



Pearson

## Pearson plc

### Remuneration Committee - Charter and Terms of Reference

These terms of reference were last reviewed and approved by the Board of Directors ("the Board") on 22 February 2017.

#### **1. Purpose and Primary Duty**

The Committee is established by the Board primarily for the purpose of helping Pearson achieve its goal of being the best employer in the world.

#### **2. Membership**

- 2.1. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee. The Committee shall comprise at least three members, all of whom shall be independent (as defined by the UK Corporate Governance Code (the "Code")) non-executive directors. The Chairman of the Board may also serve on the Committee if he was considered independent (as defined by the Code) on appointment as chairman.
- 2.2. The members of the Committee may be removed or replaced and any vacancies shall be filled by the Board upon recommendation of the Committee Chairman or Nomination Committee.
- 2.3. The Committee may ask the CEO, other directors, managers and advisers to attend meetings either regularly or by invitation, but the invitees have no right of attendance.
- 2.4. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting. The Chairman of the Board shall not be Chairman of the Committee.
- 2.5. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the director still meets the criteria for membership.

#### **3. Secretary**

The Company Secretary or their nominee shall act as the Secretary of the Committee.

#### **4. Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **5. Frequency of Meetings**

The Committee shall meet not less than three times a year and at such other times as the Chairman of the Committee shall require.

## **6. Agenda for Meetings**

The Committee Chairman shall develop and set the Committee's agenda, in consultation with Pearson management.

## **7. Notice of Meetings**

- 7.1. Meetings of the Committee shall be summoned by the Secretary of the Committee on instruction from the Committee Chairman at the request of any of its members.
- 7.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **8. Minutes of Meetings**

- 8.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.2. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists or in the opinion of the Committee Chairman it would be inappropriate to do so.

## **9. Annual General Meeting**

The Committee Chairman, or if he is unable to attend, any other member of the Committee, shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

## **10. Duties**

- 10.1. The Committee shall determine and regularly review
  - 10.1.1. the remuneration policy for the executive directors (which shall be subject to approval by shareholders from time to time); and
  - 10.1.2. the remuneration policy or policies for the presidents of the principal geographic markets and lines of business and other members of the Pearson Executive who report directly to the CEO ("Executive Management").
- 10.2. The remuneration policies under clause 10.1 shall each include the framework or broad policy for base salary, annual and long-term incentives, pension arrangements, any other benefits, and termination of employment. The objective of such policies shall be to promote the long-term success of the Company, with performance-related elements being transparent, stretching and rigorously applied. The remuneration policies should have regard to views of shareholders and other stakeholders, risk and alignment to the Company's long-term strategic goals.
- 10.3. The Committee shall regularly review the implementation and operation of the remuneration

policy for Executive Management. The individual remuneration and benefit packages of the Executive Management shall be a matter for the Board or the CEO.

- 10.4. The Committee shall determine and approve the individual remuneration and benefits packages of the executive directors within the terms of the remuneration policy for executive directors.
- 10.5. Any remuneration and benefits arrangements, including on appointment or termination, for Executive Management which are outside the relevant policy must be approved by the Committee in advance.
- 10.6. No executive director or member of Executive Management shall be involved in any decisions as to his or her own remuneration.
- 10.7. In determining the remuneration policies for executive directors and Executive Management and the individual remuneration and benefits packages for the executive directors, the Committee shall take into account all factors which it deems necessary and shall:
  - 10.7.1. have regard to the provisions in Schedule A of the Code;
  - 10.7.2. have regard to the advice of the CEO;
  - 10.7.3. give due regard to any relevant legal requirements, the provisions and recommendations in the Code and the UK Listing Authority's Listing Rules (the "Listing Rules") and associated guidance;
  - 10.7.4. review and have regard to pay and employment conditions across the Company, especially when determining annual salary increases;
  - 10.7.5. review the remuneration and benefits packages of comparable companies to ensure that the Company's executive directors and Executive Management are fairly and competitively remunerated, whilst avoiding paying more than is necessary;
- 10.8. The Committee shall approve the design of, and determine targets for, any performance-related pay plans operated by the Group for the Senior Leadership Group and approve the total annual payments to be made under such plans;
- 10.9. The Committee shall review the design of all share incentive plans operated by the Group for the Senior Leadership Group, including guidelines for the operation of such plans as a whole and, where relevant, the determination of performance measures and targets, and, also where relevant, recommend such plans for approval by the Board and/or shareholders. For any such plans, the Committee shall determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and members of Executive Management and the performance targets to be used;
- 10.10. In designing performance-related remuneration plans, the Committee shall ensure that provisions are included that will enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so. In addition, the Committee shall be responsible for determining whether to apply such provisions in any individual case relating to any performance-related remuneration for executive directors and members of the Executive Management;
- 10.11. The Committee shall advise and decide on general and specific arrangements in connection with the appointment and termination of employment of executive directors. The Committee

shall carefully consider what compensation commitments (including pension contributions and all other elements) the directors' terms of appointment would entail in the event of early termination. The aim should be to ensure that arrangements are fair to the individual and the Company, and to avoid rewarding poor performance;

- 10.12. The Committee shall together with the chairman of the Board and the other independent directors (as directed by the Board), review and approve corporate goals and objectives relevant to CEO remuneration, evaluate the CEO's performance in light of those goals and objectives, and determine and approve the CEO's remuneration based on this evaluation;
- 10.13. The Committee shall have delegated responsibility for determining the remuneration and benefits package of the chairman of the Board and share its proposals with the Board. The remuneration of non-executive directors shall be a matter for the chairman of the Board and the executive members of the Board within the limits set in the Articles of Association;
- 10.14. The Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee and shall be responsible for monitoring the cost of such advice;
- 10.15. The Committee shall agree the policy for authorising claims for expenses from the executive directors.

## **11. Reporting Responsibilities**

- 11.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 11.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3. The Committee shall:
  - 11.3.1. ensure that provisions regarding disclosure of information relating to directors' remuneration including, where required by law, the directors' remuneration policy and its implementation, as set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations (the Regulations), the Companies Act 2006 (the Companies Act), the Listing Rules, the Code and all other relevant laws and regulations (each as amended from time to time), are fulfilled and to produce report(s) on the directors' remuneration including, where required, the directors' remuneration policy and its implementation, which will form part of the Company's Annual Report;
  - 11.3.2. ensure that, if the Company has appointed remuneration consultants, the annual report on implementation of the Company's remuneration policy should identify such consultants and state whether they have any other connection with the Company;
  - 11.3.3. ensure that the report(s) referred to in paragraph 11.3.1. above are put to the shareholders for approval as required by the Regulations, the Companies Act, the Listing Rules, the Code and all other relevant laws and regulations;
  - 11.3.4. where required by law to do so, ensure that any remuneration payment or payment for loss of office to any current or former Chairman or executive director of the Board is consistent with the most recent directors' remuneration policy that has been approved by shareholders or is otherwise approved by the shareholders as required by the

Regulations, the Companies Act, the Listing Rules and all other relevant laws and regulations;

- 11.3.5. consider and make recommendations to the Board concerning disclosure of details of remuneration packages and structures in addition to those required by law or by the UK Listing Authority or the London Stock Exchange.
- 11.4. Through the Chairman of the Committee and the Chairman of the Board, the Committee shall ensure that the Company maintains contact as required with its principal shareholders about remuneration.

## **12. Other**

- 12.1. The Committee shall, at least once a year, review its own performance, constitution and charter and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- 12.2. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required.
- 12.3. The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 12.4. The Committee shall give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed companies and formation and operation of share plans including but not limited to the provisions of the Code, the requirements of the UK Listing Authority's Listing Rules, Prospectus Rules, and Disclosure and Transparency Rules.

## **13. Authority**

- 13.1. The Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties.
- 13.2. The Committee and each of its members is authorised by the Board to obtain, at the Company's expense, any outside legal or other professional advice, including the advice of independent remuneration consultants, to secure the attendance of external advisers at its meetings if it considers this necessary, and to obtain reliable, up-to-date information about remuneration in other companies.
- 13.3. The Committee has full authority to commission any reports or surveys or ask any questions of any person it deems necessary to help fulfil its obligations.
- 13.4. The Committee is authorised by the Board to delegate any of its powers to one or more of its members or the Secretary.