventual appointment of Sidney Taurel as Pearson chairman. See p79 for a full review of chairman succession at Pearson.

The board evaluation for 2015 was conducted on an internal basis. With the forthcoming departure of Glen Moreno, the arrival of a new chairman, together with the appointment of a new CFO and the imminent appointment of a new company secretary, it was agreed that the 2015 review should focus mainly on the support and information that the board and committees receive in order to ensure that the existing processes are sufficient and fit for purpose. To that end, Stephen Jones, Pearson's company secretary, interviewed each of the non-executive directors to understand their thinking on a number of board and committee-related support activities.

Process and recommendations

The review focused on the scheduling, arrangements and logistics for all board and committee meetings; the quality and usefulness of the regular information flow to the board and committees, including the use of electronic board papers, regular CEO and CFO updates and other information; board induction and training; the payment of non-executives' fees and expenses and any other items or suggestions for improvements. The exercise proved very useful as an opportunity to take stock of current practice, to test whether the board views that as appropriate, and to think about those areas where improvements could be made. As a result of these discussions, we are re-thinking the schedule of board and committee meetings during the course of the year, including the topics to be considered at those meetings and their venues. In addition, we are refining some of the information that the board receives in order that the non-executives be able to be more effective. We heard that more could be done by management to 'curate' some of the information that is sent to non-executives and to make clear to them what is key information and what is useful to know. We are also refining the regular CEO and CFO updates to the board, in order to ensure they provide exactly the information that the board requires to help it track progress against a number of key milestones. This is an ongoing process, and we will continue to monitor the effectiveness of our internal processes and to compare what we do against others.

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.

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, committees and individual directors described above, the audit and remuneration committees each undertook a further evaluation process to review their performance and effectiveness, as they do each year.

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.

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 typically 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 programme for Lincoln Wallen is ongoing, tailored to his specific areas of focus, such as time with Pearson's technology leaders, and relevant to the board committees he has joined. Read about the induction programme for Pearson's new chairman, Sidney Taurel on p79

Board governance and activities continued

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 facilities 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 Pearson'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

A qualifying third party indemnity (QTPI), as permitted by the Articles and sections 232 and 234 of the Act, has been granted by the company to each of its directors. Under the provisions of the QTPI the company undertakes to indemnify each director against liability to third parties (excluding criminal and regulatory penalties) and to pay directors' costs as incurred, provided that they are reimbursed to the company if the director is found guilty, the court refuses to grant the relief sought or, in an action brought by the company, judgment is given against the director. The indemnity has been in force for the financial year ended 31 December 2015 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: audit, nomination, remuneration, and reputation & responsibility. 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	p82
Nomination committee	p80
Remuneration committee	p94
Reputation & responsibility committee	p90
Standing committee	p76

The committees 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 2015:

	Audit	Remuneration	Nomination	Reputation & responsibility
Glen Moreno	–	4/4	6/6	–
David Arculus (note 1)	2/2	2/2	2/2	–
Elizabeth Corley	–	4/4	6/6	–
Vivienne Cox	4/4	4/4	6/6	3/3
Ken Hydon (note 2)	2/2	1/2	1/2	–
Josh Lewis	–	4/4	6/6	–
Linda Lorimer	4/4	–	6/6	3/3
Harish Manwani	–	–	6/6	3/3
Tim Score (note 3)	4/4	1/1	6/6	–

Note 1: Stood down on 24 April 2015
Note 2: Stood down on 24 April 2015. Unable to attend one remuneration committee and one nomination committee meeting due to personal reasons
Note 3: Joined remuneration committee on 2 October 2015

Chairman's succession

Commencing the search

Following Glen Moreno's announcement at the 2015 AGM that he was planning to step down as chairman by the end of the year, Pearson commenced its search for a suitable successor. The selection process was led by Vivienne Cox, our senior independent director, and an external search firm, JCA Group, was engaged to assist and advise Pearson on the search and appointment process.

Taking the findings from the 2014 board effectiveness review as a starting point, and in consultation with the nomination committee and the chief executive, JCA designed a specification for the desired candidate which included the following key attributes:

- Highly experienced leader of large global businesses, ideally with a proven track record as a chairman
- Truly global player in outlook, approach and understanding with deep knowledge of and experience in Pearson's key geographic markets
- Genuine interest in embracing digital technology to benefit the customer and the company

In agreeing the specification, the board emphasised the importance of finding someone who was excited by and demonstrated empathy with Pearson's mission, values, goals and people.

Choosing a successor

Candidate profiles were prepared by JCA for consideration by Ms Cox, who then consulted the nomination committee and chief executive to agree a shortlist of strong candidates. She held initial meetings with the shortlisted candidates, and recommended a number of them to progress through to the next stage, where they met with the chief executive, following which a search sub-committee was formed, comprising Linda Lorimer and Tim Score, who each met with the strongest candidates.

Ms Cox reported regularly to the nomination committee throughout the search and interview stages, and following consideration of interview feedback it became clear to the board and the nomination committee that Sidney Taurel was the most suitable candidate to succeed Glen Moreno as chairman. Agreement having been reached, the nomination committee recommended that the final decision be delegated to a standing committee of the board to formalise Mr Taurel's appointment once the necessary checks had been satisfactorily completed.

Chairman's selection process

JCA Group was engaged with a clear set of criteria: to find a highly experienced global business leader, with proven ability to lead an industry through a period of change, of which technology is a key part, and in dealing with a complex regulatory environment.

1. Identify Using the agreed brief, JCA and the senior independent director considered and refined a list of potential candidates, seeking input from the nomination committee on which candidates should be approached.

2. Interview The senior independent director led a series of interviews with the shortlisted candidates. Preferred candidates then met with the chief executive and with the two members of the search committee, following which the nomination committee met to discuss feedback.

3. Select After further meetings, including with Glen Moreno, Sidney Taurel was recommended for appointment. He was selected having successfully led a global multinational company, operating in some of the most challenging political and regulatory environments, and having lived and worked all over the world, including the US, UK and Brazil – three of Pearson's most important markets.

4. Appoint Sidney's appointment as chairman was approved and announced in October 2015 to take effect on 1 January 2016, the date of his formal appointment to the Pearson board.

Appointment and induction

Pearson approved and announced the appointment of Sidney Taurel on 26 October 2015, and he joined the board on 1 January 2016, assuming the role of chairman immediately upon appointment.

Mr Taurel met the independence requirements set out in the Code on appointment and has confirmed he is able to dedicate the requisite time to the role.

A comprehensive induction programme was put in place for Sidney during the three months following the announcement of his appointment. A series of one to one meetings was held with members of the Pearson executive to enable Sidney to understand all aspects of Pearson's global business, the challenges facing the enabling functions such as technology, HR and corporate affairs, and the wider trends in education. Sidney also met with Pearson's brokers, corporate advisers and lawyers to understand broader regulatory matters and obligations. During his US-based induction, Sidney attended Pearson's national sales conference focusing on issues and hot topics in the US business, and spent time in Washington, DC with the corporate affairs and government relations team.

Nomination committee report

Chairman of nomination committee
Sidney Taurel

Members Elizabeth Corley, Vivienne Cox, Josh Lewis, Linda Lorimer, Harish Manwani, Tim Score, Sidney Taurel and Lincoln Wallen

"As chairman of the nomination committee, one of Glen Moreno's outstanding legacies to Pearson was his ability to attract first-rate non-executives to the Pearson board. I look forward to chairing this committee as we work to continually refresh the board, its committees and to think about succession planning at senior levels."

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.

Key activities in 2015

Objectives	Actions
Succession process and appointment of new chairman of the board	Appointment of Sidney Taurel as chairman
Identify and appoint additional non-executive director with digital technology experience	Appointment of Lincoln Wallen as non-executive director with experience in digital technology
Complete search process for new chief financial officer	Appointment of Coram Williams as chief financial officer

For nomination committee attendance see overview table on p78

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. The chairman of the board also chairs the nomination committee, and all non-executive directors serve as members of the committee. The chief executive attends committee meetings by invitation.

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, such as during the search process for Glen Moreno's replacement during 2015 when Vivienne Cox chaired the committee's meetings. Learn more about Chairman succession on p79

Committee meetings and appointments

The nomination committee meets at least once a year and at other times as and when required. During 2015, the committee met six times with its primary focus being to discuss the search criteria, prepare role descriptions and consider suitable candidates for the role of chairman of the board and for an additional non-executive director with particular experience in digital technology to complement our strategy. The non-executive search culminated in the successful appointment of Lincoln Wallen to the board with effect from 1 January 2016.

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

Pearson uses a number of leading firms in its board and executive search activities. JCA Group was engaged to assist with the recruitment of Sidney Taurel. In addition to board search activity, JCA Group facilitated Pearson's board evaluation in 2014. JCA Group has no other connection to Pearson apart from in relation to search activity and the external facilitation of the 2014 board evaluation. An external search consultancy, Spencer Stuart, was used during the recruitment process for Lincoln Wallen. Spencer Stuart does not have any other connection to Pearson apart from as a search consultancy.

Learn more about the Board of directors on p72-73

Diversity

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

The nomination 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. We believe the global backgrounds of our board members contribute to diversity of experience and thought.

In 2011, Lord Davies set FTSE 100 companies a target of having 25% female representation on their boards by 2015. Pearson is proud of the gender diversity of its board, having exceeded Lord Davies' target with 30% female representation on the board, and notes Lord Davies' recommended next steps for continued improvement in diversity on boards, including the extension of good diversity practices to the layers of executive management below the board.

Immediately below board level, the Pearson executive, not including the chief executive and chief financial officer who are main board directors, has two female members out of a total of nine (representing 22%). 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 34% of our senior leaders.

Pearson considers diversity as an important issue across the company, 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, such as through our range of networks and advancement programmes for employees. Learn more about Diversity and inclusion throughout Pearson on p62

Sidney Taurel
Chairman of nomination committee

Audit committee report

Chairman of audit committee
Tim Score

Members Vivienne Cox, Linda Lorimer, Tim Score and Lincoln Wallen

"During 2015, the committee conducted a number of deep dives into selected principal risks, and as chairman of the committee, I work closely with Coram Williams to ensure Pearson's finance function is well-placed to support the global business effectively."

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.

For audit committee meeting attendance see overview table on p78

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.

Pearson's internal auditor has a dual reporting line to the chief financial officer and to me, and external auditors have direct access to the committee to raise any matters of concern and to report on the results of work directed by the committee. As audit committee chairman, 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 119 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

2015 saw the retirement from Pearson of Ken Hydon, who had been chairman of the committee for nine years, and David Arculus, also a long-serving member of the committee. I took over from Ken as committee chairman in April, and have since worked with Coram Williams looking closely at Pearson's finance function to ensure it is well-placed to support the global business effectively. In March 2016 Lincoln Wallen joined the committee, bringing extensive technology experience, and together we have a good balance of skills and knowledge on the committee with experience covering all aspects of the sector in which Pearson operates.

Fair, balanced and understandable reporting

We are mindful of the Code's provision C.1.1 relating to fair, balanced and understandable reporting and we build sufficient time into our annual report timetable to ensure that the full board receives sufficient opportunity to review, consider and comment on the report as it progresses. Learn more about Fair, balanced and understandable reporting on p119

Risk assessment, assurance and integrity

A key role of the committee is to provide 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 2015 we conducted a number of deep dives into selected principal risks. Learn more about Principal risks and uncertainties on p41-45

Data security and data privacy

Recognising particular sensitivities around the schools and assessment data held on our systems, the committee undertook deep dives in each of these risk areas, and updates from the chief information security officer and newly-appointed chief privacy officer feature as regular items on the committee's agenda. To ensure adequate visibility of data security and privacy protocols throughout the company, new policies and procedures were developed during the year, including the introduction of mandatory data security and privacy training for employees.

Focusing on data security, the committee considered progress made to date and reviewed the roadmap for the next two years, including the aim of continuing to increase Pearson's data security risk maturity. Key to developing this maturity has been the shift of data security from a purely technical risk to a business critical one.

The risk management framework around data privacy needs to take Pearson's global footprint into account. Challenges exist in North America due to the large number of federal and state laws on data privacy, which are coupled with a changing picture globally as jurisdictions update their laws in a fast moving environment. Data privacy has been identified as a global strategic risk for Pearson, leading to the appointment of a chief privacy officer at the start of 2015. Meaningful progress has been made since that appointment, including the development of a new governance framework to address data privacy risks.

Business transformation

Ongoing business transformation, the next wave of which was announced in January 2016, is another of Pearson's key risks and opportunities. The committee receives regular updates on the transformation as a whole and during the year carried out a deep dive into The Enabling Program. As an important operational simplification project, The Enabling Program will feature as a standing item on the committee's agenda in 2016 as work progresses. Learn more about The Enabling Program on p6 and 41

Update on previous areas of focus

Last year, we highlighted health and safety (H&S) and anti-bribery and corruption (ABC) as areas to which the committee had paid particular attention. During 2015, the committee continued to monitor those areas, reviewing progress made and audit results.

The committee reviewed the overall H&S landscape at Pearson, in particular evaluating the progress made since the launch of the global H&S policy in December 2013. It noted that continued improvements are being implemented in standards, facilitated by the support of H&S coordinators, and was satisfied with the developments in relation to safeguarding and the progress that the safeguarding officer has made since appointment in August 2014.

The committee reviewed the ongoing implementation of ABC policies, where progress to date has been good, and noted that a more comprehensive and risk-based ABC training programme would continue to be rolled out in 2016. We also considered how the compliance and legal functions were working together to ensure appropriate stances in each jurisdiction, while maintaining Pearson's zero tolerance approach to ABC.

Audit committee meetings and activities

The committee met four times during the year with the following in attendance: the chief financial officer; general counsel; 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. One of the internal audit directors and the VP compliance and risk assurance also attend meetings, giving the committee direct contact with key leadership in 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 internal audit and compliance functions, 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.

Learn more about the Key activities of the audit committee on p84

Tim Score
Chairman of audit committee

Audit committee report continued

Audit committee meeting focus during 2015

Reporting	Accounting and technical updates Impact of legal claims and regulatory issues on financial reporting	The 2014 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 Review of interim results and trading updates
Policy	Accounting matters and Group accounting policies	Analysis supporting viability statement Read more on p40 Annual review and approval of external auditor policy	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 2015 external audit plan	Remuneration and engagement letter of the external auditors Review opinion on interim results Review of the effectiveness of the external auditors
Risk and internal control	Internal audit activity reports and review of key findings Enterprise risk management Read more on p38 2016 internal audit plan	Assessment of the effectiveness of the internal control environment and risk management systems Review of internal audit terms of reference	Risk deep dives: data security; data privacy; health & safety; legal risks and legal function; anti-bribery and corruption; tax Data security incidents reporting Treasury risk review
Compliance and governance	Fraud, whistleblowing reports and Code of Conduct matters Review of The Enabling Program as it proceeded	Compliance with the UK Corporate Governance 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. Tim Score, who assumed the chairmanship of the committee in April 2015, is the company's designated financial expert, having recent and relevant financial experience, and is an Associate Chartered Accountant. He also serves as audit committee chairman for The British Land Company plc and until 2014 was audit committee chairman at National Express Group plc.

The qualifications and relevant experience of the other committee members are detailed on p72-73

Audit committee meetings during 2015

During the year, the matters considered by the committee included those shown in the table above.

In February 2016, the committee also considered the 2015 annual report and accounts, including the preliminary announcement, financial statements, strategic report, directors' report and corporate governance compliance statement.

External audit

The committee reviews and approves the appointment of the external auditors, taking account of the views of management. The committee reviewed the effectiveness and independence of the external auditors during 2015, as it does every year, and remains satisfied that the auditors provide effective independent challenge to management.

In 2015, the external auditor review was conducted by distributing a questionnaire to key audit stakeholders including members of the audit committee, the chief executive, chief financial officer, company secretary, SVP internal audit and compliance, SVP finance for each Geography and Line of Business and other heads of corporate functions. Overall, responses to the questionnaire were very positive, indicating an effective external audit process. As part of the follow-up to the review, the lead audit partner explained to the committee how PwC were monitoring and evaluating each area highlighted in the review and confirmed that they would consider how to adapt their approach in light of specific comments received.

In addition, in accordance with Pearson's external auditor policy, internal audit performs an annual assessment of audit fees, services and independence which forms the basis of a recommendation by the committee to the board in respect of the appointment and compensation of the external auditors.

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 Pearson audit every five years. The current lead audit partner rotated onto Pearson's audit in 2013.

Pearson's last audit tender was in respect of the 1996 year end, and resulted in the appointment of Price Waterhouse as auditors. Developments at an EU level regarding mandatory audit rotation for listed companies have changed the UK landscape on audit tendering and rotation. The committee has reviewed the timetable for tendering and has taken into account all relevant regulation and guidance. New EU regulations and the ruling by the Competition and Markets Authority (CMA) has imposed mandatory tendering and rotation requirements from 2016.

In considering the appropriate audit tender timetable for Pearson in light of these requirements, the committee has also taken account of the significant business change being experienced by the Group and is monitoring the extent to which the Group is drawing upon the services of other accounting firms. The Group has commenced a series of programmes to implement major efficiency improvements across all our enabling functions – technology, finance, HR – to bring the general and administrative costs of running Pearson more in line with global best practice; these include a major finance transformation programme, including the implementation of new financial systems and changes to our transaction processing and control activities, that we expect to continue through 2016, 2017 and into 2018. The Group is supported in these changes, and more broadly, by external advisers including accounting firms.

It is the committee's intention to appropriately manage auditor independence and rotation, firstly, to ensure that a tender has the right level of suitably qualified and independent firms competing, including allowing for a planned transition and, secondly, to undertake this in a way that does not unnecessarily disrupt the business changes underway and provides consistency of independent oversight from external auditors through those changes.

Notwithstanding that the above EU mandatory rotation rules require a new auditor to be appointed no later than for the 2024 year end, it is the current expectation of the committee that an audit tender process will be conducted in 2018 in order for the auditor selected as a result of the tender to be appointed for the financial year ending 31 December 2018. For the reasons outlined above, the committee considers this timing to be in the best interests of the Group's members and will continue to monitor this annually in light of the effectiveness and independence of the current auditors.

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.

Compliance with the CMA Order

Pearson confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year ended 31 December 2015. Learn more about Auditors' independence and non-audit services on p119

Audit committee report continued

Significant issues

Area of focus	Issue	Action taken by audit committee	Outcome
Impairment reviews Read more in note 11 on p164	Pearson 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. In 2015 Pearson made significant impairments to goodwill and intangible assets in certain CGUs.	The committee considered the results of the Group's annual goodwill impairment review and the key assumptions which 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'. The committee noted that significant impairments had arisen primarily as a result of deterioration in expected cash flow over the strategic plan period, and considered sensitivity to assumptions in relation to other businesses.	Annual impairment review finalised with confirmation of an impairment in China, Brazil, North America and other Growth and Core territories, and sufficient headroom in 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 charter schools through Pearson's Connections business, and onerous contracts. The committee also continued to monitor 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 2018 the committee would need to understand the implications of the change well before that date.	Assumptions underlying revenue recognition were reviewed and challenged and considered to be appropriate.
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 Pearson's approach to tax provisioning. Pearson 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 Pearson's tax affairs are open to enquiry by local tax inspectors in jurisdictions where it has a larger taxable presence. The committee addressed this matter through the presentation of a management report on Pearson's tax affairs by the head of group tax and through a presentation of the external auditors' assessment of the company's tax provisioning.	The committee was satisfied with Pearson's approach to tax provisioning taking account of the views of management and the assessment of the external auditors.
Disposal accounting	Pearson disposed of its interest in The Financial Times, The Economist and PowerSchool.	The committee reviewed the disposal accounting and disclosure and considered the main judgements relating to tax treatments, and impairment of related assets on the PowerSchool disposal.	Accounting treatments and valuations confirmed as appropriate.

Significant issues continued

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

At the July 2015 audit committee meeting, the committee discussed and approved the external audit plan and reviewed the key risks of misstatement of Pearson's financial statements, which were updated at the December 2015 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 2015 and again at the conclusion of their audit of the financial statements for the full year in February 2016.

All the significant issues were areas of focus for the auditors. Learn more in the Independent auditors' report on p126

In December 2015, 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 Pearson'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 Pearson's transformation on those
- The results of their controls testing for Sarbanes-Oxley Act section 404 reporting purposes and in support of their financial statements audit
- The results of the company's 'going concern' and viability statement 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.

Audit committee training

The committee receives regular technical updates as well as specific or personal training as appropriate.

Committee members also meet with local management on an ongoing basis, such as when travelling for overseas board meetings, in order to gain a better understanding of how Pearson's policies are embedded in operations.

Risk governance and control

Control environment

The board of directors has overall responsibility for Pearson's systems of internal control and risk management, which are designed to manage, and where possible mitigate, the risks facing Pearson, safeguard assets and provide reasonable, but not absolute, assurance against material financial misstatement or loss. The directors confirm they have conducted a review of the effectiveness of Pearson's systems of risk management and internal control in accordance with provision C.2.3 of the Code and the FRC's Code Guidance. These systems have been operating throughout the year and to the date of this report.

Responsibility for monitoring the effectiveness of the company's 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, internal audit and the external auditors, with the aim of reviewing the effectiveness of the internal financial and operating control environment.

Each business area, including the corporate centre, maintains internal controls and procedures appropriate to its structure, business environment and risk assessment, while complying with company-wide policies, standards and guidelines.

Internal control and risk management

Our internal controls and risk oversight have been reviewed as a result of the FRC Guidance and changes made to ensure compliance. These changes include more robust executive ownership and assessment of controls and PLC risks as well as the preparation of a viability statement.

The board, assisted by the assurance the audit committee provides, oversees the enterprise risk management (ERM) framework, risk appetite validation and viability statement verification processes outlined in the Principal Risks and Uncertainties section on p41. Day-to-day enterprise risk management is undertaken by a dedicated team, accountable to the board and audit committee. The board validates the risk appetite for each principal risk (as recommended by executive management) early in the year. The identification and mitigation of significant business risks is the responsibility of senior management and leadership teams for each business area.

The results of risk assessments and reviews are reported to the Pearson executive, the board and the audit committee. For example, in 2015, all identified Pearson-wide top risks were reviewed by executive management, then by the board and audit committee on a semi-annual basis. In addition, throughout the year, the audit committee considered the oversight of specific selected principal risks, through a series of risk deep dives. The internal audit plan is also aligned to our greatest areas of risk and the audit committee considers issues and risks arising from internal audits.

The risk assessment and reporting criteria are designed to provide the board with a consistent, Pearson-wide perspective of the key risks. The reports to the board, which are submitted twice per year, include an assessment of the probability and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

Learn more about our risk management process, the principal risks and mitigating factors on p38-45

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. Pearson's 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 Pearson financial policies, formal requirements for finance functions, consolidation reviews and analysis of material variances, finance technical reviews, and review and sign-off by senior finance managers. The PLC 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, company secretary 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 the external auditors.

Internal audit

The 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 management self-assessments allow internal audit to monitor business areas' progress in implementing management action plans agreed as part of internal audits to resolve any control deficiencies. Progress of management action plans is reported to the audit committee at each meeting. 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 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 whistleblowing 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 transactions and procedures are subject to regular internal audit. 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. The treasury policy is described in more detail in note 19 to the financial statements.

Insurance

Pearson reviews its risk financing options regularly to determine how the company's insurable risk exposures are managed and protected. Pearson purchases comprehensive insurance cover and annually reviews coverage, insurers and premium spend, ensuring the programme is fit for purpose and cost-effective.

Pearson's insurance subsidiary, Spear Insurance Company Limited, is used to leverage Pearson's risk retention capability and to achieve a balance between retaining insurance risk and transferring it to external insurers.

Our business
Our performance
Our Social impact
Governance
Financial statements

Reputation & responsibility committee report

Chairman
Vivienne Cox

Members Vivienne Cox, Josh Lewis, Linda Lorimer, Harish Manwani

"Throughout the year, the committee provided oversight and input as Pearson continued to develop its sustainability practices, including the launch of Project Literacy and progress towards efficacy reporting. Our priority is to ensure Pearson's activities and policies align with our business strategy and stakeholder priorities."

Reputation & responsibility committee role

Having been formalised in 2014, the remit of the reputation & responsibility committee expanded during 2015, reflecting Pearson's continuing commitment and ambition around its corporate reputation, our belief in the importance of fulfilling our obligations to the communities in which we work, and maximising Pearson's positive impact on society.

The committee's work is closely aligned with the company's sustainable business initiatives and our meetings are now preceded by meetings of Pearson's responsible business leadership council – an internal governance group – ensuring that we are able to provide the necessary scrutiny and challenge to the council as our sustainability strategy is developed and integrated into the business. Read more about Social impact on p55-67.

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

Progress against 2015 targets

At the start of 2015, we set out to achieve a number of ambitious goals during our first full year as a formal board committee. You can read more about our progress below.

Areas of focus	Progress
Oversee delivery of our strategy for managing our reputation and maximising our contribution to society within the organisation	This was a regular feature of our meetings throughout the year as Pearson builds its reputation management capabilities through an increasingly proactive approach. In particular we have explored in depth the work being done in our US market to proactively manage Pearson's reputation. We also developed and adopted a new process for managing global reputation risk, which takes into account our expanded activity and exposure in growth markets, as well as our presence in certain high-risk countries.
Monitor integration of social impact into Pearson's business following the closure of the Pearson Charitable Foundation	The committee provided input into a number of social impact projects established and accelerated in 2015, particularly high-profile initiatives such as Project Literacy and our Every Child Learning partnership with Save the Children.
Review progress towards 2018 efficacy commitments	Through focused sessions at two committee meetings, we reviewed progress toward meeting our efficacy commitment, and made recommendations for improving the efficacy measurement, reporting and auditing processes. Learn more about Efficacy on p46-53

Key activities in 2015

Key areas of focus for the committee were the launch of Project Literacy, our progress towards external efficacy reporting, plans to link the UN's sustainable development goals to our business model, and the ongoing work around Pearson's brand and culture. In all of these areas, our priority is to ensure Pearson's activities and policies align with our business strategy and stakeholder priorities, while reflecting best practice.

In addition, Pearson has formalised a process for its reputational risk management, involving business leaders and corporate affairs representatives, and the committee now receives a reputational risk report at every meeting. The committee also conducts deep dives into areas of particular reputational impact, such as through a focused session in 2015 on Pearson's US reputational strategy.

More detail about the committee's responsibilities, and the activities it undertook in each area of its remit, is given below. For reputation & responsibility committee meeting attendance see overview table on p78

Committee aims for 2016

In 2016 the committee will continue to maintain a clear focus on reputational management in the US – our largest, and most reputationally high-profile market. We will oversee Pearson's continuous progress in embedding social impact into our strategy and business model, continue to monitor our corporate culture, ensuring employee engagement and values remain strong to help ensure Pearson is in good shape for the future, and we will undertake a review of the ethical business priorities identified in 2015.

Vivienne Cox
Chairman of reputation
& responsibility committee

Committee responsibilities

Topic	Responsibility	Activity	Strategy
Reputation	Pearson's reputation among major stakeholders, including governments, investors, employees, customers, learners and the education community	Updates on reputational 'hot topics' at each meeting Review of US reputational strategy Working with the audit committee to ensure that health & safety issues are properly considered from a reputation and responsibility perspective	Communications strategies, policies and plans related to reputational issues and the people, processes and policies that are in place to manage them
Risk	Oversight of Pearson's approach to reputational risk, including ensuring that clear roles have been assigned for management	Overview of reputational risk approach in growth and US markets, through in-country personnel and central corporate affairs team Regular consideration of reputational risk dashboards	
Social	Social impact initiatives, including Pearson's non-financial public commitments and progress towards them	Progress on efficacy, including launch of 'On the Road' publication and draft reporting framework Introduction to new reach and impact strategy Commitment to UN sustainable development goals and integration into business model Launch of Save the Children partnership	
Brand and culture	Management of the Pearson brand to ensure that its value and reputation are maintained and enhanced. Pearson's approach to monitoring and supporting the values and desired behaviours that form our corporate culture	Brand tracker update Review of progress on employee values and engagement Employee participation in social impact activities	
Ethics	Ethical business standards, including Pearson's approach to issues relevant to its reputation as a responsible corporate citizen	Consideration of ethical issues in the wider context of reputational risk identification	

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 2015, we continued with our shareholder outreach programme, seeing approximately 790 institutional and private investors at more than 450 different institutions in Australia, Canada, Dubai, Greater China, Continental Europe, India, Japan, Singapore, South Korea, Taiwan, 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 change 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.

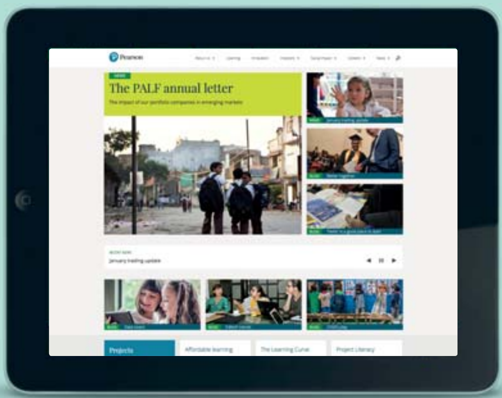
Consultations During the year we also consulted with our major shareholders and with shareholder representative bodies on our directors' remuneration report, and the significant minority vote against the 2013 annual remuneration report at the 2014 AGM.
Read about Remuneration on p94

Private investors 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 e-mail questions to the chairman in advance at chairman-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 p227 of this report. We also encourage all shareholders, who have not already done so, to register their e-mail addresses through our website and with our registrar. This enables them to receive e-mail alerts when trading updates and other important announcements are added to our website. See additional Shareholder information on p227

Visit pearson.com

- 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



Wider engagement

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 it 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 29 April 2016, is an opportunity for all shareholders to meet the board and to hear presentations about Pearson's businesses and results.

Engaging with all stakeholders

We post all company announcements on our website, www.pearson.com, as soon as they are released, and key 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 p55

Board visit to India

In October 2015, the board visited New Delhi, India, for a three-day meeting focused on our four most important Growth markets – Brazil, China, India and South Africa.

In each of these countries, Pearson's presence has grown markedly in the last few years and in each of them, to varying degrees, Pearson is operating in a challenging economic climate, whilst continuing to chart a path to the next phase of sustainable growth. These are important markets to Pearson's long-term future, where the fundamental demand for good quality education and training, leading to a job and a better life, remain strong.

Overview of growth markets: Providing context for the meeting, Pearson's President, Growth and SVP finance, Growth led an overview of performance and strategy across the four main Growth markets, following which the business leaders of each of Brazil, China and South Africa gave a more in-depth review of the opportunities and challenges in those countries, considering the macro-economic conditions and demographics particular to each territory.

Focus on India: Non-executive director Harish Manwani set the scene for the focus on India, and the board then took a closer look at Pearson's operations through a session with the head of our India business, learning about the huge potential in India and the demand for better, more job-relevant education. The board also spent time with Pearson's India leadership team and key talent and heard from a range of partners, policymakers and key influencers.

Learning in action: The board visited Jaypee public school, which provided an opportunity to see first-hand the impact of Pearson's school management improvement framework, to view the MyPedia integrated learning tool in action and learn about our health & safety and safeguarding initiatives. The board also spent time at a Pearson learning centre, learning about Pearson's work to translate education and training into employment, and engaged with representatives of Avanti Learning Centres and Zaya, two initiatives funded by the Pearson Affordable Learning Fund.

Learn more about our Growth markets on p29-32

Report on directors' remuneration

Part 1: Letter from the chairman of the remuneration committee

Chairman of the remuneration committee
Elizabeth Corley

Current Members
Tim Score, Vivienne Cox, Elizabeth Corley, Josh Lewis and Sidney Taurel

"It has been a tough year for Pearson and our remuneration outcomes have reflected this. 2015 brought challenging market conditions and significant changes. As we continue into 2016 we will be considering our remuneration policy proposals for 2017 in this new environment and context for the business."

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

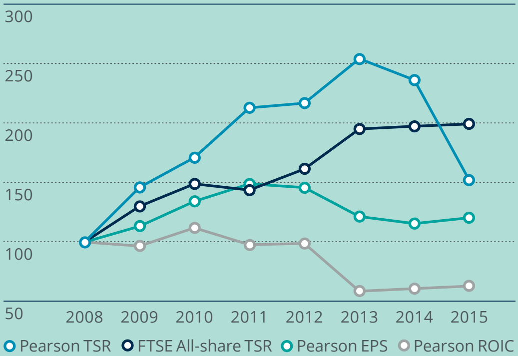
Dear shareholder

On behalf of the board, I am pleased to present the report on directors' remuneration for 2015. This is my first report as chairman of Pearson's remuneration committee, having succeeded Sir David Arculus at the Annual General Meeting (AGM) in April 2015. The opportunity to learn about and study the history, policies and procedures of remuneration at Pearson, with the support of fellow committee members, has been invaluable, as has the feedback and engagement with key shareholders. My board colleagues and I are aware of the importance and sensitivity among investors and the public more generally, of remuneration topics and we feel our responsibilities keenly.

As outlined in our strategic report, 2015 was a year of change and challenge for Pearson with continued market headwinds and the in-year disposals of PowerSchool, the Financial Times Group and our stake in The Economist. While we have been performing well competitively and gained market share across many areas of our business, year end results were lower than projected at the start of the year. This was largely driven by the persisting cyclical and policy-related turbulence in our major education markets. While this is expected to abate over the next two years, we saw a reduction in our annual operating profit for 2015 of approximately £230m from its peak.

Despite the challenges encountered, we remain focused on executing the business strategy, transforming Pearson to be the standout company in education globally and developing our long-term growth opportunities. The 2015 divestments were an important part of these aims. We are confident that education remains an attractive investment opportunity with

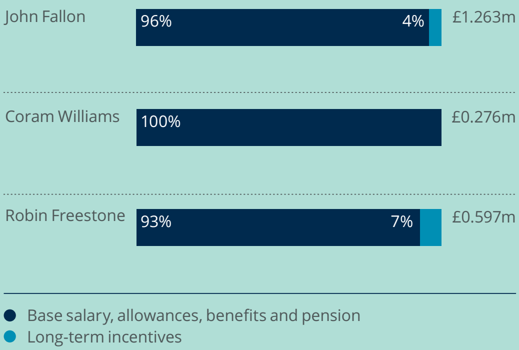
Key performance indicators



Initial value of KPIs have been rebased to 100 for same timeframe as chart on p114.

See p114 for alignment of pay with Total Shareholder Return

Executive directors' 2015 single figure breakdown



Coram Williams and Robin Freestone's remuneration relates to their full period of employment in 2015.

the growth potential to enable us both to serve more students around the world, and to deliver good, sustainable returns to our shareholders.

We do not intend to make any remuneration policy revisions ahead of the 2017 AGM. However, we keep the effectiveness of our current remuneration programmes under review and, partly in light of recent trading conditions and the specific strategic goals for 2016, we have concluded that some changes are warranted. These are detailed in this report and, for those yet to be finalised, we are engaging with our key investors.

What happened in 2015

Remuneration for executive directors is closely tied to business performance with a high proportion of total remuneration delivered through variable pay designed to reward achievement of short and long-term strategic objectives. As a result of the performance challenges noted in this report, the outcomes under these schemes were as follows:

- Annual incentives paid to executives for 2015 were zero, reflecting below-threshold performance in a tough trading environment.
- Long-term incentives vesting in 2015 did not pay out. This is the third consecutive year of nil pay-out, reflecting below-threshold performance against the company's three-year targets for earnings per share growth, return on invested capital and relative total shareholder return.

Given the environment within which the leadership team is expected to guide Pearson through a very significant period of change, without receiving any bonus or long-term incentive payments, the committee agreed for 2016 incentive and retention arrangements for selected key employees, which will vest, or not, in 2017. No executive directors participate in these incentives.

Future measures of performance against pay

We expect our business to stabilise in 2017 and return to growth in 2018. Our business plan until then focuses on operational execution, tight cost management and a sharper, more focused strategy. The focus of restructuring is not only to reduce costs but also to make the company faster, leaner and more agile.

We are creating a single global product organisation, integrating our school, clinical and professional assessment operations in North America and are scaling back our exposure to large, direct delivery operations. We are also making productivity improvements across all our enabling functions such as Technology, HR and Finance and we plan to rationalise our property portfolio and consolidate major agreements to drive greater cost efficiency.

Committee responsibilities:

1. Determine and review policy Determine and regularly review the remuneration policy for the executive directors, the presidents 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 Delegated responsibility for determining the remuneration and benefits package of the chairman of the board.

8. Shareholder engagement Ensure the company maintains an appropriate level of engagement with its shareholders and shareholder representative bodies in relation to the remuneration policy and its implementation.

9. 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.

In these circumstances, we intend to design our incentive plans for 2016 to ensure that our executive and other employees are motivated and incentivised to achieve our important aims over the short term, while sustaining a strategic focus on longer-term goals. The plan targets are still to be finalised but the current thinking suggests:

For the Annual Incentive Plan (AIP):

- The 2016 sales and cash metrics and weightings remain unchanged from 2015. However, to align the AIP with the specific restructuring achievements required in 2016, as noted in the income statement measure in our guidance to investors, Operating Profit after the cost of restructuring will be added to the metrics with a 30% weighting. To accommodate this change, the weighting for earnings per share (EPS) would also be 30% (down from 60% weight for 2015).

Part 1: Letter from the chairman of the remuneration committee continued

- For 2016, the range of normal rewarded performance would be wider than in previous years – and, in consequence, both the threshold performance and the on-target funding are set to be lower than in 2015.

For the Long-Term Incentive Plan (LTIP):

- Targets for the 2016 LTIP awards are planned to be set following the April remuneration committee meeting, having allowed key shareholders the opportunity to consider our plans on how to account for the revised growth expectations explained in our January 2016 trading update, and in line with policy.
- The targets will be fully disclosed in the 2016 report on directors' remuneration.
- The targets and weightings will continue to be based on EPS (one-half), ROIC (one-third) and TSR (one-sixth) with on-target levels planned to be in line with the delivery of the market guidance operating profit of £800 million in 2018.

Looking forward to 2016

The committee has reviewed the base salary levels for executive directors in light of 2015 business performance and concluded that it would not be appropriate to award a salary increase for 2016.

In preparation for the policy vote in 2017, we expect to conduct a thorough review of our remuneration policy in 2016 to test and ensure its effectiveness and appropriateness for the company, which finds itself in a new operating environment and context to that prevailing in 2014. We are committed to engagement with our shareholders during this review and will welcome comments and feedback.

The operation of the current LTIP will be considered as part of the policy review, in parallel with a periodic review of the remuneration committee's terms of reference. Our new policy – changed or not – and any new or renewed plans will be put to shareholders for approval at the 2017 AGM. For information on our anticipated changes to remuneration for 2016 see page 116.

My meetings with shareholders in 2015 have been helpful in understanding perspectives and I look forward to continuing the dialogue in 2016 and beyond.

We are confident that our response to the changes and challenges described here will make Pearson a simpler, focused and stronger company and that we will position the company to achieve a sustained period of growth.

Elizabeth Corley
Chairman of remuneration committee

4 March 2016

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. Our remuneration policy principles are highlighted in the panel below and a summary of our directors' remuneration policy report, approved by shareholders at the 2014 AGM, is provided on pages 97 and 98.

We continue to operate executive remuneration in line with the approved policy and do not anticipate seeking shareholder approval for our policy again until required to do so at the 2017 AGM. See table on page 98.

Sustainability and affordability

Base salary
- Robust and transparent
- Link to pay conditions across the Group
- Strong rationale for increases

Annual incentives
- Funded through results
- Strong link to performance
- Malus and clawback

Long-term incentives
- Strong link to performance
- Malus and clawback

Pay for performance

Annual incentives
- Pay mix focuses on variable pay
- Funded through results
- Aligned fully with KPIs: EPS, operating profit, sales and operating cash flow
- Malus and clawback

Long-term incentives
- Pay mix focuses on variable pay
- Funded through results
- Aligned with strategy through KPIs: EPS, ROIC and TSR
- Malus and clawback

Alignment

Annual incentives
- Designed to reflect shareholder value creation

Long-term incentives
- Designed to reflect shareholder value creation
- 2-year holding post-vesting

Shareholding guidelines
- CEO: 300% CFO: 200%
- Pearson executive: 100%

Report on directors' remuneration continued

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 nine 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 remain in force until the next binding vote on our remuneration policy, which 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 pre-existing obligations, commitments or other entitlements that were entered into before the effective date of this policy.

Part 2: Summary of remuneration policy continued

Summary of remuneration policy

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

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.	Performance of both the company and the individual are taken into account when determining an appropriate level of base salary increase each year, if any.	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, normally related to the performance against targets for Pearson's adjusted earnings per share (or operating profit), sales, and operating cash flow. Individual annual incentive pay-outs also 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 that 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.

See Total single figure remuneration chart on page 105

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 (excluding the Chairman) 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 2016 remuneration.

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

The chart overleaf shows what each director could expect to receive in 2016 under different performance scenarios, based on the following definitions of performance:

Performance scenario	Elements of remuneration and assumptions
Maximum	2016 base salary; allowances, benefits, and retirement benefits at the same percentage of base salary as in 2015; maximum individual annual incentive as per policy; maximum value of 2015 long-term incentive award
Target	2016 base salary; allowances, benefits, and retirement benefits at the same percentage of base salary as in 2015; target individual annual incentive as per policy; target value of 2015 long-term incentive award (Willis 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	2016 base salary; allowances, benefits, and retirement benefits at the same percentage of base salary as in 2015; no annual or long-term incentives

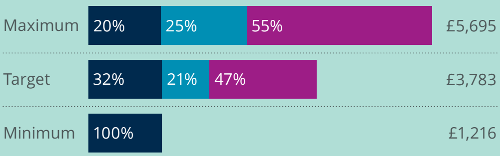
Note The value of long-term incentives does not take into account dividend awards that are payable on the release of restricted shares nor any changes in share price.

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 set out on the next page.

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

Part 2: Summary of Remuneration policy continued

Chief executive officer (John Fallon) £000

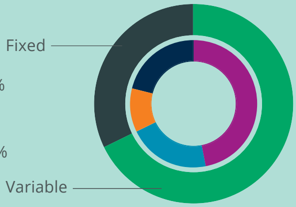


- Base salary, allowances, benefits and pension
- Annual incentive
- Long-term incentives (LTIP)

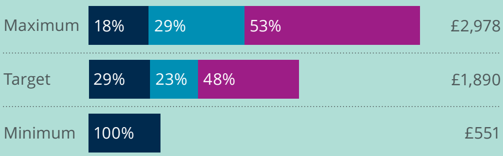
CEO fixed vs variable at target

Fixed
- Base salary 21%
- Pension and benefits 11%

Variable
- Annual incentive 21%
- Long-term incentives 47%



Chief financial officer (Coram Williams) £000

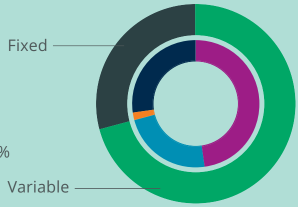


- Base salary allowances, benefits and pension
- Annual incentive
- Long-term incentives (LTIP)

CFO fixed vs variable at target

Fixed
- Base salary 27%
- Pension and benefits 2%

Variable
- Annual incentive 23%
- Long-term incentives 48%



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 of 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
- Recruitment policy
- Employment conditions elsewhere in the company
- Executive directors' non-executive directorships
- Shareholder views

In 2016, we intend to conduct a review of our remuneration policy to put to shareholders for our next policy vote in 2017.

Report on directors' remuneration continued

Part 3: Annual remuneration report

This report comprises a number of sections:

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

Annual remuneration report

The remuneration committee presents the annual remuneration report, which will be put to shareholders, along with the annual statement, as an advisory (non-binding) vote at the Annual General Meeting to be held on 29 April 2016.

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 4 March 2016.

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

Strategic alignment of pay

Financial objectives	KPI	Incentive scheme
Drive revenue growth	Sales	AIP
Deliver sustainable returns	Total adjusted earnings	AIP / LTIP
	Return on invested capital	LTIP
	Total shareholder return	LTIP
Manage our cash position effectively	Operating cash flow	AIP

Non-financial objectives	KPI	Incentive scheme
Reduce our carbon footprint	GHG emissions	AIP (as part of a scorecard used to determine the individual discretionary element of the payout)

Strategic objectives	KPI	Incentive scheme
Transform to digital and services	Revenue share	AIP
Grow presence in emerging markets	Revenue share	AIP

Part 3: Annual remuneration report continued

The remuneration committee in 2015

Role	Name	Title
Chairman	Elizabeth Corley (from 24 April 2015)	Independent non-executive directors
	David Arculus (to 24 April 2015)	
Members	Vivienne Cox	
	Josh Lewis	
	Tim Score (from 2 October 2015)	
	Ken Hydon (to 24 April 2015)	
	Elizabeth Corley (to 24 April 2015)	
	Glen Moreno	Chairman of the board
Internal advisers	John Fallon	Chief executive
	Coram Williams (from 1 August 2015)	Chief financial officer
	Robin Freestone (to 1 August 2015)	Chief financial officer
	Melinda Wolfe	Chief human resources officer
	Stuart Nolan	SVP, reward
	Stephen Jones	Company secretary
External advisers	Willis Towers Watson	

See remuneration committee activities in 2015 on p103

Sidney Taurel joined the committee as a member on his appointment as Chairman of the Board on 1 January 2016.

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

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

During the year, Willis Towers Watson was paid fees for advice to the committee, which were charged on a time spent basis, of £151,254. As part of its annual review of its performance and effectiveness, the committee remains satisfied that Willis Towers Watson's advice was objective and independent and that Willis 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 2015, 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 shareholders and access to independent advice.

The committee concluded that it is operating effectively.

Meetings, activities and decisions in 2015

The remuneration committee met four times during 2015. The key topics were as follows:

Market	Noted Willis Towers Watson's overview of the current remuneration environment and 2014/15 market data	Noted update to remuneration aspects of the UK Corporate Governance Code and principles of remuneration of the Investment Association		
Performance	Noted management's overview of prior year and year to date performance and business plans	Noted and reviewed the status of the outstanding long-term incentive awards based on the current view of likely Pearson financial performance		
Implementation	Reviewed and approved the 2014 annual incentive pay-out and 2015 remuneration package for John Fallon	Approved nil pay-out under 2012 long-term incentive plan	Considered timeline and principles for determining the basis of Robin Freestone's exit arrangements	Noted remuneration package for a new appointment to the Pearson executive
	Reviewed and approved 2014 annual incentive plan pay-outs Approved nil pay-out of 2012 annual bonus share matching awards and release of shares	Reviewed and approved 2015 long-term incentive awards for the Pearson executive	Noted 2015 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
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	Reviewed the committee's performance	Reviewed the committee's charter and terms of reference
Policy	Reviewed and approved 2014 directors' remuneration report Reviewed and approved increases in base salaries for 2015 for the Pearson executive Reviewed and approved 2015 Pearson annual incentive plan targets	Reviewed and approved 2015 individual annual incentive opportunities for the Pearson executive Reviewed 2015 long-term incentive performance conditions for the Pearson executive	Noted guidance notes on treatment of leavers and exercise of discretion Considered approach to 2015 long-term incentive awards for senior leaders and managers below the Pearson executive	
Disclosure and engagement	Noted shareholder feedback on 2014 directors' remuneration report	Reviewed 2015 Annual General Meeting season, shareholder voting and engagement strategy	Noted template and outline of 2015 report on directors' remuneration and considered shareholder engagement strategy	Noted feedback from Committee Chairman's meetings with key shareholders

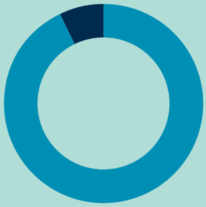
Part 3: Annual remuneration report continued

Voting at 2015 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 2015 Annual General Meeting.

Annual remuneration report votes

Votes for (92.92% of votes cast)	536,330,506
Votes against (7.08% of votes cast)	40,883,235



577,213,741
Total votes cast
(70.96% of issued share capital)

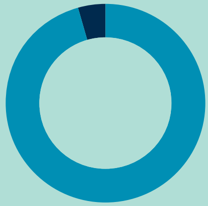
8,980,804
Votes withheld (abstentions)

As in previous years and as required by law, details of the voting on all resolutions at the 2016 Annual General Meeting will be announced via the RNS and posted on the Pearson website following the Annual General Meeting.

Voting on remuneration policy at 2014 AGM

Directors' remuneration policy votes

Votes for (95.76% of votes cast)	517,308,446
Votes against (4.24% of votes cast)	22,905,879



540,214,325
Total votes cast
(66.00% of issued share capital)

6,004,239
Votes withheld (abstentions)

Single total figure of remuneration and prior year comparison

Total aggregate emoluments for executive and non-executive directors were £3.299m in 2015. These emoluments are included within the total employee benefit expense in note 5 to the financial statements (page 155).

Executive directors

The remuneration received by executive directors in respect of the financial years ended 31 December 2015 and 31 December 2014 is set out below. Figures for Coram Williams and Robin Freestone are based on their period of employment – see note on page 106.

Executive director remuneration

	John Fallon		Coram Williams		Robin Freestone		Total	
£000s	2015	2014	2015	2014	2015	2014	2015	2014
Base salary	776	761	258	–	417	553	1,451	1,314
Allowances and benefits	62	83	0	–	13	15	75	98
Travel	28	50	0	–	11	12	39	62
Healthcare	2	2	0	–	2	2	4	4
Risk	32	31	0	–	0	1	32	32
Annual incentives	0	692	0	–	0	365	0	1,057
Percentage of maximum	0%	51%	0%	–	0%	39%	–	–
Percentage of target	0%	91%	0%	–	0%	78%	–	–
Percentage of salary	0%	91%	0%	–	0%	66%	–	–
Long-term incentives	54	74	–	–	41	63	95	137
Long-term incentive plan	0	0	–	–	0	0	0	0
Annual bonus share-matching plan	0	0	–	–	0	0	0	0
Dividend equivalents	46	74	–	–	38	63	84	137
Worldwide Save For Shares	8	0	–	–	3	0	11	0
Retirement benefits	371	285	18	–	126	166	515	451
Defined contribution plan	0	0	0	–	18	23	18	23
Defined benefit accrual	169	87	18	–	–	0	187	87
Allowances in lieu of benefits	202	198	0	–	108	143	310	341
Total remuneration	1,263	1,895	276	–	597	1,162	2,136	3,057

See summary of remuneration policy on page 98

Our business
Our performance
Our social impact
Governance
Financial statements

Part 3: Annual remuneration report continued

Notes to single figure table

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.

Coram Williams and Robin Freestone Figures relate to full period of employment; for Coram commencing 1 July 2015, and for Robin ending 30 September 2015. Note that Coram became an executive director and Robin stepped down as an executive director on 1 August 2015.

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 2015, 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 for adjustments to base pay for 2015 was 2%. 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.

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

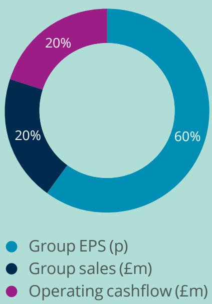
Executive directors' annual incentive payments in 2015

For 2015, 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 2015, and the respective AIP pool funding level, were as follows:

Measures	Weighting	Threshold for 2015	Target for 2015	Maximum for 2015	Actual performance in 2015	Funding in 2015 (% of target)
Group EPS (p)	60%	70.4	79.0	87.7	69.8	0%
Group sales (£m)	20%	5,046	5,312	5,578	5,083	0%
Operating cash flow (£m)	20%	680	765	850	435	0%
Total	100%					0%

Measures	Group funding	Pro-rating factor	Target AIP as % of salary	Actual % of target in 2015	Final pay-out in 2015 (000s)
John Fallon	0%	1.0	100%	0%	£0
Coram Williams	0%	0.5	85%	0%	£0
Robin Freestone	0%	0.75	85%	0%	£0
Total					£0

Weighting ratio



Note 1 Although the threshold for the Group sales element was reached in 2015, the committee has exercised its discretion to reduce the bonus to nil due to poor overall underlying performance

Note 2 Actual performance provided like-for-like with targets, based on plan exchange rates for 2015 and constant portfolio, consistent with prior years

Note 3 Pro-rated due to part year employed (relates to full period employed rather than period as a director)

Long-term incentives The single figure of remuneration for 2015 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 2015, 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 2014.

In 2015, the performance conditions for the 2013 Long-Term Incentive Plan (LTIP) and 2013 Annual Bonus Share-Matching Plan (ABSMP) were not met. The executive directors both held vested shares under the 2010 LTIP that were released on 5 March 2015 at the end of the two-year holding period and these shares were part of the single figure of remuneration for 2013 as reported in the 2012 report on directors' remuneration. However, the dividend equivalent shares that were awarded in respect of these shares and released on 5 March 2015 have been included in the single figure of remuneration for 2015, as below:

Worldwide Save For Shares 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 discounted option price and the market value on the earliest exercise date. Share options which became exercisable in 2015 are included in the single figure of total remuneration for 2015 based on the share price on August 1, 2015 of 1,203.0p. See page 111 for details of share options vesting in the year.

Long-term incentive plan vesting

Director	Date of award	Date of release	Number of shares	Value £000	Share price on release	Notes
John Fallon	–	5 Mar 15	3,191	**46**	1,444.0p	Dividend shares relating to final portion of 2010 award vesting
	3 Mar 10	5 Mar 15	13,752	**199**	1,444.0p	25% of 2010 award pay-out subject to continued employment released
			16,943	**245**		
Robin Freestone	–	5 Mar 15	2,659	**38**	1,444.0p	Dividend shares relating to final portion of 2010 award vesting
	3 Mar 10	5 Mar 15	11,460	**165**	1,444.0p	25% of 2010 award pay-out subject to continued employment released
			14,119	**203**		
Total			**31,062**	**448**		

Notes
Dividend equivalent shares only included in single figure table. The underlying 25% of the 2010 Award having been disclosed in the 2012 single figure table.
Shares vested on 3 March 2015 but were released on 5 March together with related dividend shares per RNS announcement.

Part 3: Annual remuneration report continued

Executive directors' retirement benefits and entitlements

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

Director	Value of defined benefit over the period £000	Other pension costs to the company over the period £000	Other allowances in lieu of pension £000	Total annual value in 2015 £000	Normal retirement age	Accrued pension at 31 Dec 15 £000
John Fallon	169	–	202	371	62	90.5
Coram Williams	18	–	–	18	62	25.7
Robin Freestone	–	18	108	126	62	–

Plans

John Fallon – Pearson Group Pension Plan Accrual rate of 1/30th of pensionable salary per annum. In addition, he received a taxable and non-pensionable cash supplement.

Coram Williams – Pearson Group Pension Plan Accrual rate of 1/60th of pensionable salary per annum with continuous service with a service gap, 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.

Robin Freestone – Money Purchase 2003 section of the Pearson Group Pension Plan In addition, he received a taxable and non-pensionable cash supplement.

John, Coram and Robin's pension benefits are subject to the notional earnings cap.

Note 1 The accrued pension at 31 December 2015 is the deferred pension to which the member would be entitled on ceasing pensionable service on 31 December 2015. For John Fallon and Coram Williams, it relates to the pension payable from the UK Plan. Robin Freestone did not accrue defined benefits.

Note 2 Value of defined benefit over the period comprises the DB input value, less inflation, less individual contribution.

Note 3 Other pension costs to the company over the period comprises contributions to defined contribution arrangements for UK benefits.

Note 4 Other allowances in lieu of pension represents the cash allowances paid in lieu of the previous FURBS arrangements.

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

Chairman and non-executive director remuneration

The remuneration paid to the chairman and non-executive directors in respect of the financial years ended 31 December 2015 and 31 December 2014 is as follows:

Director £000s	2015						2014					
	Salary/ basic fee	Committee chairmanship	Committee membership	SID	Taxable benefits	Total	Salary/ basic fee	Committee chairmanship	Committee membership	SID	Taxable benefits	Total
Glen Moreno	500	–	–	–	–	500	500	–	–	–	–	500
David Arculus	22	7	5	–	1	35	68	21	14		2	105
Elizabeth Corley	70	15	3	–	1	89	47	–	4	–	1	52
Vivienne Cox	70	10	25	22	5	132	68	7	22	21	6	124
Ken Hydon	22	9	3	–	7	41	68	27	8	–	8	111
Josh Lewis	70	–	10	–	12	92	68	–	8	–	9	85
Linda Lorimer	70	–	20	–	7	97	68	–	17	–	8	93
Harish Manwani	70	–	5	–	5	80	68	–	4	–	7	79
Tim Score	70	19	7	–	1	97	–	–	–	–	–	–
Total	964	60	78	22	39	1,163	955	55	77	21	41	1,149

Note Taxable benefits refer to travel, accommodation and subsistence expenses incurred while attending board meetings during 2015 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.

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 2015 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 2015 are summarised in the adjacent table. Notes to this table and the following table are provided overleaf.

Status of outstanding awards under the long-term incentive plan and annual bonus share matching plan in 2015

Long-term incentive plan (LTIP)

Date of award	Share price on date of award	Vesting date	Performance measures	Weighting	Performance period	Pay-out at threshold	Pay-out at maximum	Actual performance	% of award vested	Status
1 May 2015	1,337.0p	1 May 2018	Relative TSR	1/6	1 Jan 2015 to 31 Dec 2017	25% at median	100% at upper quartile	–	–	Outstanding subject to performance
			ROIC	1/3	2017	25% for ROIC of 6.5%	100% for ROIC of 7.5%			
			EPS growth	1/2	2017 compared to 2014	25% for EPS growth of 6.0%	100% for EPS growth of 12.0%			
1 May 2014	1,102.0p	1 May 2017	Relative TSR	1/6	2014 to 2017	30% at median	100% at upper quartile	–	–	Outstanding subject to performance
			ROIC	1/3	2016	30% for ROIC of 6.5%	100% for ROIC of 7.5%			
			EPS growth	1/2	2016 compared to 2013	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%			
1 May 2013	1,183.0p	1 May 2016	Relative TSR	1/3	2013 to 2016	30% at median	100% at upper quartile	17th percentile	Nil	Estimated to lapse in 2016
			ROIC	1/3	2015	0% for ROIC of 8.5%	100% for ROIC of 10.5%	5.8%	Nil	Will lapse in 2016
			EPS growth	1/3	2015 compared to 2012	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	-5.2%	Nil	Will lapse in 2016

Annual Bonus Share Matching Plan (ABSMP)

Date of award	Share price on date of award	Vesting date	Performance measures	Weighting	Performance period	Pay-out at threshold	Pay-out at maximum	Actual performance	% of award vested	Status
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%	-6.9%	Nil	Performance condition not met. Will lapse in 2016

Part 3: Annual remuneration report continued

Movements in directors' interests in share awards during 2015

Plan	Date of award	Vesting date	Number of shares as at 1 Jan 2015	Awarded	Released	Dividends awarded and released	Lapsed	Number of shares as at 31 Dec 2015	Status
John Fallon									
LTIP	1 May 2015	1 May 2018	0	230,000	–	–	–	230,000	Outstanding subject to performance
	1 May 2014	1 May 2017	274,000	–	–	–	–	274,000	Outstanding subject to performance
	1 May 2013	1 May 2016	250,000	–	–	–	250,000	0	Expected to lapse in 2016
	3 Mar 2010	3 Mar 2013	13,752	–	13,752	3,191	–	0	Released 5 Mar 2015 (balancing 75% of vested shares released in 2013)
ABSMP	15 May 2013	15 May 2016	6,083	–	–	–	6,083	0	Will lapse in 2016
Total			**543,835**	**230,000**	**13,752**	**3,191**	**256,083**	**504,000**	
Coram Williams									
LTIP	1 Aug 2015	1 Aug 2018	0	129,000	–	–	–	129,000	Outstanding subject to performance
Total			**0**	**129,000**	**0**	**0**	**0**	**129,000**	
Robin Freestone									
LTIP	1 May 2014	1 May 2017	162,000	–	–	–	–	162,000	Outstanding subject to performance (also see page 112)
	1 May 2013	1 May 2016	150,000	–	–	–	150,000	0	Expected to lapse in 2016 (also see page 112)
	3 Mar 2010	3 Mar 2013	11,460	–	11,460	2,659	–	0	Released 5 Mar 2015 (balancing 75% of vested shares released in 2013)
Total			**323,460**	**0**	**11,460**	**2,659**	**150,000**	**162,000**	

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 TSR is measured relative to the constituents of the FTSE World Media Index over a three-year period.

Note 5 In relation to the LTIP award made on 1 May 2014, potential vesting is 50% of maximum for attainment of ROIC of 7%.

Note 6 For the LTIP award made on 1 May 2013 and due to vest on 1 May 2016, we have estimated the out-turn of the relative TSR performance condition based on performance as at 26 February 2016 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 2016.

Note 7 The single figure of remuneration for 2015 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 2015 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 8 The value of shares included in the single figure of remuneration is the number of shares multiplied by the share price on release.

Note 9 Coram's 2015 award was made on his appointment to the board on 1 August 2015 and will vest three years from this date on 1 August 2018, subject to the same performance conditions and holding periods as for other executives.

Note 10 The value of the LTIP awards in 2015 for the executive directors is shown below, based on the relevant share price on the date of award also shown:

Director	Date of award	Vesting date	Number of shares	Face value	Face value (% of base salary)	Value for threshold performance (% of 2014 salary)	Share price at date of award
John Fallon	1 May 2015	1 May 2018	230,000	£3,075,100	394%	99%	1,337.0p
Coram Williams	1 Aug 2015	1 Aug 2018	129,000	£1,551,870	301%	75%	1,203.0p

Movements in directors' interests in share options during 2015

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 2015	Option price	Normal earliest exercise date	Expiry date	Value in 2015 single figure £
John Fallon	7 May 2010	–	805.6p	1 Aug 15	1 Feb 16	7,670
	30 Apr 2014	1,109	811.2p	1 Aug 17	1 Feb 18	0
Robin Freestone	4 May 2012	–	909.0p	1 Aug 15	1 Feb 16	2,911
	30 Apr 2014	1,109	811.2p	1 Aug 17	1 Feb 18	0

Note 1 The share option awards made in 2010 to John Fallon in respect of 1,930 shares and 2012 to Robin Freestone in respect of 990 shares vested and became exercisable in the year and were exercised on 3 August 2015.

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 discounted option price and the market value on the earliest exercise date. Share options which became exercisable in 2015 are included in the single figure of total remuneration for 2015 based on the share price on 1 August,2015 of 1,203.0p.

Note 5 The market price on 31 December 2015 was 736.0p per share and the range during the year was 695.0p to 1,508.0p.

Payments to former directors

It is the committee's intention to disclose any payments to past directors, including any 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).

Former directors Will Ethridge and John Makinson, who retained the balancing 25% of their 2010 LTIP awards (which vested in 2013) when they stepped down from the board in 2013, received a release of shares under these awards, together with associated dividend shares, during 2015. Details of the vested awards released in 2015 were reported in the 2012 and 2013 reports on directors' remuneration; details of the dividend shares released in 2015 are Will Ethridge (3,191 shares) and John Makinson (2,659 shares).

2013 long-term incentive awards

Will Ethridge retained a long-term incentive plan award made on 1 May 2013, subject to performance. As disclosed elsewhere in this report, this award is expected to lapse in 2016.

Robin Freestone

Robin Freestone received no payment for loss of office when he stepped down from the board with effect from 1 August 2015 and left employment on 30 September 2015.

Robin held LTIP awards granted in 2013 and 2014 and, in February 2016, the remuneration committee set out a clear process and engaged with key shareholders to consider whether those awards should be preserved. The remuneration committee considered the circumstances of Robin's service and the facts surrounding his departure, taking account of the following factors that we normally consider whenever a decision to treat any person within the LTIP as a good leaver:

› the different types of leaver;

› the circumstances at the time the award was originally made;

› the individual's performance; and

› the circumstances in which the individual left employment.

After careful consideration of these factors and consultation with key shareholders, the remuneration committee noted that:

› Robin is leaving to take up several non-executive director appointments and so is ceasing full-time employment;

› normal conditions applied at date of grant for any award under the LTIP and no award was made in 2015 (similarly, he did not receive a base salary increase in 2015);

› Robin carried out all duties expected of him during his period of notice and in the preceding years prior to his leaving. He gave good service to the Pearson Board for nine years; and

› Robin did not leave to take up employment in an executive capacity but rather as a non-executive board member.

Part 3: Annual remuneration report continued

The remuneration committee also took into account the effective and smooth handover of his role to Coram Williams.

The remuneration committee determined that Robin would be treated as a good leaver, so that outstanding LTIP awards would be preserved on a time pro-rated basis, would receive no special treatment and remain subject to all of the applicable performance tests.

Robin will therefore remain eligible to receive up to 116,667 (78%) of the shares awarded on 1 May 2013 and 72,000 (44%) of the shares awarded on 1 May 2014, both of which will vest, subject to performance, in 2016 and 2017 respectively. The 2013 award is expected to lapse in 2016 due to not meeting the performance targets.

Robin will be treated as a retiree in respect of his outstanding WWSFS options granted in 2014.

Marjorie Scardino

In the 2014 report, we made shareholders aware of a payroll processing error during the years 2007 to 2010, as a result of which 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 that Pearson would reimburse (on an after-tax basis) certain costs incurred by Marjorie Scardino in relation to this double taxation error. As a result, a payment of £27,842 has been made to her to conclude this matter.

Payments for loss of office

There were no payments for loss of office made to or agreed for executive directors in 2015.

Directors' interests in shares and value of shareholdings

Directors' interests

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

Director	Ordinary shares at 31 Dec 15	Conditional shares at 31 Dec 15	Total number of ordinary and conditional shares at 31 Dec 15	Current shareholding	Current value (% salary)	Guideline (% salary)	Guideline met
Chairman							
Glen Moreno	210,000	–	–	see Note 8	–	–	–
Sidney Taurel	see Note 8	–	–	50,000	–	–	–
Executive directors							
John Fallon	293,056	0	293,056	293,056	327%	300%	Yes
Coram Williams	10	0	10	5,010	8%	200%	n/a
Non-executive directors							
Elizabeth Corley	1,267	–	–	1,267	–	–	–
Vivienne Cox	2,938	–	–	2,938	–	–	–
Josh Lewis	7,740	–	–	7,740	–	–	–
Linda Lorimer	2,675	–	–	2,675	–	–	–
Harish Manwani	2,571	–	–	2,571	–	–	–
Tim Score	849	–	–	849	–	–	–
Lincoln Wallen	see Note 8	–	–	–	–	–	–

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' current shareholdings is based on the closing market value of Pearson shares of 870.50p on 1 March 2016 against base salaries at 31 December 2015. 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 market price on 31 December 2015 was 736.0p per share and the range during the year was 695.0p to 1,508.0p.

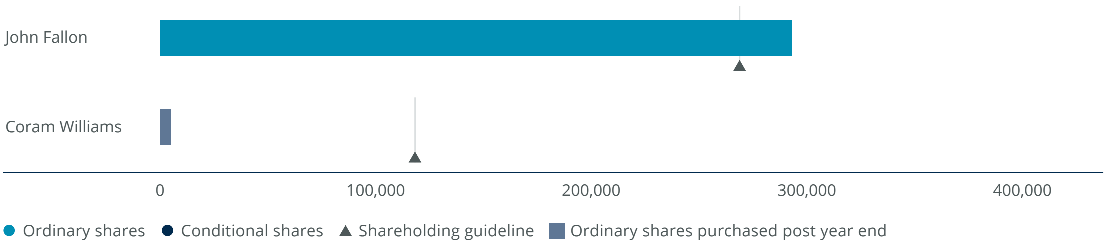
Note 5 On 29 February 2016, Coram Williams purchased 5,000 shares which are included under current shareholding in the table above and shown in the chart overleaf. On 2 March 2016, Sidney Taurel purchased 50,000 shares which are also shown in the table above.

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

Note 7 As a new appointee, the guidelines are not yet applicable in full for Coram Williams.

Note 8 Sidney Taurel and Lincoln Wallen were appointed as directors on 1 January 2016. Glen Moreno left Pearson on 31 December 2015 and as such we have not shown a current shareholding figure in the table above.

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 were 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 2015, stock awards to be satisfied by new-issue equity granted in the last ten years under all Pearson share plans amounted to 1.6% 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 2015 amounted to 0.8% of the company's issued share capital.

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

Headroom	2015	2014	2013
All Pearson plans	**8.4%**	8.3%	8.4%
Executive or discretionary plans	**5.0%**	5.0%	5.0%
Shares held in trust	**4.2%**	4.1%	3.9%

Executive directors' non-executive directorships

Although the policy permits executive directors to serve as non-executive directors elsewhere with the board's agreement, none of the executive directors held an external directorship during 2015.

Part 3: Annual remuneration report continued

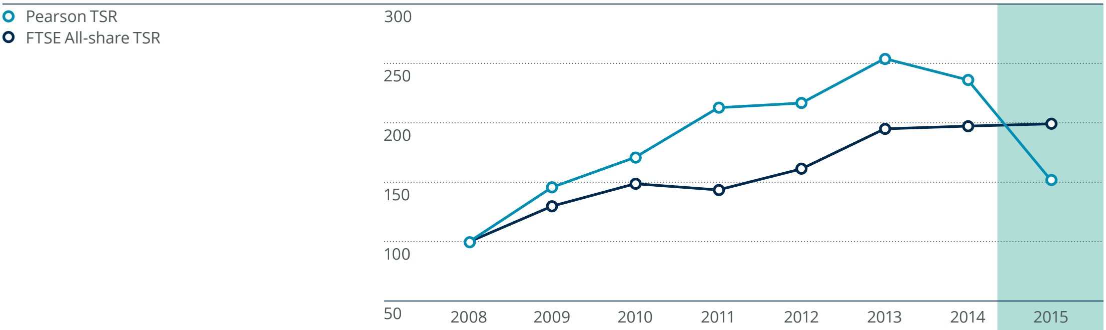
Historical performance and remuneration

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 seven-year period 2008 to 2015. 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 seven 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 seven years, and the outcomes of annual and long-term incentive plans as a proportion of maximum.

Total shareholder return £



CEO remuneration	Marjorie Scardino				John Fallon		
Total remuneration (single figure, £000s)	6,370	8,466	8,340	5,330	1,727	1,895	**1,263**
Annual incentive – incumbent (% of maximum)	91.3%	92.1%	75.7%	24.2%	34.3%	50.5%	**Nil**
Long-term incentive – incumbent (% of maximum)	80.0%	97.5%	68.3%	36.7%	Nil	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.

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 2014 and 2015 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.

Change in CEO remuneration 2014/15

Base salary	Allowances and benefits	Annual incentives	Total
+2%	-25%	-100%	-33%

Change in employee remuneration 2014/15

Base salary	Allowances and benefits	Annual incentives	Total
+3%	+12%	-38%	No change

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 2014/2015 tax year and (b) the year-on-year increase in his pay-out 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.

			Change	
All figures in £ millions	2015	2014	£m	%
Operating profit	**723**	722	1	0%
Dividends	**423**	397	26	7%
Total wages and salaries	**1,507**	1,607	-100	-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. 2014 is restated on the same basis. Average employee numbers for continuing operations for 2015 were 37,265 (2014: 38,654). Further details are set out in note 5 to the financial statements on page 155.

Part 3: Annual remuneration report continued

Information on changes to remuneration for 2016

Executive directors' base salaries

We have undertaken a regular periodic review of base salaries for 2016, 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 2016 base salaries for the CEO and CFO are unchanged as follows:

£000s	John Fallon	Coram Williams
Base salary at 31 December 2015	£780.3	£515.0
Change	–	–
	0%	0%
Base salary at 1 April 2016	£780.3	£515.0

Annual incentive

The key design principles underlying the company's approach to annual incentives for 2016 are the same as for 2015, namely:

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

It is anticipated that the 2016 sales and cash metrics and weightings remain unchanged from 2015. However, to align the AIP with the specific restructuring achievements required in 2016, as noted in the income statement measure in our guidance to investors, operating profit after the cost of restructuring would be added to the metrics with a 30% weighting. To accommodate this change, the weighting for EPS would also be 30% (down from 60% weight for 2015).

The Pearson financial targets are set each year as part of the normal operating plan process. The CEO and CFO have recommended the overall Pearson incentive funding metrics (including performance measures, targets and weightings) to the committee for approval in the normal way. For 2016, the range of normal rewarded performance is expected to be wider than in previous years – and, in consequence, both the threshold performance and the on-target funding are set to be lower than in 2015.

The board considers the performance targets for 2016 to be commercially sensitive. Details of all performance measures, weightings and targets will be disclosed in the annual remuneration report for 2016 unless the committee determines that they remain commercially sensitive.

There has been 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.

Special incentive and retention arrangements

The committee agreed for 2016 incentive and retention arrangements for selected key employees, which will vest, or not, in 2017. No executive directors participate in these incentives.

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 remain half on earnings per share, one-third on return on invested capital and one-sixth on relative total shareholder return. However, the EPS target is planned to be absolute rather than a growth target, and aligned with our external guidance to the market in January 2016

› 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 remaining 25% of the vested shares are subject to continued employment over the same period

› At the time of writing, the committee has yet to approve the 2016 long-term incentive awards and the associated performance targets for the executive directors and other members of the Pearson executive. These are expected to be determined at the April meeting prior to the anticipated May grant. We expect to set targets for the 2016 awards that are consistent with the company's market guidance over the period to 2018.

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

› Individual roles and responsibilities

› Company and individual performance

› Market practice for comparable companies and market assessments of total remuneration from our independent advisers

Full details of individual awards for the executive directors and the performance targets for 2016 will be set out in the annual remuneration report for 2016.

Appointment of chairman

Our new chairman, Mr Sidney Taurel, has agreed to lead our board for the same package that the outgoing chairman received, that is a flat fee of £500,000 per year. He will not participate in any form of Pearson incentive arrangement. He became the chairman effective 1 January 2016.

Chairman and non-executive directors

The fee for the chairman and fees for the non-executive directors remain unchanged for 2016. Full details will be set out in the annual remuneration report and included in the single figure of total remuneration for 2016.

However, we intend to review these fees in line with our remuneration policy in late 2016 in time for our 2017 policy vote.

The directors' remuneration report has been approved by the board on 4 March 2016 and signed on its behalf by:

Elizabeth Corley
Chairman of the remuneration committee.

Our business
Our performance
Our Social impact
Governance
Financial statements

Additional disclosures

Report of the directors

Pages 70 to 123 of this document comprise the directors' report for the year ended 31 December 2015.

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:

Summary disclosures index	See more
Dividend recommendation	p11
Financial instruments and financial risk management	note 19
Important events since year end	p37
Future development of the business	p06-07
Research and development activities	p53
Employment of disabled persons	p62
Employee involvement	p59
Greenhouse gas emissions	p64

With the exception of the dividend waiver described on page 122, there is no information to be disclosed in accordance with Listing Rule 9.8.4.

Going concern

The directors have made an assessment of the company's ability to continue as a going concern and consider it appropriate to adopt the going concern basis of accounting.

Viability statement

As set out on page 40 the board has also reviewed the prospects of Pearson over the three year period to December 2018 taking account of the company's strategic plans, a 'severe but plausible' downside case and further stress testing based on the principal risks set out on pages 41-45.

Based on the results of these procedures, and considering the company's strong balance sheet following the sale of the FT group, the directors have a reasonable expectation that Pearson will be able to continue in operation and meet its liabilities as they fall due over the three year period ending December 2018. This assumes a reasonable level of ongoing access to capital either via issuing commercial paper or drawing on our revolving credit facility (see note 18 on p178).

Share capital

Details of share issues are given in note 27 to the accounts on page 200. 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 2015, 821,068,560 ordinary shares were in issue. At the AGM held on 24 April 2015, the company was authorised, subject to certain conditions, to acquire up to 82,027,776 ordinary shares by market purchase. Shareholders will be asked to renew this authority at the AGM on 29 April 2016.

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 31 December 2015, the company had been notified under DTR 5 of the following holders of significant voting rights in its shares.

	Number of voting rights	Percentage as at date of notification
BlackRock, Inc.	42,201,515	5.13%
Schroders plc	42,151,560	5.13%

Between 31 December 2015 and 2 March 2016, being the latest practicable date before the publication of this report, the company did not receive any further notifications under DTR 5.

Annual General Meeting

The notice convening the AGM, to be held at 12 noon on Friday, 29 April 2016 at IET London, 2 Savoy Place, London WC2R 0BL, is contained in a circular to shareholders to be dated 23 March 2016.

Registered auditors

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

Auditors' independence

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

These allowable services are in accordance with relevant UK and US legislation. The audit committee approves all audit and non-audit services provided by PwC. Certain categories of allowable non-audit services have been pre-approved by the audit committee subject to the authorities below:

- Pre-approved non-audit services can be authorised by the chief financial officer up to £100,000 per project, subject to a cumulative limit of £500,000 per annum
- Acquisition or disposal transactions and due diligence up to £100,000 per project may be performed by our external auditors, in light of the need for confidentiality. Any project/transaction generating fees in excess of £100,000 must be specifically approved by the audit committee
- Tax compliance and related activities up to the greater of £1,000,000 per annum or 50% of the external audit fee
- 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 2015, Pearson spent considerably more on non-audit fees with PwC compared to 2014, due to costs relating to carve-out audits for businesses disposed. For 2015, non-audit fees represented 56% of external audit fees (37% in 2014).

For all non-audit work in 2015, 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 2015 included:

- Audit-related work in relation to potential and actual corporate finance transactions
- 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
- Assurance services on a corporate bond issued in May 2015
- Consulting services related to the establishment of an auditable efficacy framework
- Audit of IT general controls mandated by contractual commitments.

A full statement of the fees for audit and non-audit services is provided in note 4 to the accounts on page 154.

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 at its meeting in December 2015. The full board then had opportunity to review and comment on the report as it progressed.

Representatives from financial reporting, corporate affairs, company secretarial, legal and internal audit and compliance are involved in the preparation and review 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.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Report of the Directors continued

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

- So far as the director is 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.

Directors in office

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

G R Moreno
(stepped down 31 December 2015)

J J Fallon

R A D Freestone
(stepped down 1 August 2015)

T D G Arculus
(stepped down 24 April 2015)

E P L Corley

V Cox

K J Hydon
(stepped down 24 April 2015)

S J Lewis

L K Lorimer

H Manwani

T Score

S Taurel
(appointed 1 January 2016)

L Wallen
(appointed 1 January 2016)

C Williams
(appointed 1 August 2015)

The directors' report has been approved by the board on 4 March 2016 and signed on its behalf by

Stephen Jones
Company secretary

Statement of directors' responsibilities

The directors are responsible for preparing the annual report 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 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, whose names and functions are listed on p72-73 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
- The strategic report contained in the annual report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

This responsibility statement has been approved by the board on 4 March 2016 and signed on its behalf by

Coram Williams
Chief financial officer

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 in compliance with DTR 7.2.6.

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, and on a poll, every shareholder (whether an individual or a corporation) present in person or by proxy shall have one vote for every 25 pence of nominal share capital held. 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.

The board may decide that a shareholder is not 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.

Additional shareholder information continued

Pearson operates an employee benefit trust to hold shares, pending employees becoming entitled to them under the company's employee share plans. There were 6,704,505 shares held as at 31 December 2015. The 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 the trust.

Pearson also operates two nominee shareholding arrangements which hold shares on behalf of employees. There were 2,871,174 shares held in the Sharestore account and 309,841 shares held in the Global Nominee account as at 31 December 2015. The beneficial owners of shares held in Sharestore are invited to submit voting instructions online at www.shareview.co.uk and Global Nominee participants are invited to submit voting instructions by e-mail to nominee@equiniti.com. If no instructions are given by the beneficial owner by the date specified, 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.

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 2020 between, amongst others, the company, Barclays Bank plc (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 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.