Governance report

In this section

Governance overview

Chair

Sidney Taurel

In this Governance section

Dear shareholders,

As I say elsewhere, 2018 was a pivotal year for Pearson and, as our operational and financial performance continues to improve, the Board can focus more on future prospects for the business. Throughout the year, we have continued to pay close attention to the simplification of our portfolio and investment in our transformation programmes, including The Enabling Programme (TEP) and the Global Learning Platform (GLP). We are now in a position where, in addition to regularly monitoring performance and simplification, the Board has turned its attentions towards longer-term strategic opportunities in areas which enjoy structural growth, digital transformation and in the lifelong learning sector.

As a Board, we continue to organise our work around five major themes where we believe we can add value: strategy, performance, leadership and people, governance and risk, and shareholder engagement. We are committed to the highest standards of corporate governance and the following pages set out details on Board composition, corporate governance arrangements, processes and activities during 2018, together with Board Committee reports. A summary of the key items covered by the Board throughout the year appears on p85, and I have set out below further detail on our particular areas of focus during 2018.

Leadership & effectiveness

See full section on p80–95

In my letter to shareholders at this time last year, I explained that the Board's main focus for 2018 would be to pivot towards our longer- term growth opportunities by delivering on Pearson's three strategic priorities and to continue to monitor progress against our dashboard and key milestones for 2018. I am pleased to report that good progress has been made on all fronts, summarised below, and with further detail given throughout this report.

Delivering on our strategic priorities

Pearson has identified three strategic priorities:

› To grow market share through digital transformation

› To invest in structural growth markets

› To become a simpler, more efficient and more sustainable business.

One particular theme arising from our 2017 Board evaluation was that, as a Board, we planned to spend even more time considering our long-term strategy during 2018 including to ensure that we remain aligned on process and deliverables. During the year, Board members and other senior leaders from across the business participated in facilitated strategic discussions and, building on this work, we continued to evolve our strategy through a number of focused Board sessions during the year. As part of this process, the Board reviewed and updated the way in which we consider and undertake our strategic and financial planning, including helping to refine Pearson's five-year strategy (**what** we will do) and our three-year plan (**how** we will do it). As a Board, we have agreed that our three strategic priorities remain appropriate, and underpin Pearson's strategic vision of delivering lifelong learning to customers, leading to increased employability and work-related skills, as part of a wider ecosystem of delivery partners and stakeholders.

Crucial to successful delivery of our strategy is developing an inclusive and innovative culture and attracting and retaining strong, diverse talent. During the year, the Board discussed talent and succession planning including consideration of succession plans for the Chief Executive, Chief Financial Officer and all members of the Pearson Executive. We also considered the wider pool of talent in our senior leadership group, and the themes of talent, succession, diversity and inclusion have formed a thread throughout the Board and Committees' sessions during the year.

Board meeting focus

In addition to our focus on our three strategic priorities, and on the talent and culture needed to support them, the Board also visited Milan, Italy and Cape Town, South Africa, during the year, where we held meetings focused on our Core and Growth markets. Our Core and Growth markets present opportunities for products such as BTEC and Pearson Test of English Academic, and the visits allowed us the chance to engage with a wide range of stakeholders, including on the subjects of employability and lifelong learning.

During the year, the Board also monitored progress on the proposed sale of our US K12 Courseware business, and our Audit Committee provided support on the appropriate accounting treatment, determining that it was correct to continue to treat the business as 'held for sale' at 31 December 2018. In February 2019, we announced that we had reached an agreement to sell this business. We also oversaw the conclusion of our sale of the Wall Street English business, which completed in March 2018, and considered financial policy in the round – including our balance sheet, our debt and equity investors, and working capital requirements – as we discussed the detailed operating plan for 2019.

In addition, we considered the business's ongoing preparations for Brexit. The Board is supported in this role by a steering committee chaired by the Chief Financial Officer, with representatives from across the UK business and enabling functions. You can read more about Pearson's preparations for Brexit on p66.

Board changes

Pearson has a fully engaged Board, including a strong Non-Executive team with a breadth of experience and perspectives. We were pleased to welcome Michael Lynton to the Pearson Board, following his appointment as a Non-Executive Director with effect from 1 February 2018. Michael's experience leading businesses through times of digital disruption has further strengthened our capabilities in this area, and Michael is already making a valuable contribution to our deliberations as a Board, and to the Audit and Reputation & Responsibility Committees. You can read more about Michael's induction to the Pearson Board on p89.

During 2018, we also said goodbye to Harish Manwani, a Non-Executive Director of Pearson since 2013, who retired from the Board at the AGM in May 2018. The Board joins me in thanking Harish for his commitment and contribution to Pearson.

Board evaluation

The 2018 Board evaluation, which was overseen by our Nomination & Governance Committee, confirmed that we have an effective and well-functioning Board, which has an appropriately balanced agenda, and which has made progress during the year in continuing to develop and articulate Pearson's strategy. Progress on recommendations arising from our annual Board evaluations is reported at each Committee meeting until such recommendations are completed or embedded to the Committee's satisfaction.

Focus on shareholder returns

The Board continues to pay attention to ensuring an optimal allocation of capital, and our policy in this regard remains unchanged: to maintain a strong balance sheet and a solid investment grade credit rating, to continue to invest in the business, to have a sustainable and progressive dividend policy, and to return surplus cash to our shareholders. In line with this policy, we completed a £300m share buyback in February 2018 following our disposal of a 22% stake in Penguin Random House in 2017. Details of other actions taken in support of our capital allocation policy are set out in my introductory statement on p08.

Accountability

See full section on p96–105

As a Board, we are accountable for Pearson's successes and addressing its challenges. We aim to communicate to you in a transparent manner the steps we have taken to ensure that we have a clear oversight of the business and the work we have undertaken in respect of Pearson's strategy throughout the year. Our Audit Committee, led by Tim Score, plays a key role in monitoring and evaluating our risk management processes, providing independent oversight of our external audit and internal control programmes, accounting policies, business transformation projects, such as TEP, and in assisting the Board in reporting in a fair, balanced and understandable manner to our shareholders.

Engagement

See full section on p106–109

In common with most large, public companies, we have a wider range of stakeholders than just traditional investors, and our Reputation & Responsibility Committee monitors our sustainability and social impact initiatives, government and public affairs matters, and engagement with the education community. Board members also engage with the wider stakeholder population, including employees, customers and partners, both through formal Board events and by way of individual contributions to internal and external initiatives. The Reputation & Responsibility Committee will lead the Board's oversight of Pearson's stakeholder engagement framework from 2019, as required by the updated UK Corporate Governance Code.

During 2018, Board members engaged with the workforce at structured talent events as well as through initiatives such as the Pearson Innovation Jam. As a Board, we are delighted to be able to help support our talent pipeline through the introduction of a new mentoring programme. You can read more about our employee engagement and talent initiatives in the Nomination & Governance Committee's report, which begins on p90.

Remuneration

See full section on p110–126

With the release of the updated UK Corporate Governance Code in July 2018, Elizabeth Corley, who chairs the Remuneration Committee, has led work to review how Pearson's remuneration policy complies with the code and can more closely align with emerging best practice while remaining simple, transparent and closely linked to Pearson's strategy and business performance. This included continuing to engage with investors and shareholders as the Committee prepares to review the Directors' remuneration policy in 2019 ahead of a policy vote at the 2020 AGM. Pearson's current approach to Executive remuneration is explained in more detail in the remuneration section of this report on p110.

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 AGM.

Sidney Taurel
Chair

UK Corporate Governance Code

This year, we are reporting against the 2016 edition of the UK Corporate Governance Code (the Code). The Board believes that during 2018 the company was in full compliance with all relevant provisions of the Code, and this Governance Report sets out how the Code's principles have been applied throughout the year. 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.

The Board is mindful of the changes to the corporate governance and reporting landscape introduced during 2018, including the publication of a new edition of the UK Corporate Governance Code. You can read more about our preparations for the new landscape on p93.

Overview
Our strategy in action
Our performance
Governance
Financial statements

Board of Directors

Pearson Board members bring a wide range of experience, skills and backgrounds which complement our strategy. All Board members have strong leadership experience at global businesses and institutions and, as a group, their experience covers:

- Business strategy and governance
- Innovation and disruption
- Education
- Digital and technology
- Talent, people and culture
- Finance and investment
- Sustainability and environmental matters
- Marketing, brand and media
- Government, international and regulatory affairs

Our Board members' biographies illustrate the contribution each Director makes to the Board by way of their individual experience.

Chair

Sidney Taurel Chair
aged 70, appointed 1 January 2016

Sidney has over 45 years of experience in business and finance, and is currently a Director of IBM Corporation, where he also serves on the directors and corporate governance committee. Sidney is an advisory board member at pharmaceutical firm Almirall. He was Chief Executive Officer of global pharmaceutical firm Eli Lilly and Company from 1998 until 2008, Chairman from 1999 until 2008, and has been Chairman Emeritus since 2009. He was also a Director at McGraw Hill Financial, Inc., a role which he held from 1996 until April 2016 and at ITT Industries from 1996 to 2001. In 2002, Sidney 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.

Current notable commitments:
IBM Corporation (Non-Executive Director)

Non-Executive Directors

Elizabeth Corley, CBE Non-Executive Director
aged 62, appointed 1 May 2014

Elizabeth has extensive experience in the financial services industry, having been CEO of Allianz Global Investors, initially for Europe then globally, from 2005 to 2016, and continues to act as a senior adviser to the firm. She was previously at Merrill Lynch Investment Managers and Coopers & Lybrand. Elizabeth is a Non-Executive Director of BAE Systems plc and Morgan Stanley Inc. Elizabeth is active in representing the investment industry and developing standards within it. She currently chairs a Taskforce for the UK government on social impact investing. She is a member of the Committee of 200. She was appointed Commander of the British Empire in the 2015 New Year Honours for her services to the financial sector.

Current notable commitments: BAE Systems plc (Non-Executive Director), Morgan Stanley Inc. (Non-Executive Director)

Michael Lynton Non-Executive Director
aged 59, appointed 1 February 2018

Michael served as CEO of Sony Entertainment from 2012 until 2017, overseeing Sony's global entertainment businesses. He also served as Chairman and CEO of Sony Pictures Entertainment from 2004. Prior to that, he held senior roles within Time Warner and AOL, and earlier served as Chairman and CEO of Penguin Group where he extended the Penguin brand to music and the internet. Michael is Chairman of Snap, Inc., and currently serves on the boards of IEX, Warner Music and Ares Management Corporation LLC.

Current notable commitments:
Ares Management Corporation LLC (Non-Executive Director), Snap, Inc. (Chairman)

Executive Directors

John Fallon Chief Executive
aged 56, 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 & 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.

Coram Williams Chief Financial Officer
aged 45, 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, where he oversaw the integration of the two businesses. Coram trained at Arthur Andersen, and subsequently worked in both the auditing and consulting practices of the firm. He is a Non-Executive Director and Chairman of the audit committee for the Guardian Media Group.

A N RR

Vivienne Cox, CBE Senior Independent Director
aged 59, appointed 1 January 2012

Vivienne has wide experience in energy, natural resources and business innovation. She worked for BP plc for 28 years in global roles including Executive Vice President and Chief Executive of BP's gas, power and renewables business and its alternative energy unit. She is Chair of the supervisory board of Vallourec S.A., a leader in the seamless steel pipe markets, Non-Executive Director at pharmaceutical company GlaxoSmithKline plc and serves as Chair of the Rosalind Franklin Institute. She was appointed Commander of the British Empire in the 2016 New Year Honours for her services to the economy and sustainability.

Current notable commitments: GlaxoSmithKline plc (Non-Executive Director), Vallourec S.A. (Chair of the supervisory board)

N R

Josh Lewis Non-Executive Director
aged 56, appointed 1 March 2011

Josh's experience spans finance, education and the development of digital enterprises. He is founder of Salmon River Capital LLC, a New York-based private equity/venture capital firm focused on technology-enabled businesses in education, financial services and other sectors, through which he has taken on the role of Non-Executive Director of several enterprises. 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.

Current notable commitments: Salmon River Capital LLC (Founder & Managing Principal)

A RR

Linda Lorimer Non-Executive Director
aged 66, appointed 1 July 2013

Linda has spent almost 40 years serving higher education. She retired from Yale in 2016 after 34 years at the university where she served in an array of senior positions including Vice President for Global & Strategic Initiatives. She oversaw the development of Yale's burgeoning online education division and the expansion of Yale's international programmes and centres. During her tenure, she was responsible for many administrative services, ranging from Yale's public communications and alumni relations to sustainability, human resources and the university press. She also served on the boards of several public companies, including as Presiding Director of the McGraw-Hill companies. Linda is a member of the board of Yale New Haven Hospital, where she chairs the nominating and governance committee.

A N R

Tim Score Non-Executive Director
aged 58, 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, 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, in addition to being a Trustee of the National Theatre. 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, LucasVarity plc and BTR plc.

Current notable commitments: The British Land Company plc (Non-Executive Director and Chairman-elect)

A RR

Lincoln Wallen Non-Executive Director
aged 58, appointed 1 January 2016

Lincoln has extensive experience in the technology and media industries, and is currently CTO of Improbable, a technology start-up supplying next-generation cloud hosting and networking services to the video game industry. Lincoln was CEO of DWA Nova, a software-as-a-service company spun out of DreamWorks Animation Studios in Los Angeles, a position he held until 2017. He worked at DreamWorks Animation for nine years in a variety of leadership roles including Chief Technology Officer and Head of Animation Technology. He was formerly CTO at Electronic Arts Mobile, leading their entry into the mobile gaming business internationally. Lincoln is a Non-Executive Director of the Smith Institute for Industrial Mathematics and Systems Engineering. His early career involved 20 years of professional IT and mathematics research, including as a reader in Computer Science at Oxford.

Current notable commitments: Improbable (Chief Technology Officer)

Key to Committees

- A Audit
- N Nomination & Governance
- RR Reputation & Responsibility
- R Remuneration
- Committee chair

Current notable commitments include other listed company directorships and full time or executive roles.

Board governance and activities

Board of Directors

Composition of the Board As at the date of this report, the Board consists of the Chair, Sidney Taurel, two Executive Directors: the Chief Executive, John Fallon, and Chief Financial Officer, Coram Williams, and seven independent Non-Executive Directors. During the year, Harish Manwani stepped down from the Board at the AGM held on 4 May 2018 and Michael Lynton joined the Board on 1 February 2018.

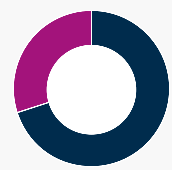
Chair and Chief Executive There is a defined split of responsibilities between the Chair and the Chief Executive. The roles and responsibilities of the Chair and Chief Executive are clearly defined, set out in writing and reviewed and agreed by the Board on an annual basis. These can be found on the Company website at www.pearson.com/governance

Chair's significant commitments There were no changes to the Chair's significant commitments during 2018. However, during the year, Mr Taurel stepped down as chair of the compensation committee of IBM Corporation and joined its directors and corporate governance committee.

Roles and composition of the Board

Role	Name	Responsibility
Chair	Sidney Taurel	The Chair is primarily responsible for the leadership of the Board and ensuring its effectiveness. He ensures that the Board upholds and promotes the highest standards of corporate governance, setting the Board's agenda and encouraging open, constructive debate of all agenda items for effective decision-making. He regularly meets the Chief Executive to stay informed. He also ensures that shareholders' views 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.
Chief Financial Officer	Coram Williams	The Chief Financial Officer is responsible for the preparation and integrity of Pearson's financial reporting and statements and also oversees other functional areas including tax, treasury, internal audit and corporate finance. He supports the Chief Executive in developing and implementing the strategy of the Company as agreed by the Board and management.
Senior Independent Director	Vivienne Cox	The Senior Independent Director's role includes meeting regularly with the Chair 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. She also leads the evaluation of the Chair on behalf of the other Directors.
Committee Chairs	Elizabeth Corley Vivienne Cox Linda Lorimer Tim Score	The Committee Chairs are responsible for leading the Board Committees and ensuring their effectiveness. They set the Committees' agendas, in consultation with management, and report to the Board on Committee proceedings. They lead on engagement with shareholders regarding matters within the remit of the Committees, alongside senior management.
Non-Executive Directors	Elizabeth Corley Vivienne Cox Josh Lewis Linda Lorimer Michael Lynton Tim Score Lincoln Wallen	The Non-Executive Directors contribute to the development of our strategy and scrutinise and constructively challenge the performance of management in the execution of strategy and risk planning. They also engage with various stakeholders of the Company and provide guidance and independent perspective to management.
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 Chair, for ensuring the Board receives accurate, timely and clear information. The Company Secretary supports the Chair in delivery of the corporate governance agenda and organises Director inductions and ongoing training.

Gender balance of Board

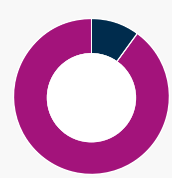


- Men 7
- Women 3

Nationality of Directors

- British 6
- USA 4

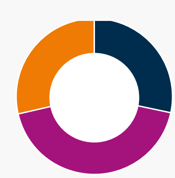
Ethnicity



- Mixed 1
- White 9

Mixed – White & Black Caribbean (1)
White – English/Welsh/Scottish/Northern Irish/British (6)
White – Any other White Background (3)

Length of tenure of Non-Executive Directors



- Under 3 years 2
- 3 to 6 years 3
- Over 6 years 2

All information correct as at 31 December 2018.

Governance at Pearson

FLOW OF INFORMATION

Board of Directors

Board Committees

Audit Committee
Appraises our financial management and reporting and assesses the integrity of our accounting procedures and financial control.

Nomination & Governance Committee
Reviews corporate governance matters, including Code compliance and Board evaluation, considers the appointment of new Directors, Board experience and diversity, and reviews Board induction and succession plans.

Remuneration Committee
Determines the remuneration and benefits of the Executive Directors and oversees remuneration arrangements for the Pearson Executive.

Reputation & Responsibility Committee
Considers the Company's impact on society and the communities in which Pearson operates, including to ensure that strategies are in place to manage and improve Pearson's reputation.

Pearson Executive management (PEM) see p13

PEM consists of John Fallon (Chief Executive) and his direct reports. They are the executive leadership group for Pearson, responsible for delivering Pearson's strategy under clearly defined accountabilities and in line with agreed governance and processes.

- Chief Executive
- Chief Financial Officer
- Chief Technology & Operations Officer
- Chief Corporate Affairs Officer
- Chief Human Resources Officer
- Chief Strategy Officer
- General Counsel & Chief Legal Officer
- President UK & Core Markets
- President Growth Markets
- President North America
- President Pearson Assessments
- President Global Product

Independence of Chair In accordance with the Code, Sidney Taurel was considered to be independent upon his appointment as Chair on 1 January 2016.

Independence of Directors All of the Non-Executive Directors who served during 2018 were considered by the Board to be independent for the purposes of the Code. The Board reviews the independence of each of the Non-Executive Directors annually. This includes reviewing their external appointments and any potential conflicts of interest as well as assessing their individual circumstances in order to ensure that there are no relationships or matters likely to affect their 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 and, from the beginning of 2019, the new UK Corporate Governance Code.

Josh Lewis and Vivienne Cox have served on the Board for more than six years. Accordingly, their performance was subject to a rigorous review during 2018, including with regard to their independence. The Board has determined that Josh Lewis and Vivienne Cox continue to be independent, taking into account their valuable contribution to Board discussions and constructive challenge of management.

Conflicts of interest Under the Companies Act 2006, Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association 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 Chair 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 governance and activities

The role and business of the Board

The Board is deeply engaged in developing and measuring the Company's long-term strategy, performance, culture and values. 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.

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

The key responsibilities of the Board include:

› Overall leadership of the Company and setting the Company's values and standards including monitoring culture

› Determining the Company's strategy in consultation with management, reviewing performance against it and overseeing management execution thereof

› Major changes to the Company's corporate, capital, management and control structures

› Approval of all transactions or financial commitments in excess of the authority limits delegated to the Chief Executive and other Executive management

› Assessment of management performance and Board and Executive succession planning.

The Board receives timely, regular and necessary financial, management and other information to fulfil its duties. Comprehensive meeting papers are circulated to the Board and Committee members at least one week in advance of each meeting and the Board receives a regular dashboard and key milestones report and regular updates from the Chief Executive and Chief Financial Officer. In addition to meeting papers, a library of current and historical 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.

Strategic planning

In 2018, following continued improvements in our operational and financial performance, the Board was in a position to focus particularly on strategy and future prospects for the business. In honing our strategic and financial plans, the Board considered findings from a dedicated workstream involving contributors from across Pearson which sought to:

› Review the education landscape, present and future state

› Articulate key conclusions around which to build our strategy

› Identify the customer problems we are best placed to solve

› Identify the capabilities we need to utilise and build to deliver our five-year strategy

› Identify implications for our business which will drive our future investments and planning process.

Following detailed consideration and discussion of these themes over a number of focused sessions during the year, the Board confirmed its strategic priorities, as described on p20–24.

Standing Committee

A Standing Committee of the Board is established to approve certain operational and 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.

Board meetings

The Board held seven formal meetings in 2018, with discussions and debates focused on the key strategic issues facing the Company. This included a meeting in Milan, Italy, when the Board considered its Core markets, and a meeting in Cape Town, South Africa, at which Growth markets was the main focus; together with deeper dives into the local business on both trips. Major items covered by the Board in 2018 are shown in the table opposite. In addition to the formal meetings, the Board meets in person or by telephone as necessary to consider matters of a time-sensitive nature.

Milan, Italy At a two-day meeting in Milan in June, the Board and Pearson Executive spent time focused on Pearson's businesses in our Core markets as well as on the local Italian business. They considered the ways in which Pearson aims to innovate the delivery of access to high-quality career-focused education, and the opportunities to collaborate, challenge and support across the Core markets. Throughout the meeting the Board engaged with the Core leadership team and met with representatives of the local employee population. The Board also had the opportunity to observe an example of career-focused education in schools, by viewing a robotics class and also participated in a facilitated exercise with the Core leadership team around the theme of how Pearson can best drive the opportunity to connect education and work, preparing people for lifelong learning and future skills. There were also two stakeholder panel sessions, allowing the Board to hear directly from customers about the challenges they face in delivering high-quality content, assessment and qualifications in schools, and from employers and the higher education sector about preparing students for work.

Cape Town, South Africa The Board and the Pearson Executive visited Cape Town in October for a three-day meeting. They were joined by members of senior management from the Growth leadership team who provided an overview of the Growth business including country-specific updates and a deeper dive into the South African learning services and direct delivery businesses. The Board and Executive participated in a range of engagement opportunities with a variety of Pearson stakeholders, including a Rapid Prototyping workshop and a customer panel session with the theme of putting employability at the heart of Pearson's strategy – Read more about the Rapid Prototyping workshop and the Board's engagement with these stakeholders on p108–109. The Board also spent some time hearing from each member of the Executive team about the prospects for and performance of their individual business units, or areas of control, before taking some time to review Pearson's talent pipeline and in particular how it aligns with the organisation's culture and capabilities. During the meeting, the Board also attended a facilitated breakfast meeting with new and emerging local talent and gained a valuable insight into employees' views on Pearson's current challenges and opportunities.

Board meeting focus during 2018

→ Strategy

- WSE and US K12 Courseware – updates
- Review of Core and Growth markets at offsite meetings
- Efficiency and simplification initiatives
- US Higher Education Courseware
- Interactive product demonstrations
- Product, technology and operations strategies
- Operating and strategic plan discussions

→ Performance

- 2017 preliminary results and annual report and accounts
- Interim results and trading updates
- Regular dashboard and milestone reports
- Oversight of 2018 operating plan and goals, and preparation for 2019
- Final and interim dividend proposals

→ Leadership & people

- Talent and succession planning
- Organisational health including review of Pearson's culture
- Chief Executive's goals
- Chief Human Resources Officer's first impressions of HR and talent at Pearson
- Dinner with senior local management and facilitated breakfasts with key talent at overseas strategy meetings. Read more on employee engagement on p109

→ Governance & risk

- Compliance with UK Corporate Governance Code
- Regular Brexit and Pensions updates
- Shareholder activism and defence planning
- Enterprise risk management review
- Approval of income statement and going concern and viability
- Board evaluation
- Approval of division of responsibilities between Chair and Chief Executive
- Annual review of conflicts of interest
- Investor relations updates
- Approval of Committee terms of reference
- Tax update

→ Shareholders & engagement

- Investor relations strategy and share price performance
- Major shareholders and share register analysis
- Shareholder issues and voting
- Focus on forthcoming AGM
- Digital advisory network update

Board governance and activities

Culture and values

Pearson's core values – to be brave, imaginative, decent and accountable – go to the heart of our mission to improve learning outcomes, and the Board and employees are committed to demonstrating these characteristics throughout their work and deliberations. During 2018, the focus was to foster a culture of innovation, organisational health, diversity and inclusion at all levels and which included engaging with employees from across Pearson through various platforms and events during the year. The Board recognises that the Company's culture is also undergoing transformation through the simplification of our portfolio and investment through structured programmes such as The Enabling Programme (TEP) and the Global Learning Platform (GLP). The Board monitors the culture of the Company and levels of employee engagement and advocacy with the assistance of its Reputation & Responsibility Committee and through regular updates from the Chief Human Resources Officer.

Board attendance

Directors are expected to attend all Board and Committee meetings but in certain exceptional circumstances, such as due to pre-existing business or personal commitments, it is recognised that Directors may be unable to attend. There was full attendance by Directors at Board and Committee meetings in 2018.

The following table sets out the attendance of the Company's Directors at scheduled Board meetings during 2018:

	Board meetings attended
Chair	
Sidney Taurel	7/7
Executive Directors	
John Fallon	7/7
Coram Williams	7/7
Non-Executive Directors	
Elizabeth Corley	7/7
Vivienne Cox	7/7
Josh Lewis	7/7
Linda Lorimer	7/7
Michael Lynton[1]	6/6
Harish Manwani[2]	3/3
Tim Score	7/7
Lincoln Wallen	7/7

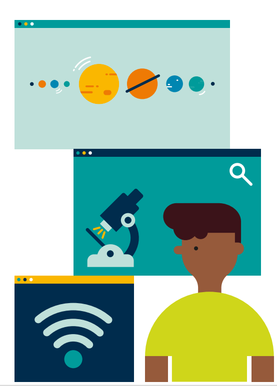
1 Mr Lynton joined the Board on 1 February 2018.
2 Mr Manwani resigned from the Board on 4 May 2018.

Board in action

Global Learning Platform

Pearson is building a Global Learning Platform (GLP), which is a single, cloud-based platform that's highly scalable and reliable, and allows us to innovate faster and support a lifelong learning ecosystem for learners. As the GLP is a key customer and learner-facing element of the transformation programme, it remains an item closely monitored by the Board. The Board continued to receive regular updates throughout the year, which enabled them to monitor the progress of Pearson's delivery of agreed metrics for growing market share through digital transformation.

At each meeting, the Board was joined by the President of Global Product and by the Chief Technology and Operations Officer to review the development of the GLP, including progress of the Rio Limited Pilot, a new mastery-based developmental maths product, and Revel, our next-generation US higher education digital courseware product. At its meeting in May, the Board reviewed the learnings from the Digital Advisory Network and considered Pearson's digital transformation in the context of building the GLP. Throughout the year, the Board assessed Pearson's strategy and three-year plan linking it to delivery of the GLP. At its December meeting, the Board received a live software demonstration of Rio and discussed customer feedback and steps taken to improve learning experiences and better outcomes on the GLP across Pearson. In addition, the SVP AI Products and Solutions, who joined Pearson this July to lead our newly formed AI Products and Solutions team, also presented a strategy and roadmap for artificial intelligence-based product development to the Board.



1 Grow market share through digital transformation

Link to strategic priorities, see p20

Succession planning

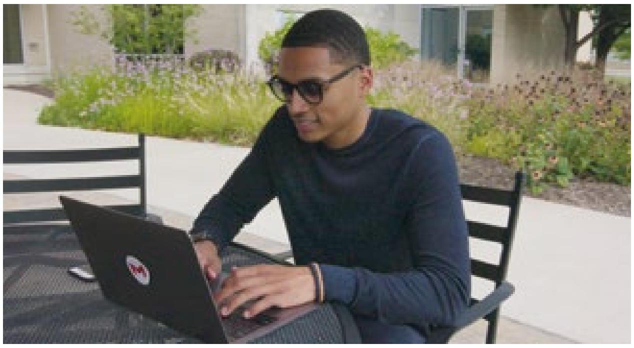
The Board considers oversight of succession planning as one of its prime responsibilities, assisted by the Nomination & Governance Committee. The Company has formal contingency plans in place for the temporary absence of the Chief Executive for health or other reasons. The matter of Chief Executive succession is a standing item for discussion and review by the Chair and the Board annually. Succession planning for the Board and Chair is also considered annually by the full Board and on an ongoing basis by the Nomination & Governance Committee. There is also discussion and oversight of key positions at Executive management level, including the recent appointment of a new Chief Corporate Affairs Officer. In early 2018, Pearson recruited a Chief Strategy Officer and a new Chief Human Resources Officer. As we continue to transform the business at Pearson, the new members of the Executive team had a key role to play in our strategic planning process and in succession planning and fostering a culture of diversity and inclusion.

As well as Board and Executive management succession, the Board also oversees our leadership pipeline. In December, the Board's discussions on succession planning focused on the executive pipeline from which the future leaders of Pearson were likely to emerge, both at PEM level and other key roles. Strong successors have been identified for PEM roles and future considerations have been taken into account in identifying successors both immediately below PEM level and those who would be ready to take up a PEM-level position in one or two moves. A diverse pipeline of 'ready later' emerging talent has been identified, and plans are put in place to accelerate their path to succession where possible. The Company also has targeted development programmes for high-potential talent, mentorship programmes for senior women leaders as well as a Managers Fundamentals programme for middle management.

Board in action

Online Program Management

Pearson considers Online Program Management (OPM), virtual schools, professional certification and English language learning to be among its biggest growth opportunities. In light of this potential, OPM continued to be a regular reporting item on the Board's agenda for 2018. During the year, the Board considered Pearson's prospects in the OPM business, and spent some time reviewing the business model, some proposed operational improvements and the existing contract pipeline. At its meeting in June, the Board conducted a deeper dive into the global operations strategy of the OPM business, and with the Executive team also discussed leveraging learnings more widely. This included a consideration of how Pearson's expertise in courseware and assessment could continue to support partners in the development and delivery of online programmes that demonstrate innovation and superior student learning experiences. OPM was also discussed in relation to the three-year planning process, with the Board focusing on the operating model for the business and considering the impact of the very specific economics of a typical OPM contract.



Studying an online degree powered by Pearson Online Program Management, at Maryville University see p06

2 Invest in structural growth markets

Link to strategic priorities, see p22

Board governance and activities

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, judgement is given against the Director. The indemnity has been in force for the financial year ended 31 December 2018 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 & Governance, Remuneration, and Reputation & Responsibility. The Chairs and members of these Committees are appointed by the Board on the recommendation (where appropriate) of the Nomination & Governance Committee and in consultation with each relevant Committee Chair. In addition to these formal Board Committees, the Standing Committee also operates with Board-level input.

Learn more about Pearson's governance structure on p83

Board in action

Simplification programme

In 2017, we announced plans to reduce Pearson's cost base by a further £300m exiting 2019. In January 2019, we announced that we are saving ahead of that plan, and now expect to deliver increased annualised cost savings in excess of £330m by the end of 2019. During the year, the Board had an oversight of the planned implementation of finance and operations systems throughout our North American business, enabling us to adjust the cost base in our US Higher Education courseware business. The programme also includes simplification of our technology architecture which has facilitated the increased use of shared service centres and automation, enabling us to standardise processes and reduce headcount. This has also enabled us to develop centralised procurement and reduce our number of office locations.

The Board receives regular updates on the simplification programme through the dashboard and key milestones report as well as updates from the Chief Executive and Chief Financial Officer at every Board meeting. At the Board meeting in June, each member of the Executive team provided an update on their particular function or business units describing their initiatives, outcomes and efficiencies arising from the simplification programme. The Board believes that the changes arising from the simplification programme will help Pearson speed up innovation, provide better customer experiences, eliminate duplication and increase scalability in the long-term.

3 Become a simpler, more efficient and more sustainable business

Link to strategic priorities, see p24

More Committee information:

Audit Committee	p96
Nomination & Governance Committee	p90
Remuneration Committee	p110
Reputation & Responsibility Committee	p106
Standing Committee	p84

The Committees focus on their own areas of expertise, enabling the Board meetings to focus on strategy, performance, leadership and people, governance and risk, and shareholder engagement, thereby making the best use of the Board's time together as a whole. The Committee Chairs report to the full Board at each Board meeting immediately following their sessions, ensuring a good communication flow while retaining the ability to escalate items to the full Board's agenda if appropriate.

Directors' training and induction

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 Chair. As part of the Board's focus on diversity and inclusion, the Directors received an overview of the training on unconscious bias which is being delivered to employees, and participated in elements of this programme.

Our Directors can also make use of external courses. 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, external legal advisers and brokers, 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 Michael Lynton, our most recently appointed Non-Executive Director, took place in 2018. A tailored and bespoke induction programme was designed for him which aligned with the Board's focus areas.

"The bespoke induction programme was terrific. It provided me with helpful insights into Pearson with a range of topics and meetings with both internal stakeholders and company advisers. I found the meetings with division heads particularly useful in developing my understanding of the drivers of Pearson's businesses. It was extremely important to undertake this induction programme, and I'm sure the knowledge I've gained through the programme has helped me in making an effective contribution to the Board during my first year."

Michael Lynton

The induction included meetings with other Board members, business area familiarisation with members of the Pearson Executive, a briefing on Directors' duties and sessions with the SVP Internal Audit, Compliance and Risk, SVP Investor Relations, and MD, Pearson Online Learning Services. The Company Secretary sought Michael's feedback following completion of his induction programme. Michael was very positive about the benefits of the programme, and suggested a small number of enhancements based on his own experience. These suggestions will be taken into account by the Nomination & Governance Committee as it continues to oversee the format of the Non-Executive Director induction.

Nomination & Governance Committee report

Committee Chair

Vivienne Cox

Members

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

Committee responsibilities include:

→ Appointments

Identifying and nominating candidates for Board vacancies.

→ Balance

Ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence, diversity and knowledge to operate effectively.

→ Succession

Reviewing the Company's leadership needs with a view to ensuring the continued ability of the organisation to compete in the marketplace.

→ Governance

Review and oversight of Pearson's corporate governance framework, Board evaluation and training plans, and Board diversity policy.

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 www.pearson.com/governance.

Committee attendance

Attendance by Directors at Nomination & Governance Committee meetings throughout 2018:

	Meetings attended
Elizabeth Corley	4/4
Vivienne Cox	4/4
Josh Lewis	4/4
Harish Manwani[1]	2/2
Tim Score	4/4
Sidney Taurel	4/4

1 Mr Manwani stepped down from the Committee on 4 May 2018.

Role and business of the Committee

The Committee monitors the composition and balance of the Board and of its Committees, identifying and recommending to the Board the appointment of new Directors and/or Committee members.

The Committee has oversight of the Company's compliance with, and approach to, all applicable regulation and guidance related to corporate governance matters.

The Committee also oversees talent and succession plans for senior roles. The Committee comprises four independent Non-Executive Directors and the Chair of the Board. The Chief Executive and other senior management, including the Chief Human Resources Officer, attend Committee meetings by invitation.

Areas of focus during 2018

During 2018, the Committee's areas of focus included oversight of the annual Board evaluation process, reviewing Committee membership and Committee remits in order to ensure balanced remits and composition of all Committees, and reviewing its own terms of reference. The Committee also conducted a benchmarking exercise in respect of the frequency and duration of Board meetings and the Committee was satisfied that the Board had sufficient meeting time under the current arrangements.

At its February meeting, the Committee considered arrangements for the induction of new Non-Executive Directors, including finalising Michael Lynton's induction programme. The Committee also had oversight of Non-Executive Director succession planning and search activity, and this was a regular agenda item throughout the year.

At its December meeting, the Committee received an update from the Chief Human Resources Officer and SVP, Diversity & Inclusion about Pearson's detailed action plan to address the gender pay gap. In addition, the Committee received an update on planned events scheduled for 2019 for next-generation female executives, delivering upon a recommendation by Committee member Elizabeth Corley. The Board also devoted time to diversity and inclusion initiatives across the business – see overleaf for further detail.

The Committee also considered the Company's corporate governance framework in light of the new UK Corporate Governance Code which took effect for Pearson from 1 January 2019. We will report in accordance with the 2018 Code in the 2019 annual report, and you can read more about our preparation for the new UK Corporate Governance Code on p93.

Board search

Pearson uses a number of leading firms in its Board search activities and ensures that we retain good relationships with them. Acting on the results of the 2017 Board evaluation, the Committee has paid particular attention to Non-Executive Director succession planning, including for future Committee chairs. Accordingly, during the year, the Committee undertook a market study for potential search firms and reviewed the process by which it will select candidates. The Committee also agreed upon specific criteria for potential new Non-Executive Directors, in particular giving consideration to the skills and experience required in any candidates. Pearson expects all Non-Executive Directors to demonstrate the highest level of integrity and credibility, independence of judgement, maturity, collegiality, a high interest in education and the commitment to devote the necessary time.

Taking into account the agreed person specification as well as diversity in its broadest sense, in 2018 the Committee engaged Russell Reynolds Associates to undertake a search process for new Non-Executive Directors. In addition to the Non-Executive Director search process, Russell Reynolds Associates undertakes broader executive search activity for the Group, and is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

Committee evaluation

The Committee undertook an annual evaluation to review its own performance and effectiveness. The process involved the distribution of questionnaires to Committee members, as well as key stakeholders, 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 were then evaluated and presented to the Committee at a scheduled meeting, with key themes being drawn out for discussion.

The Committee was considered to have operated effectively throughout 2018 with a clear agenda and effective leadership. In response to the findings of the 2018 evaluation, and as part of its forward planning for the 2019 agenda, the Committee will continue to devote time to Board succession planning, including for Committee Chair positions, and has agreed that its focus on the requirements of the new UK Corporate Governance Code will continue to be a priority in 2019. The Company Secretary will ensure that meeting frequency and time allocation remains appropriate to achieve these aims. The Committee has also given consideration to the processes relating to Non-Executive Director search activity, which was a particular recommendation arising from its 2018 evaluation.

Committee aims for 2019

We will have a full agenda for 2019, with a particular focus on implementation of changes to the corporate governance framework including establishment of the employee engagement network, Non-Executive Directors' succession planning activity, Board diversity and inclusion plan and findings of the Board evaluation.

Vivienne Cox
Chair of Nomination & Governance Committee

Nomination & Governance Committee meeting focus during 2018

Appointments

- Ongoing search for potential Non-Executive Directors

Balance

- Agreement of desired skills and experience of new Non-Executive Directors
- Update on diversity and inclusion initiatives at Pearson

Succession

- Succession planning and updates on search for Non-Executive Directors
- Induction outline for Non-Executive Directors

Governance

- Consideration of Board evaluation feedback
- Compliance with UK Corporate Governance Code
- Oversight of development of the employee engagement network
- Schedule and length of meetings
- Approval of Committee terms of reference

Nomination & Governance Committee report

Diversity

The Board embraces the Code's underlying principles with regard to Board balance and diversity, including in respect of ethnicity, gender and age. The objectives set out in the Board's diversity and inclusion (D&I) policy and our progress towards these objectives are shown in the table below. The Committee ensures that the Directors of Pearson demonstrate a broad balance of skills, background and experience, to support Pearson's strategic development and reflect the global nature of our business. The Committee also ensures that appointments are made on merit and relevant experience, while taking into account the broadest definition of diversity. In the ongoing Non-Executive Director search process, emphasis is given to candidates who would enhance the overall diversity of the Board.

The gender diversity of the Board was 30% female representation as at 31 December 2018. However, as noted in the Board diversity and inclusion policy, we are committed to work towards the recommendations suggested by the Hampton-Alexander Review aimed at having at least 33% female representation on the Board by 2020.

During the year, the Board received an overview of the training on unconscious bias which is being delivered to employees and participated in elements of this programme. The Board received a detailed progress update in December on the Company's refreshed diversity and inclusion strategic approach, framework, governance and measurement models and 2019 priority areas. The Board also received an update on a new internal mentoring scheme, and agreed to join the programme whereby each Director is paired with a high-potential Senior Vice President female leader at Pearson. This launched at the end of 2018 and runs through 2019.

Board diversity & inclusion objectives

The Committee has agreed the following objectives to support the Board diversity & inclusion policy:

Objectives	Progress
We will strive to maintain a Board composition of: › At least 25% female Directors, with a target of at least 33% female Directors by 2020 › At least one Director of colour.	› 25% female Directors achieved. › Board includes one Director who identifies as Mixed – White & Black Caribbean.
All Board appointments will be made on merit, in the context of the skills and relevant experience that are needed for the Board to oversee Pearson's strategic development and that reflect the global nature of our business.	Achieved. Rigorous process used during recent search for Michael Lynton who has relevant experience and skills.
The Board will prioritise use of search firms which adhere to the Voluntary Code of Conduct for Executive Search Firms when seeking to make Board-level appointments.	Achieved.
The Board will continue to adopt best practice, as appropriate, in response to the Davies Review, the Hampton Alexander Review and the Parker Review.	The recommendations of the Davies Review, Hampton Alexander Review and Parker Review in respect of gender and ethnic diversity have been noted by the Board.
Where appropriate, we will assist with the development and support of initiatives that promote all forms of diversity and inclusion in the Board, Pearson Executive and our senior management.	Board mentoring scheme of senior leadership talent launched.

Diversity and talent in Executive pipeline

Our Code of Conduct sets out our global standards and responsibilities with regard to D&I at all employee levels, including the Pearson Executive, and covers many aspects, including gender, age, ethnicity, disability and sexual orientation. This is underpinned by a global statement on D&I along with country and business specific policies. A new Global Diversity and Inclusion Council is launching in early 2019 and will be chaired by Chief Executive, John Fallon. For more information on the Company's approach to diversity and inclusion, please see p38 in the Sustainability section.

We are a founder member of the 30% Club and the Chief Executive has also signed a personal commitment to set an aspirational target of at least 30% women in Pearson's senior management team by 2020. On our Executive team, there are currently two women out of ten members (20%) – this excludes the Chief Executive and Chief Financial Officer who are counted in the Board's metric. The senior leadership group, comprising the direct reports of the Pearson Executive, had 31% female representation as of 31 December 2018.

We believe that we have a multi-pronged plan in place to build our pipeline of women in leadership and senior management positions, and the Board and Committee will carefully monitor their development, and the development of all key talent. Pearson published its first gender pay gap report in Great Britain in March 2018 and has made a commitment to extend our gender pay reporting globally by 2020. Read more about our initiatives to address the gender pay gap on p38.

Preparation for the new UK Corporate Governance Code

The new UK Corporate Governance Code (the 2018 Code) applies to Pearson from the 2019 financial year. To ensure appropriate preparations were made in advance of the effective date, the Nomination & Governance Committee received a briefing from the Company Secretary shortly after the publication of the 2018 Code on key themes and the main areas of change. At its next meeting, the Committee considered a detailed comparative analysis of Pearson's existing corporate governance practices against the 2018 Code. The report highlighted areas of particular focus or change between the 2016 and 2018 Codes, as well as areas where Pearson was already in compliance with proposed new principles and provisions.

The Committee was satisfied that there were no particular areas of concern within the 2018 Code and that Pearson's corporate governance practices were already of a standard to ensure compliance with the majority of the 2018 Code. The Committee then discussed in further detail the specific areas where it believed further steps could be taken to ensure a robust response to the 2018 Code.

Stakeholder engagement

The Committee considered the 2018 Code's focus on the importance of the stakeholder voice in the boardroom, as well as increased legislative disclosures in this regard for Pearson and a number of its UK subsidiaries.

The Committee noted that Pearson already uses a wide range of mechanisms to engage with employees, including town halls, global conversations, employee resource groups, employee engagement and organisational health surveys, as well as the Board having the opportunity to engage both formally and informally with the workforce during events such as Board site visits and talent breakfasts. The Committee agreed that existing mechanisms provide sufficiently effective ways for the Board to keep a pulse on the organisation and on employees' views on Pearson's strategy, communications, compensation and benefits, and the senior leadership team overall. However, in the spirit of the 2018 Code, the Committee reviewed and approved a proposal on an additional mechanism – an Employee Engagement Network – as a means for the Board to hear directly from employees. The network will include a Non-Executive Director, an Executive Director, Human Resources Executive, and a group of employees from across Pearson reflecting geographical, generational, operational and cultural diversity as well as length of service. The network is expected to meet twice a year with periodic rotation of employee representatives in order to bring different employee perspectives to the group. The network will also provide an opportunity to gain additional insight on how to enhance employee satisfaction and work effectiveness within Pearson and help engage and retain high performers. The Committee agreed to oversee the governance framework for workforce engagement on behalf of the Board however, any employee views arising through the network or other means would remain a matter for the Board as a whole.

Pearson's engagement and communications with broader stakeholder groups, including customers, suppliers and communities, sit within the remit of the Reputation & Responsibility Committee. The Reputation & Responsibility Committee therefore agreed to continue to oversee the governance framework for stakeholder engagement within Pearson as required by the 2018 Code, and agreed a proposal that a detailed stakeholder engagement mapping exercise be undertaken with input from Global Corporate Affairs and Marketing. The Reputation & Responsibility Committee will consider the outputs of this exercise at its first meeting of 2019.

Other key items considered

Other actions arising in connection with the Committee's preparations for the 2018 Code include:

› The Committee is mindful of the 2018 Code's attention to Directors' commitments and has agreed a form of internal guidance to be taken into account when considering changes to a Director's commitments, or when appointing a new Director, as well as formalising the Board approval process for such matters

› The Senior Independent Director's duties and responsibilities have been formalised, as suggested by the 2018 Code, and are available on the Company website at www.pearson.com/governance

› The Committee agreed that the Remuneration Committee will be responsible for ensuring compliance with Section 5 of the 2018 Code.

We will report in accordance with the 2018 Code in our 2019 annual report.

Board evaluation

Board evaluation

The Board evaluation for 2018 was an internally facilitated process led by the Nomination & Governance Committee with support from the Company Secretary, and conducted by means of a tailored questionnaire. The Nomination & Governance Committee spent time during 2018 in scoping the evaluation and reviewed the headlines at its meeting in December 2018. The Committee will develop an action plan to address areas for improvement and will monitor progress during the year. Key findings included:

- Board members were supportive of work undertaken during the year in continuing to develop and articulate the strategy, with this being identified by a number of Directors as a key achievement upon which the Company would continue to build
- The Board's agenda was felt to be well prioritised with the key issues covered to an appropriate level of detail and a good balance of strategic, operational, financial and governance matters
- The main areas identified by the Board for continued focus during 2019 were leadership development and succession planning, culture, the competitive landscape and customer views.

In addition to leading the 2018 process, the Nomination & Governance Committee also gave consideration to the ongoing evaluation cycle. The Committee agreed that a three-yearly cycle utilising a variety of methodologies would be appropriate to ensure the most effective evaluation outcomes. The planned cycle is:

- Year 1 – in-depth evaluation, externally facilitated (undertaken in 2017)
- Year 2 – questionnaire, tailored to specific needs of the business (undertaken in 2018)
- Year 3 – internally facilitated interview, to be led by the Chair, Senior Independent Director and/or Company Secretary as appropriate (due in 2019).

A number of actions were taken during the year in response to findings arising from the 2017 externally facilitated Board evaluation process. You can read more about progress on these in the table opposite. The Committee confirmed that these items, as well as those identified in the 2016 evaluation, had been addressed to its satisfaction, with recommendations having been put into practice or a clear action plan identified.

Individual evaluation

In addition to the evaluation of the Board as a whole, Executive Directors are evaluated each year on their overall performance against goals agreed by the Board, and in respect of personal objectives under the Company's annual incentive plan. These goals and objectives are linked to certain strategic metrics, including efficiency and cost saving initiatives, driving the digital agenda and growing market opportunities. Progress against each of these metrics is reviewed by the Board on a regular basis, as part of the dashboard of KPIs which we believe to be central to Pearson's turnaround.

The Chair meets with each Non-Executive Director individually on a regular basis and, in assessing the contribution of each, has confirmed that each Director continues to make a significant contribution to the business and deliberations of the Board. At least once a year, the Chair's meetings with individual Non-Executive Directors include reciprocal feedback on the functioning of the Board, to augment the collective Board evaluation process. The Non-Executive Directors, led by the Senior Independent Director, also conduct an annual review of the Chair's performance, with the Senior Independent Director providing feedback from this review to the Chair.

Committee evaluation

All Committees undertake an annual evaluation process to review their performance and effectiveness. For 2018, the process was facilitated internally by the Chair and Secretary of each Committee through use of a tailored questionnaire, the findings of which were discussed at a subsequent meeting of each Committee. Read more on this in the Committees' reports.

Progress on findings of 2017 evaluation

Finding	Response/Action taken
Ensure ongoing strategic development aligned with business transformation strategy.	The new Chief Strategy Officer led a process to capture strategic perspectives from all Board members, as well as senior leaders across Pearson. The outputs from this work formed the basis of the five-year strategic plan which was discussed by the Board in July 2018, with detailed follow-up sessions later in the year. The Board also examined the three-year and one-year plans based on the five-year vision.
Ensure continued understanding by the Board of significant shareholders' views to encourage constructive dialogue and clear communication of strategy.	The Chair and Executive Directors meet with significant shareholders regularly and feed back to the Board. The Board and Nomination & Governance Committee also receive regular updates on correspondence and other meetings with significant shareholders. Investor sessions facilitated by Investor Relations allowed shareholders to meet with the President – Global Product, President – North America, and Chief Technology & Operations Officer, to better understand Pearson's strategy on our digital transformation and simplification. Investor engagement will be kept under review with the possibility of further sessions between investors and senior leaders to be considered during 2019.
Board succession planning should consider future Committee Chairs, and other desirable experience in new Board members.	Committee Chair succession is regularly reviewed by the Nomination & Governance Committee, and forms part of the broader Non-Executive Director succession planning process. Specific desired experience is taken into consideration and built into the specifications in any Non-Executive Director search processes.
New Chief Human Resources Officer to continue executive succession planning and complete a talent review aligned to the strategic needs of the business.	Initial observations were discussed by the Board in May 2018, with a follow-up review of progress taking place in October 2018. This is planned to be an annual item for substantial discussion by the Board.
Ongoing Board education to continue to focus on the competitive landscape and digital technologies.	The competitive landscape formed part of strategy discussions throughout 2018 and will continue to do so. A formal update on the Digital Advisory network was provided to the Board in May 2018, and informal updates on the work of the network are provided to the Board on a regular basis.

Overview
Our strategy in action
Our performance
Governance
Financial statements

Audit Committee report

Committee Chair

Tim Score

Members

Elizabeth Corley, Vivienne Cox, Linda Lorimer, Michael Lynton, Tim Score and Lincoln Wallen

Committee responsibilities include:

→ Reporting

The quality and integrity of financial reporting and statements and related disclosure.

→ Policy

Group policies, including accounting policies and practices.

→ External audit

External audit, including the appointment, qualification, independence and performance of the external auditor.

→ Risk & internal control

Compliance with legal and regulatory requirements in relation to financial reporting and accounting matters.

→ Compliance & governance

Compliance with legal and regulatory requirements in relation to financial reporting and accounting matters.

Terms of reference

The Committee has written terms of reference which clearly set out its authority and duties. These are reviewed annually and can be found on the Company website www.pearson.com/governance.

Committee attendance

Attendance by Directors at Audit Committee meetings throughout 2018:

	Meetings attended
Elizabeth Corley	4/4
Vivienne Cox	4/4
Linda Lorimer	4/4
Michael Lynton[1]	1/1
Tim Score	4/4
Lincoln Wallen	4/4

1 Appointed to the Audit Committee on 1 October 2018.

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 SVP Internal Audit, Risk and Compliance 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 Chair, I report to the full Board at every Board meeting immediately following a Committee meeting. I also work closely with the Chief Financial Officer and senior financial management outside the formal meeting schedule to ensure robust oversight and challenge in relation to financial control and risk management.

Audit Committee composition

Following his appointment to the Board in February 2018, Michael Lynton was appointed to the Audit Committee in October 2018. Michael's experience in leading complex global businesses will complement the Committee's existing skill set, and I look forward to working closely with him. Following Michael's appointment, the Committee comprises six independent Non-Executive Directors. As a Committee, we have a good balance of skills and knowledge with competence and experience covering all aspects of the sectors in which Pearson operates – education, digital and services – and our key geographic markets.

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 p130

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 2018, we conducted a number of deep dives into selected principal risks, and the key risks on which the Committee focused throughout the year are set out below. Learn more about principal risks and uncertainties on p62

Business transformation

Ongoing business transformation is one of Pearson's key risks and opportunities, and The Enabling Programme (TEP) is an important operational simplification project covering Pearson's key enterprise resource planning technology and processes, including financial, operations and HR systems and processes. The Committee received an update at each meeting from the senior management team in charge of the transformation programme, as well as from PwC who updated the Committee on the work that the external auditors had conducted in respect of testing associated controls.

The primary area of focus for the Committee in 2018 was oversight of the implementation of finance and operations systems throughout a substantial part of our North American business. In particular, the Committee considered the preparatory steps, progress on system integration and testing, and status of key readiness milestones in advance of the implementation in May 2018. At its next meeting, the Committee reviewed certain operational challenges which had arisen following implementation, with a particular focus on customer experience, impact upon workforce including customer services teams, and steps being taken to resolve any remaining issues in advance of the back-to-school season. Lessons learned from this phase of the implementation were then discussed by the full Board at its next scheduled meeting.

Audit Committee meeting focus during 2018

→ Reporting

- Accounting and technical updates
- Impact of legal claims and regulatory issues on financial reporting
- Fair, balanced and understandable, going concern and viability statements
- 2017 annual report and accounts: preliminary announcement, financial statements and income statement
- Review of interim results and trading updates
- Form 20-F and related disclosures, including annual Sarbanes-Oxley Act section 404 attestation of financial reporting internal controls
- Significant issues reporting

→ Policy

- Accounting matters and Group accounting policies
- Analysis supporting viability statement
- Annual review and approval of external auditors' policy
- Treasury policy and strategy
- Tax strategy, including an update on EU state aid

→ External audit

- Provision of non-audit services by PwC
- Receipt of external auditors' report on Form 20-F and year-end audit
- Report on half-year procedures
- Reappointment of external auditors
- Confirmation of auditor independence
- 2018 external audit plan
- Remuneration and engagement letter of external auditors
- Review opinion on interim results
- Review of the effectiveness of external auditors

→ Risk & internal control

- Internal audit activity reports and review of key findings
- Enterprise risk management
- 2019 internal audit plan
- Travel and expenses controls
- Assessment of the effectiveness of internal audit function, internal control environment and risk management systems
- Oversight of The Enabling Programme
- Risk deep dives: information and cyber-security; data privacy; treasury; anti-bribery and corruption (ABC); tax; business resilience
- Oversight of the programme to develop the Global Learning Platform
- Controls Centre of Excellence updates
- ABC third party due diligence programme

→ Compliance & governance

- Fraud, whistleblowing reports and compliance investigations
- Schedule of authorities
- Compliance with accounting and audit-related aspects of the UK Corporate Governance Code
- Audit Committee, Verification Committee and internal audit function terms of reference
- Audit Committee evaluation

Audit Committee report

Enhancements to the UK systems were also made during the year, following on from lessons learned during the prior UK implementation, and the Committee heard that this 'retrofit' had proceeded smoothly. In addition to the continued finance and operations system implementation, a new global payroll system was introduced in the UK with the rest of the world planned for 2019, deployment of a new royalties, rights and permissions system in the UK and North America markets commenced during the year, and will continue in 2019, and the roll-out of a common HR system across Pearson was completed. The Committee will continue to monitor TEP progress at each meeting during 2019, including preparations for the next phase of implementation during the year to the remainder of the North America businesses. Learn more about business transformation and change on p63

Data privacy

A key area for the Committee's focus throughout the year was data privacy, including readiness for, and next steps following, the implementation of the General Data Protection Regulation (GDPR) in May 2018.

In early 2018, the Committee considered the Group's data privacy roadmap, with the Deputy General Counsel updating on Pearson's GDPR readiness. Pearson's data privacy framework was viewed as solid in respect of governance, consent and processing arrangements, as well as ensuring vendor compliance at the onboarding stage, supported by new procurement systems and processes. The Committee encouraged a robust approach and clear lines of accountability, with a particular focus on large and/or high-risk vendors with existing or legacy contracts.

At the Committee's mid-year review, the Chief Privacy Officer described the actions which had been taken to address the remaining pre-GDPR implementation items.

At a separate deep dive, the Committee considered the broader global landscape on data privacy, noting that many jurisdictions – including in California and markets such as India and Brazil – had recently implemented new data privacy laws, or would soon do so. The Committee also received an update on the learnings from a recent internal review of the privacy programme, and considered planned next steps on Pearson's privacy roadmap as well as processes for incident response and notifiable events.

Anti-bribery and corruption (ABC)

In a deep dive led by the VP of Global Compliance, the Committee considered the global anti-corruption landscape, including legislation and sanctions, and the continued strengthening of Pearson's Group-wide compliance and ABC framework.

During 2018, there was a particular focus on continued implementation of Pearson's third party due diligence programme to ensure robust processes are in place aimed at vetting third parties acting on Pearson's behalf in high-risk categories to reduce reputational, sanctions and ABC risk. Building on a pilot project in 2017, the Committee reviewed possible options for the next phase of the programme, which would bring all new in-scope third parties into the due diligence process, ensure that any existing high-risk third parties go through this process, and facilitate the necessary checks for legacy contracts at the time of renewal. The Committee agreed that the proposed process would appropriately balance the risk profile of certain geographies and contracts with the needs of the business and resources available.

In December 2018, the Committee considered the substantial progress made on the due diligence programme, noting that all of Pearson's global markets (outside of UK, US and Western Europe) had been covered, with over 3,400 third parties reviewed. Various types of remediation efforts occurred as a result of those efforts where necessary, from increased contractual controls to termination of a small number of relationships. US, UK and Western Europe, as well as the VUE business, while large and complex markets, are inherently lower risk from an ABC perspective and will be covered by the next phase of the programme during 2019.

During the year, the Committee also monitored the investigations programme conducted through Pearson's ethics hotline, supported the annual roll-out of Pearson's Code of Conduct (from biannual), completion rates on mandatory code of conduct declarations (100% completion in 2018), supported improved procedures and associated training on gifts and hospitality reporting in US sales teams, and oversaw the strengthening of the 'tone from the top' on ethics and compliance, led by the Chief Executive.

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 large organisations. Tim Score, Chair of the Committee since 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 Chair for The British Land Company plc. The qualifications and relevant experience of the other Committee members are detailed on p80–81

Audit Committee meetings and activities

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 and risk management procedures, reviewed the services provided by PwC and considered any significant legal claims and regulatory issues in the context of their impact on financial reporting, each on a regular basis.

During the year, the Committee also discussed the finance and IT controls environment at each meeting, including Sarbanes-Oxley testing and scope, updates on prior year items, and the ongoing transformation of the Group-wide controls framework which was extended to a number of Core and Growth markets during 2018. In addition to the risk deep dives described above, the Committee also conducted deep dives into business resilience, treasury, tax and information security. In February 2019, the Committee considered the 2018 annual report and accounts, including the preliminary results announcement, financial statements, strategic report and Directors' report.

Learn more about the key activities of the Audit Committee on p97

Internal audit evaluation

At its July meeting, the Committee considered the findings of the review of the performance and effectiveness of Pearson's internal audit function, a process which is undertaken annually. This review was conducted by distributing a questionnaire to the key stakeholders of the internal function – including Committee members, the lead external audit partner, members of the Pearson Executive, and senior financial, legal and operational management.

The findings indicated an effective internal audit function, with particular acknowledgement of the function's efforts in resolving a number of outstanding actions from previous internal audits, which is an ongoing area of focus for the Committee.

A specific recommendation arising from the internal audit evaluation was to consider whether there is an appropriate level of liaison between internal audit and the external auditors, in order to utilise combined audit efforts effectively. In response to a request from the Committee for more detail in this regard, an analysis of financial assurance coverage was undertaken, with inputs from internal audit and PwC. The results of this analysis were considered by the Committee at its December 2018 meeting, and the Committee was satisfied that the level of combined financial assurance was appropriate.

In order to continue to ensure a robust and effective internal audit function, the Committee will consider plans for an external quality review during 2019 to be facilitated by an independent third party.

Additional meeting attendees

In addition to the Committee members, advisers and executives from across the business also attended meetings during the year, as outlined in the table below. This gives the Committee direct contact with key leadership. The Chair and Chief Executive each attend at least one meeting per year, and the Chief Executive also attends for discussion of matters with an operational focus. The Committee also meets regularly in private with the external auditors, SVP Internal Audit, Risk and Compliance, and VP Internal Audit.

Attendees	Meetings attended
Chief Financial Officer	4/4
Deputy CFO	4/4
Legal Counsel	4/4
SVP Internal Audit, Risk and Compliance	4/4
SVP Finance, Group Reporting	4/4
VP Internal Audit	3/4
Committee Secretary	4/4

Audit Committee training

The Committee receives technical updates at each meeting, including on matters such as accounting standards and the audit and governance landscape, as well as specific or personal training as appropriate.

Committee members also meet with local management on a periodic 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.

Committee evaluation

In 2018, the Committee evaluation was conducted by way of a questionnaire which was distributed to key stakeholders including Committee members, the Chair of the Board, Chief Executive, Chief Financial Officer, the lead external audit partner, and senior executives with regular exposure to the Committee.

The responses illustrated an effective Committee, which uses its time well and has an appropriate focus on the key issues. No areas of concern were identified, and the Committee will consider how best to implement a small number of suggestions arising from the process. These suggestions included:

- Invite a wider range of business leaders to Committee meetings, enabling the leaders to engage in Board-level discussions, as well as facilitating a greater understanding of the Committee's role in the wider business
- As progress continues to be made with the implementation of TEP and transformation of Pearson, consider a review to confirm that Pearson has maximised the opportunity to strengthen the control environment and better manage risk.

Audit Committee report

Progress on findings of 2017 evaluation

The responses to the 2017 evaluation, which was externally facilitated, found an effective and well-functioning Audit Committee, which uses its time well and has an appropriate focus on the key issues. One area highlighted was that succession for the role of Audit Committee Chair should be borne in mind with future Non-Executive Director appointments, although this was not considered to be immediately pressing.

External audit

Oversight of external auditors

The Committee reviews and makes recommendations to the Board in respect of the appointment and compensation of the external auditors. This recommendation is made by the Committee after considering the external auditors' performance during the year, reviewing external auditor fees, conducting an effectiveness review and confirming the independence, objectivity, qualifications and experience of the external auditors.

The Committee reviewed the effectiveness and independence of the external auditors during 2018, as it does every year, and remains satisfied that the auditors provide effective independent challenge to management.

The external auditors' review was conducted by distributing a questionnaire to key audit stakeholders, including members of the Audit Committee, Chief Financial Officer, Deputy CFO, SVP Internal Audit, Risk and Compliance, SVP Finance for each business area and other heads of corporate functions. Overall, responses to the questionnaire were positive, indicating an effective external audit process in a year of transition to the new lead audit partner.

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. The external auditors are required to rotate the audit partner responsible for the Pearson audit every five years and, accordingly, a new lead audit partner, Giles Hannam, rotated onto the Pearson audit from the beginning of 2018.

Audit tendering and rotation

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 relevant regulation and guidance. EU regulations and the ruling by the Competition and Markets Authority (CMA) impose mandatory tendering and rotation requirements, with EU rules requiring a new auditor to be appointed no later than for the 2024 financial year end.

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. As previously explained to shareholders, and as noted elsewhere within this report, a series of programmes is well underway throughout Pearson to implement major simplification and efficiency improvements across all our enabling functions – particularly technology, finance, HR – to continue to bring the general and administrative costs of running Pearson more in line with global best practice. These include a major transformation programme – The Enabling Programme (TEP) – which includes the implementation of new financial systems and changes to our transaction processing and control activities, which launched in the UK during 2016, and is expected to be rolled out throughout our businesses by 2021. Pearson is supported in these changes, such as in project assurance matters and, more broadly, by external advisers, including accounting firms.

Due to the status of TEP and the involvement of accounting firms advising on TEP and other change projects, the Committee is of the opinion that the level of disruption likely with a change of auditor, as well as the focus required by finance and management teams to conduct the tender process thoroughly and effectively, may unduly impact the Group and would not be in the best interests of shareholders. The rotation of the lead audit partner at the start of 2018 has given us further confidence in the ongoing effectiveness, independence and challenge brought by the external auditor.

As noted previously, it is the current expectation of the Committee that an audit tender process would commence in 2022 in order for the auditor selected as a result of the tender to be appointed for the financial year ending 31 December 2023. It would be our intention to look to accelerate this timing if feasible and appropriate following the completion of TEP, and we would communicate any change in our plans to shareholders in advance of any decision. For the reasons outlined above, the Committee considers this timing to be in the best interests of Pearson's shareholders and will continue to monitor this annually in light of the effectiveness and independence of the current auditors, as well as considering whether the timing remains appropriate in light of business developments.

Once the next audit tender occurs, Pearson will adopt a policy of putting the audit contract out to tender at least every ten years, as required. The Committee will continue to pay close attention to developments in the audit landscape in response to the findings of the CMA's ongoing statutory audit services market study, and will factor any resulting changes into its plans for audit tender once the CMA's recommendations are finalised.

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 2018.

Review of the external audit

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

At its July 2018 meeting, the Committee discussed and approved the external audit plan and reviewed the key risks of misstatement of Pearson's financial statements. The external auditors provided an update at the December 2018 Committee meeting, having concluded that their analysis of significant and elevated risks remained the same.

The table on p102–103 sets out the significant issues considered by the 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 2018 and again at the conclusion of their audit of the financial statements for the full year in February 2019.

All the significant issues were also areas of focus for the auditors.
Learn more in the Independent auditor's report on p134–141

In December 2018, the Committee discussed with the auditors the status of their work, focusing in particular on internal controls and Sarbanes-Oxley testing.

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

- The work they had conducted over revenue, including over more complex revenue contracts and judgements in relation to provisions for returns
- Their work in evaluating management's goodwill impairment exercise, on a fair value less costs to dispose basis, including assessing assumptions around sales and operating cash flow forecasts, long-term growth rates and discount rates
- The work performed over the nature and presentation of non-trading items, including new property provisions recorded in 2018, focusing on subjective judgements and the transparency with which related adjusted measures are presented
- The work they had done to audit the provisioning levels in respect of potential tax exposures and uncertain tax positions including the release of brought forward provisions and related disclosures
- Their evaluation of the recoverability of investments in digital platforms and pre-publication assets
- Their work over the assessment of the US K12 Courseware business meeting the criteria to be held for sale at 31 December 2018 and completed disposals including WSE, UTEL and One Southwark Bridge
- 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 their work over the Company's going concern and viability statement reports
- Their work over finance transformation related to the TEP implementation at US Higher Education and the UK retrofit
- Their work in relation to the impact of new accounting standards, including the adoption of IFRS 9 and 15 from 1 January 2018 and IFRS 16 from 1 January 2019
- Their work in relation to other matters which are not classified as key audit matters, but may give rise to additional disclosure requirements e.g. pensions.

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.

Auditors' independence

In line with best practice, our relationship with PwC is governed by our policy on external auditors, 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. Our policy on the use of the external auditors for non-audit services reflects the restriction on the use of pre-approval in the 2016 FRC Guidance on Audit Committees and, accordingly, all non-audit services, irrespective of value, are required to be approved by the Audit Committee. In particular, we expressly prohibit the provision of certain tax, HR and other services by the external auditor. We review non-audit services on a case-by-case basis, including reviewing the ongoing effectiveness and appropriateness of our policy.

The Audit Committee receives regular reports summarising the amount of fees paid to the auditors. During 2018, Pearson spent £0.4m less on non-audit fees with PwC compared with 2017, due to a reduction in billing on controls assurance services. For 2018, non-audit fees represented 17% of external audit fees (23% in 2017).

For all non-audit work in 2018, PwC was selected only after consideration that it was best able to provide the services we required at a reasonable fee and within the terms of our policy on external auditors. Where PwC is selected to provide audit-related services, we take into account its existing knowledge and experience of Pearson. Where appropriate, services were tendered prior to a decision being made as to whether to award work to the auditors.

Significant non-audit work performed by PwC during 2018 included:

- Audit-related work in relation to disposal transactions
- Audit of Pearson's efficacy programme
- Half-year review of interim financial statements.

A full statement of the fees for audit and non-audit services is provided in note 4 to the financial statements on p167.

Tim Score
Chair of Audit Committee

Audit Committee report

Significant issues considered by the Audit Committee

Issue	Action taken by Audit Committee	Outcome
→ Impairment reviews		
Pearson carries significant goodwill and other intangible asset balances. There is judgement exercised in the identification of cash-generating units (CGUs) and the process of allocating goodwill to CGUs and aggregate CGUs and in the assumptions underlying the impairment review. In 2015 and 2016, Pearson made significant impairments to goodwill across a variety of its businesses. There were no impairments recorded in 2017 or 2018.	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' in relation to the Group's CGUs noting that they remain sensitive to assumption changes after a number of impairments in recent years.	Annual impairment review finalised with confirmation of sufficient headroom in each of the CGUs.
→ Leases and IFRS 16		
Pearson will adopt IFRS 16 in respect of its lease portfolio in 2019. The Group has a significant number of property leases and a number of other low value vehicle and equipment leases. The implementation of the standard will result in the recognition, on the balance sheet, of right of use assets in respect of these leases and corresponding lease liabilities.	The Committee monitored progress on the IFRS 16 lease conversion process, reviewed the transition options taken and the quantification of the impact including sensitivities relating to the selection of appropriate discount rates. The impact of the change was also considered in the light of banking arrangements and strategic plans.	The Committee reviewed and approved the transition options taken, discount rates applied and disclosures made.
→ Revenue recognition and IFRS 15		
Pearson has a number of revenue streams where revenue recognition practices are complex and management assumptions and estimates are necessary. The Group also adopted IFRS 15 'Revenue from Contracts with Customers' during 2018.	The Committee regularly reviews revenue recognition practices 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 continued to monitor the implementation of IFRS 15 'Revenue from Contracts with Customers'. The Committee noted the changes to revenue streams and the quantification of the impact on the opening balance sheet and reviewed disclosures made in the Group's interim and year-end reporting.	Assumptions underlying revenue recognition were reviewed and challenged and considered to be appropriate. Quantification and disclosures relating to IFRS 15 were reviewed and also agreed as appropriate.
→ Financial instruments		
Pearson adopted IFRS 9 'Financial Instruments' in 2018.	The Committee reviewed the impact of the transition to IFRS 9 and noted the Group's new approach to hedge accounting, investment valuation and impairment. The Committee reviewed the impact on the opening balance sheet and in particular the impact on bad debt provisions and noted that these had been relatively small.	Adjustments relating to IFRS 9 were reviewed and disclosure of impact in 2018 was considered appropriate.

Issue	Action taken by Audit Committee	Outcome
Disposal transactions		
The Group sold its English language teaching business in China, Wall Street English (WSE) and its equity interest in UTEL, the online University partnership in Mexico, and continued to consider offers for its US K12 Courseware business.	The Committee reviewed the accounting for the disposals of WSE and UTEL and the rationale for held for sale treatment in respect of the US K12 Courseware business.	The Committee determined that disposal accounting had been correctly recorded and that the criteria for held for sale treatment in respect of the US K12 Courseware business had been met as at 31 December 2018 following continued interest from a number of bidders.
Pension valuations		
Pearson's UK Pension Plan includes a large defined benefit section. The valuation of this plan under IAS 19 'Employee Benefits' requires significant judgement. In particular, in 2018, the UK Pension Plan considered the impact of the clarification of pension law in respect of Guaranteed Minimum Pension (GMP) equalisation.	The Committee considered the recent High Court decision about GMP equalisation noting that the new ruling impacted most companies and might result in adverse cost and liability implications. The Committee reviewed the impact in the light of other companies' responses to the new development and with detailed technical accounting and actuarial guidance.	The Committee agreed the quantification and appropriate accounting treatment in respect of the additional liabilities arising from clarification of GMP equalisation legislation.
Restructuring		
Pearson announced a new restructuring programme in May 2017 to run from 2017 until 2019. There are a number of accounting judgements to be made regarding categorisation and timing of recognition of cost.	The Committee reviewed progress on the restructuring programme and considered the judgements required in accounting for the costs of redundancy, asset impairment and property rationalisation mainly in respect of the Group's North America operations and enabling functions. In particular, in 2018, the Committee reviewed property disposal transactions and the assumptions underlying onerous lease provisions crystallised by the rationalisation of the Company's property portfolio.	The Committee confirmed that the accounting and disclosure for the restructuring programme were appropriate and that assumptions underlying onerous lease provisions were in accordance with the Group's property strategy.
Tax		
The impact of tax legislation changes including US tax reform, EU state aid and the trend for increased tax transparency, and provision levels.	The Committee was updated on the details of US tax reform during the year, including internal refinancing of the group's US operations. In September, the outcome of this combined with provision releases resulted in a significant reduction in the 2018 adjusted tax rate, which was reported to the Board. The Committee reviewed the classification of these credits. The chair of the Committee approved the second report on tax strategy issued in October 2018 prior to publication.	The Committee was satisfied with Pearson's approach to managing the impact of tax legislation changes and agreed with the views of management regarding tax provisioning levels.
Returns		
The determination of appropriate provisions for product returns requires a significant amount of judgement and in the light of recent volatility in returns in the US Higher Education courseware business, the Committee continued to review returns data and our policy on providing for returns.	The Committee considered returns provisioning for the US Higher Education courseware business and reviewed the methodology for establishing provisions.	Assumptions underlying the returns reserve methodology were reviewed and agreed as still being appropriate in the light of actual returns noted in 2018.

Overview
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Risk governance and control

Control environment

The Board 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 Board confirms that it has 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 Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (FRC Guidance). The Board confirms these systems operated satisfactorily throughout the year and to the date of this report, and no significant failings or weaknesses were identified in the review process.

The Board has delegated responsibility for monitoring the effectiveness of the Company's risk management and internal control systems to the Audit Committee. The Audit Committee oversees a risk-based internal audit programme, including periodic audits of the risk processes across the organisation. It provides assurance on the management of risk (including risk deep dives, as described on p96), and receives reports on the efficiency and effectiveness of internal controls. Each business area 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 are monitored and continually improved to ensure their compliance with FRC Guidance. Our risk framework, outlining improvements made in 2018, is described more thoroughly in the risk management section on p60–76.

The Board is ultimately accountable for effective risk management in Pearson and determines our strategic approach to risk. It confirms our enterprise risk management (ERM) framework as well as our enterprise risk appetite targets. Twice yearly it receives and reviews reports on the status of top enterprise-wide risks. It is supported in the following ways:

- The Audit Committee is responsible for overseeing internal controls within Pearson which includes determining the risk appetite (recommended by Pearson Executive management), reviewing and commenting upon key risks and ensuring that risk management is effective
- Pearson's Executive and leadership teams are responsible for identifying and mitigating principal risks
- Leaders and managers at all levels in Pearson are responsible for managing risk in their area of responsibility, including the identification, assessment and treatment of risk
- The Internal Audit, Compliance and Risk team owns the overall risk management framework for the Company and facilitates consolidated reporting on risk
- The internal audit team provides independent assurance on the adequacy of the risk management arrangements in place. The internal audit plan is aligned to identified enterprise-wide risks and it presents issues and risks arising from internal audits at each Audit Committee meeting.

The involvement of the Board and Audit Committee in the design, implementation, identification, monitoring and review of risks (including setting risk appetite and reviewing how risk is being embedded in our culture) is outlined in more detail in the risk management section on p60–76.

Financial management and reporting

There is a comprehensive strategic planning, budgeting and forecasting system with an annual operating plan approved by the Board. 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 meets regularly 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.

There is 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 to certify that they have been in compliance with policies and that the control environment has been maintained throughout the year, consolidation reviews and analysis of material variances, finance technical reviews, and review and sign-off by senior finance managers. The Group finance function also monitors and assesses these processes and controls through finance and technology compliance functions and a Controls Steering Committee comprising cross-functional experts.

These controls include those over external financial reporting which are documented and tested in accordance with the applicable regulatory requirements, including section 404 of the Sarbanes-Oxley Act, which is relevant to our US listing. One key control in this area is the Verification Committee, which submits reports to the Audit Committee. This Committee is chaired by the SVP Internal Audit, Risk and Compliance, and members include the Chief Financial Officer and/or their deputy, the Deputy General Counsel, SVP Investor Relations and the 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. In addition, our separate Market Disclosure Committee is responsible for considering potential inside information and its treatment in accordance with the EU Market Abuse Regulation. 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 SVP Internal Audit, Risk and Compliance reports formally to the Chair of the Audit Committee and the Chief Financial Officer, with a reporting line to the General Counsel on compliance matters. The VP Internal Audit, responsible for the day-to-day operations of internal audit and execution of the annual audit plan, also reports formally to the Chair of the Audit Committee and the SVP Internal Audit, Risk and Compliance.

The internal audit mandate and plan are approved annually by the Audit Committee. Completion and changes to the plan are also reviewed and approved by the Audit Committee throughout the year. The internal audit plan is aligned to our greatest areas of risk as identified by the ERM process, and the Audit Committee considers issues and risks arising from internal audits. Management action plans to improve internal controls and to mitigate risks, or both, are agreed with the 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 findings and emerging themes identified through internal audits are provided to Executive management and, via the Audit Committee, to the Board.

The SVP Internal Audit, Risk and Compliance oversees compliance with our Code of Conduct and works with senior legal and HR 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 Audit Committee on behalf of the Board, and treasury 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.

Reputation & Responsibility Committee report

Committee Chair

Linda Lorimer

Members

Vivienne Cox, Linda Lorimer, Michael Lynton and Lincoln Wallen

Committee responsibilities include:

→ Reputation

Pearson's reputation among major stakeholders, including governments, investors, employees, customers, learners and the education community.

→ Risk

Oversight of Pearson's approach to reputational risk, including ensuring that clear roles have been assigned for management.

→ Sustainability

Oversight of 2020 sustainability plan and performance against sustainability goals and commitments.

→ Brand & 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.

→ Ethics

Ethical business standards, including Pearson's approach to issues relevant to its reputation as a responsible corporate citizen.

→ Strategy

Strategies, policies and communication plans related to reputation and responsibility issues and the people and processes that are in place to manage, anticipate and adapt to them.

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 www.pearson.com/governance.

Committee attendance

Attendance by Directors at Reputation & Responsibility Committee meetings throughout 2018:

	Meetings attended
Vivienne Cox	3/3
Linda Lorimer	3/3
Michael Lynton[1]	1/1
Harish Manwani[2]	1/1
Lincoln Wallen	3/3

1 Appointed to the Committee on 1 October 2018.
2 Stepped down from the Committee on 4 May 2018.

Reputation & Responsibility Committee role

The Committee forms an important part of the Board's governance structure. It works to advance and assess Pearson's reputation across the range of its stakeholders and to maximise the Company's positive impact on society and the communities where we work and serve.

The Committee's agenda includes issues and initiatives relating to the Company's reputation and its civic responsibilities. These include those matters that are material to Pearson's stakeholders and the Company's long-term sustainability, as well as review of incidents that could adversely affect the Company's reputation. We promote Pearson's 2020 sustainability plan and assess the progress in advancing its tenets. The Committee works in alignment with the Company's Responsible Business Leadership Council which comprises senior leaders from across the business.

Read more about our 2020 sustainability plan on p32–40

Changes to the Committee

Harish Manwani stepped down from the Committee in May 2018, upon his retirement from the Pearson Board, and I would like to thank him warmly for his service. Michael Lynton, who joined the Board in February 2018, was appointed to the Reputation & Responsibility Committee on 1 October 2018. Michael brings valuable experience in leading businesses through times of digital disruption, and I look forward to working closely with him on the Committee.

Areas of focus during 2018

The Committee conducts in-depth reviews of issues identified as important to the sustainability of our business. These key sustainability issues, which are monitored by the Committee and discussed either by the Board or one of its Committees, include:

1. Competitiveness of digital products
2. Data privacy and information security
3. Security, health and safety
4. Corporate governance
5. Economic empowerment
6. Access to education
7. Affordability of products/services
8. 21st-century skills
9. Greenhouse gas emissions and climate change.

The Committee has an integral role in the oversight of these issues, in particular considering the public goals the Company is setting to address these issues, and examining their associated reputational impacts.

During 2018, the Committee reviewed proposed public statements on human rights and modern slavery, as well as considering Pearson's broader human rights strategy, both of which are important to Pearson's values and delivery of its 2020 sustainability plan.

During the year, we also examined progress on supplier partnership and engagement, in particular studying supply chain risks and reviewing the work to build strong relationships with our top suppliers. The Committee also took the opportunity to review how Pearson's 2018 efficacy reports were received, and we discussed future plans for both reporting and continued integration of efficacy findings into our product development cycle. Read more about efficacy on p30

In our report to shareholders last year, we noted that, as a Committee, we would continue to monitor the Pearson culture. However, due to the importance of these topics, particularly during times of Company-wide change, it has been agreed that culture and organisational health will now form part of the remit of the full Board. This is also in line with the increased emphasis on such matters in the new UK Corporate Governance Code which asks boards as a whole to monitor and set the tone on culture and engagement.

Committee evaluation

In 2018, the Committee evaluation was conducted by way of a questionnaire which was distributed to key stakeholders including Committee members, the Chief Executive, and senior executives with regular exposure to the Committee. The key findings were:

- The Committee has continued its journey towards maturity, with increasing focus on strategically material issues
- A recommendation to introduce private sessions as part of each meeting, in common with Audit and Remuneration Committees, to enable Committee members to discuss and agree on key issues to take forward with management
- Recognition that the addition of a fourth meeting to the annual calendar will allow greater coverage of issues.

Progress on findings of 2017 evaluation

The responses to the 2017 evaluation, which was externally facilitated, highlighted that the Committee was very engaged and worked collaboratively and that its agendas were increasingly aligned with the strategic objectives of the Company. The evaluation suggested that there might have been some overlap with the work of the Audit Committee. As a result, efficacy, health and safety and safeguarding now sit within the remit of this Committee rather than being shared with the Audit Committee, and we considered each of these topics during 2018.

The Committee's agendas have been adjusted to allow 'deeper dives' into issues of consequence, and we have introduced a regular verbal update at the start of each meeting on recent incidents that may have reputational impact.

Committee aims for 2019

Over the next year, we will take the lead on behalf of the Board in addressing the stakeholder engagement requirements under the new UK Corporate Governance Code. We will continue to explore Pearson's material sustainability issues, monitor progress on supply chain responsibility, engage in the development of our next sustainability plan and, with the help of our new Chief Corporate Affairs Officer, Deirdre Latour, we will review progress on brand strategy.

Linda Lorimer
Chair of Reputation & Responsibility Committee

Reputation & Responsibility Committee meeting focus during 2018

Reputation
- Supplier partnership and engagement
- Issues and incidents reports
- Project Literacy

Risk
- Safeguarding
- Health and safety

Sustainability
- Sustainability report – highlights and 2030 plan
- Education for sustainable development
- Climate and environmental strategy
- Greenhouse gas emissions

Brand & culture
- Brand and insights update
- Efficacy update and future plans

Ethics
- Human rights review – implementation strategy
- Modern Slavery Act statement

Strategy
- Social innovation

Governance
- Committee terms of reference
- Committee effectiveness evaluation
- Stakeholder engagement – UK Corporate Governance Code requirements

Engagement

Engaging with shareholders

Access to capital is key to the long-term performance of our business. We work to ensure that our investors, analysts and other investment professionals have a good understanding of our strategy, performance and purpose.

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

Shareholder outreach In 2018, we continued with our shareholder outreach programme, conducting over 600 meetings in the UK, US, Canada and Continental Europe with over 340 investment institutions.

Trading updates There are five trading updates each year including the preliminary and interim results which are presented by the Chief Executive and Chief Financial Officer. 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 and cyclical changes in our markets, and risks and opportunities for the future.

The investor relations team Led by Joanne Russell, SVP Investor & Media Relations, the Investor Relations team met with investors throughout the year, including attending several investor conferences, and addressed regular investor and analyst enquiries.

Chair and Non-Executive Directors The Chair meets regularly with shareholders to understand any issues and concerns they may have. This is in accordance with the Code and consistent with the duties of investors under 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 Chair ensures that the Board is kept informed of investors' and advisers' views on strategy and corporate governance. At each Board meeting, the Directors consider commentary from advisers on major shareholders' positions and Pearson's share price. In addition, the Nomination & Governance and Remuneration Committees consider shareholder views on corporate governance and remuneration matters, respectively, as required.

Private investors Institutional investors' holdings in Pearson account for around 90% of total shares outstanding, but private investors represent over 91% 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 Chair 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. 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 Shareholder information on p229 or visit our website: www.pearson.com/corporate/investors/managing-your-shares.html.

Annual General Meeting Our AGM, on 26 April 2019, is an opportunity for all shareholders to meet the Board and to hear presentations about Pearson's businesses and results.

Rapid prototyping

What is rapid prototyping?

Rapid prototyping is a technique used to develop a quality product, process or outcome through quick experimentation and iteration. The ultimate goal of rapid prototyping is to speed up the rate of learning in an organisation. When used well, rapid prototyping will improve the quality of designs and reduce the risk of building something that will go unused.

Innovation and engagement

Pearson first introduced this technique to the senior leaders at the Pearson Leadership Summit in Berkeley, California in early 2018 to encourage agility and a culture of innovation.

Building on the success of this experience, the Board and Pearson Executive joined a group of school-age learners during the Board's visit to Cape Town to engage in a rapid prototyping session with the goal of designing a hypothetical example of a digital solution for use in the schools market. By the final day of the Cape Town meeting, the Board and Pearson Executive were able to review the results of the session including a live demonstration of the application which had been developed in-house from the group's prototyping conversations.

The Board thought it was an excellent experience to illustrate the power of this new way of working and model it for the rest of the organisation and found the interaction with students enjoyable and insightful. Read more about the Board's meeting in Cape Town on p85.

Engagement in action

Industry & marketplace

- The Chair, Sidney Taurel, and Non-Executive Director, Lincoln Wallen, attended the Pearson Leadership Summit in Berkeley, California. This event brought together senior leaders from across Pearson, who engaged with industry thought leaders and external speakers, and focused on maximising the opportunities of digital disruption, becoming a lifelong partner to learners and creating a culture of innovation.
- During its meeting in South Africa, the Board attended a discussion event on 'Putting employability at the heart of our strategy'. The event was hosted by Pearson and attended by external business, policy and thought leaders from the Cape Town area.

Employees

- The Board met with local staff and senior management during 2018 visits to Milan and Cape Town. Dinners with senior local management and breakfasts with key talent allowed the Non-Executive Directors to share their experience and expertise with employees as well as allowing the Directors to better understand employees' abilities and motivations, helping them to assess the Company's prospects and plans for succession.
- A number of the Non-Executive Directors participated in the Pearson Innovation Jam – an online, global collaborative event – for all employees. The event allowed the Directors to have direct engagement with employees on a platform where all participants had an opportunity to share their thoughts, best practices, and ideas.

Customers

- In Milan, the Board heard from customers about the challenges and opportunities they face with digital teaching and learning in schools and higher education. The panels discussed the demand for high-quality digital content, assessment and tools, closing the gap between school and workplace, and the need for access to a high-quality career-focused education. This session enabled the Board to understand the customer context to our schools and higher education strategy and explore the issues posed and how Pearson might be part of the solution.

Remuneration overview

Committee Chair

Elizabeth Corley

Members

Elizabeth Corley, Josh Lewis, Tim Score and Sidney Taurel

Key features of our remuneration arrangements in 2018 and 2019

- 2018 has been an important year for Pearson with the business meeting strategic expectations and hitting financial targets, while recognising that there is more to do over the coming years. For 2018, a bonus of 45% of maximum opportunity was achieved.
- Long-term incentives for Executive Directors vested for the first time since 2013, reflecting the improving performance of the business. Overall, 42% of the shares granted under the 2016 LTIP will vest in 2019, subject to a further two-year holding period until 2021.
- Base salaries have been increased in line with the wider employee population. No other changes to our reward framework for 2019.
- During 2019, we will review Executive Director remuneration policy, including in relation to the application of the 2018 Code, in advance of submitting it to shareholders for approval at the 2020 AGM.

Terms of reference

The Committee's terms of reference have been updated in line with the new UK Corporate Governance Code and are available on the Governance page of the company's website www.pearson.com/governance. A summary of the Committee's responsibilities is shown on p126.

Board Committee attendance

The following table shows attendance by Directors at Committee meetings throughout 2018:

	Remuneration
Elizabeth Corley	5/5
Josh Lewis	5/5
Tim Score	5/5
Sidney Taurel	5/5

In this remuneration section

Dear shareholders,

Our approach to remuneration is supporting progress against the delivery of company strategy

Pearson's purpose is to help people make progress in their lives through learning. In recent years, the company has focused on combining content, assessment and technology to deliver personalised learning at scale. To make progress on this ambitious agenda requires a strong global management team. Pearson competes for talent and key skills in a demanding marketplace and needs to attract and retain high-calibre executives and incentivise them to deliver results and progress against our strategy, in line with the shareholder experience.

Working within our shareholder approved policy, over the past 24 months, the Committee has undertaken a thorough review of our Executive Director remuneration and its implementation to ensure that it supports the execution of strategy while remaining consistent with shareholder expectations.

Strong support at the AGM in 2018

As part of the review, we engaged extensively with our shareholders. This process culminated in the publication of our 2017 Remuneration Report, which received a vote of over 99% in favour at the AGM in 2018. The Committee and Board appreciated the feedback we received as part of this review and thank you for the support. We will continue to consult with our shareholders as we review policy during 2019 ahead of submitting it for shareholder approval at the 2020 AGM.

We have reduced LTIP awards for 2017, 2018 and 2019

In 2017 and 2018, we adopted an approach to remuneration that is simpler, more transparent and with lower maximum levels of reward as the business goes through a phase of transformation. We intend to continue this approach for a third year in 2019, with the Committee deciding to maintain 2019 Long-Term Incentive Plan (LTIP) award levels at the same reduced percentage of salary as in 2017 and 2018: 275% of salary for the CEO and 245% of salary for the CFO.

We have reviewed performance against targets rigorously

The Committee considered the following factors in assessing the performance against targets for the annual bonus and LTIP in order to satisfy itself that the outcomes were a fair reflection of performance delivered by the Executive team:

- The Committee reviewed and was satisfied that the performance targets set were appropriately stretching
- Progress is continuing to make the company leaner and more agile
- The pace of strategic delivery has been strong and this is reflected in the share price and the returns delivered to shareholders over the three-year performance period.

As a result, the annual bonuses payable to the CEO and CFO under the Annual Incentive Plan (AIP) for 2018 and the 2016 LTIP vesting outcome are considered to be fair, reasonable and commensurate with value delivered to shareholders over the period.

How we have rewarded performance and strategic progress in the annual bonus for 2018

Pearson made good progress in 2018, improving both operational and financial performance and returning to underlying adjusted operating profit growth for the first time since 2014. Continued strong progress in simplifying the portfolio puts the company ahead of plan, with increased and accelerated cost savings and expected total annualised cost savings in excess of £330m by the end of 2019 – ahead of the original plan for £300m of savings.

While the business is still in the midst of a transformation and the environment in US Higher Education Courseware remains challenging, a strong performance in structural growth opportunities largely offset the declines in this market. Good progress has also been made on the digital transformation with digital and digitally-enabled sales increasing to 62% of revenues.

The Board expects the business to build on the 2018 performance and deliver further profit growth in 2019, and remains confident about Pearson's longer-term prospects and on building shareholder value through the delivery of profitable growth, strong cash generation and continued progress in strategic priorities.

The Committee took this progress and performance into account when determining the outcomes under the Group incentive plans for 2018.

- During 2018, the Board again set a demanding plan for the business, taking into account market consensus expectations at the time
- The company delivered results in line with this plan on operating profit, cash flow and progress against strategic objectives
- Sales in the year did not reach the stretching targets set for the annual incentive plan, in part due to continued challenges in the US Higher Education Courseware business
- There was no benefit from foreign exchange movements in determining the outcome of the annual bonuses for the year for the Executive Directors.

Based on performance against targets, in 2018 the CEO and CFO achieved a bonus outcome of 45% of their maximum opportunities. The prior year outcome for the CEO was 44% of maximum and 47% for the CFO.

Around 12,500 Pearson colleagues across the business also participate in an annual incentive arrangement which paid out based on performance during the year, sharing in success across the business.

> "Pearson returned to underlying profit growth for the first time since 2014, while maintaining progress against strategic goals. Payouts reflect that improving performance."

How our 2016 LTIP outcome reflects progress achieved

In May 2016, the Executive Directors were made awards under the LTIP, which vest based on performance of the business delivered over the three-year period from 2016 to 2018. The target ranges were set at that time based on the shape of the business in 2016 and taking into account internal and external expectations of performance when the awards were made. The targets were considered by the Committee to be appropriately stretching.

Given the changes in the business since 2016, the Committee has been very thoughtful about how to assess the performance of the business against targets set to ensure that the outcomes appropriately reflect the principles against which they were originally set and the underlying performance of the business over the period.

In determining the outcomes, the Committee has made adjustments in three areas: we have adjusted the targets to remove the contribution expected at the time for businesses we disposed of during 2017 and 2018 to ensure that performance is assessed on a like for like basis; we have made adjustments so that management does not benefit from the share buybacks; and we have adjusted outcomes so that management does not benefit from the changes in effective tax rate which relate to US tax reforms.

The overall outcome is that 42% of the maximum awards will vest. This is the first time that LTIP awards to Executive Directors have vested since 2013. Awards are subject to a further two-year holding period following vesting.

The LTIP is not limited to Executive Directors with around 1,300 Pearson colleagues also benefiting from the vesting of this and other share awards during the year.

Remuneration overview

Understanding total remuneration for the CEO for 2018

Given the level of performance achieved and the corresponding payouts under the AIP and LTIP, the overall reported 'single figure' for the total remuneration of John Fallon for 2018 increased to £3.142m from £1.758m in 2017. This is primarily as a result of the first payout under the 2016 LTIP for Executive Directors since 2013. Excluding the LTIP payout the 'single figure' for John Fallon for 2018 is 4% lower than for 2017. A detailed breakdown of the single figure can be found on p116.

Looking forward to 2019 – continued progress and restraint

The base salary for the CEO and CFO will be increased by 2.2% in 2019 in line with the average increases for UK employees.

In the interest of simplicity, reflecting support for our approach to implementation at last year's AGM, and after consideration of the achievements required in the coming year, the Committee does not intend to make any changes to how we implement remuneration policy for Executive Directors in 2019. We will continue to set appropriate targets for the year under the AIP and these will be disclosed in the 2019 Directors' remuneration report.

The Committee will not increase the percentage of salary face value of long-term incentive awards granted in 2019.

We will continue to evolve policy for emerging best practice

While the Committee considers that we are already well placed against the revised UK Corporate Governance Code, we will continue to monitor best practice and adapt our policy to ensure it remains fit for purpose and aligned with our strategy and shareholders. The Committee intends to review remuneration policy for Executive Directors in its entirety in 2019 and this will be put to a shareholder vote at our 2020 AGM.

Gender pay gap for 2018

Pearson's Great Britain gender pay gap report for 2018 was published earlier this month based on data as at 5 April 2018.

Overall, we have seen a slight improvement in the overall median gender pay gap which has reduced from 15% to 14%.

While some progress has been made, it is clear there is still more to be done. Since publishing our first report last year, a broader Diversity & Inclusion action plan has been put in place, which will keep us focused on tackling this issue in the coming year and beyond. Further details of this are outlined within Pearson's published report.

Conclusion

- Discipline and restraint in decisions made against the backdrop of continued progress and delivery
- 45% payout under the AIP, reflecting operating profit within guidance range, continued strong cash flow generation and progress against strategic objectives but also sales that did not reach the stretching targets set
- 42% payout under 2016 LTIP, reflecting good progress but an acknowledgment of work still to do
- Base salary increases in line with wider employee population.

It is important to the Committee to ensure that remuneration continues to support the sustained delivery of company strategy while rewarding management appropriately in the context of business performance and shareholder experience.

Continuing conversations with shareholders have been invaluable. I look forward to receiving your support at the AGM and to further dialogue as we review Remuneration Policy for Executive Directors in 2019.

Elizabeth Corley
Chair of Remuneration Committee

11 March 2019

The following summarises how current policies and implementation compare against the main provisions of the 2018 Code.

Pension alignment

As part of our review of policy in 2017, we lowered the pension opportunity such that new appointments are eligible to receive pension contributions of up to 16% of pensionable salary or a cash allowance of up to 16% of salary.

During 2019 we will further review our approach to pension to ensure it remains appropriate in the context of the retirement provisions provided across the wider workforce.

Holding periods

Our LTIP awards are subject to a two-year holding period following vesting and therefore already comply with this aspect of the 2018 Code.

Post-employment shareholding guidelines

With effect from 2018, Pearson introduced a requirement whereby Executive Directors are required to retain half of the current guideline for a period of two years post-retirement in respect of shares vested from company incentive plans.

We will continue to monitor market practice and shareholder sentiment in this area to ensure our approach remains appropriate.

Apply judgement and discretion

Policy already allows the exercise of discretion to adjust outcomes under incentive frameworks. We have in place the Committee's ability to do this and therefore already comply with the Code in this area.

Recovery provisions

Incentive arrangements are already subject to malus and clawback provisions and therefore already comply with the Code in this area. During 2019, we will review the circumstances in which malus and clawback may be applied to ensure that this continues to be appropriate.

Wider workforce remuneration

The Committee already reviews remuneration arrangements for Pearson Executive Management and our terms of reference have now been amended to include these roles formally within the Committee's remit. During the year, the Committee took steps to strengthen further the information provided to the Committee regarding broader workforce remuneration and related policies to ensure that these are fully taken into account when determining Remuneration Policy and implementation for Executive Directors.

Remuneration framework

Executive remuneration framework and how it will be implemented in 2019

B Base salary

see p116

Key features

- **Fixed pay** which reflects the level, role, skills, experience, the competitive market and individual contribution
- Under the Policy, **base salary** increases will not ordinarily exceed 10% per annum
- **Salary review** takes into account a range of factors, including: the level of increases made across the company as a whole; particular circumstances such as changes in role, responsibilities or organisation; the remuneration and level of increases for Executives in similar positions in comparable companies; general economic and market conditions; and individual performance.

2019 implementation

Salaries effective 1 April 2019:

- John Fallon: £817,400 (+2.2%)
- Coram Williams: £539,500 (+2.2%)

When reviewing salaries, the Committee took into account the level of increases made across the company as a whole, business and individual performance, and general economic and market conditions. The increases awarded to Executive Directors are in line with the general increase across the UK which was 2.2%.

A&B Allowances and benefits

see p116

Key features

- **Allowances and benefits** which reflect the local competitive market and can include travel and health-related benefits
- The **total value of allowances and benefits** for Executive Directors will not ordinarily exceed 15% of base salary in any year.

2019 implementation

No changes for 2019.

R Retirement benefits

see p116, 121

Key features

- **Current Executive Directors** are members of the Final Pay section of The Pearson Pension Plan, which is closed to new members. Additional cash allowances may apply in specific circumstances.
- In October 2017, the CEO reached the maximum service accrual under the Pearson Pension Plan as he had over 20 years of service. He therefore receives no further service-related benefits under this Plan but continues to receive a taxable cash supplement of 26% of base salary in lieu of the previous FURBS arrangement.
- **New appointments** are eligible to join the Money Purchase section of The Pearson Pension Plan and receive contributions of up to 16% of pensionable salary or may receive a cash allowance of up to 16% of salary.

2019 implementation

There will be **no changes** to the pension provision of the existing Executive Directors.

As noted above, during 2019 we will further review our approach to pension to ensure that it remains appropriate in the context of the retirement provisions provided across the wider workforce.

AIP Annual incentive plan

see p116, 117, 118

Key features

- **Motivate the achievement of annual business goals** aligned to financial and strategic priorities
- Performance measures, weightings and targets are set annually by the Committee to ensure continued alignment with strategy
- **Each AIP component is independent.** For the CEO to achieve the maximum overall payout (180%) would require maximum performance on each individual component and outperformance on any one element cannot compensate for others
- **Performance metrics linked to strategic priorities are selected to support Pearson's transformation strategy.** A payout will only be made if a minimum level of performance has been achieved under the financial metrics
- **Stretching performance targets** are fully disclosed in the annual remuneration report following the end of the performance period
- **Malus and clawback** provisions apply.

2019 implementation

Maximum opportunity unchanged for 2019:

- 180% of base salary for the CEO
- 170% of base salary for the CFO

The CEO's target bonus is half of the maximum bonus allowed under policy. However, as a measure to restrict the level of maximum payouts for the CEO, his payout is capped at 180% of salary. The CFO's target bonus is 50% of his maximum opportunity.

For 2019, the following balanced mix of financial and strategic measures will be used, which is **unchanged from the previous year**:

Adjusted operating profit	Sales	Operating cash flow	Strategic measures
40%	20%	20%	20%

Targets are considered by the Board to be commercially sensitive and will be disclosed in the 2019 Directors' remuneration report.

LTIP Long-term incentive plan

see p116, 118, 119

Key features

- **Drive long-term earnings, share price growth and value creation**
- **Align the interests of Executives and shareholders**
- **Awards** are made annually, and vest based on performance against stretching targets measured over a three-year performance period
- An additional **two-year holding** period applies following vesting
- The Committee will determine the performance measures, weightings and targets governing an award prior to grant to ensure continuing alignment with strategy and that targets are sufficiently stretching
- **Malus and clawback** provisions apply.

2019 implementation

Award levels as a percentage of salary will remain the same as those granted in 2017 and 2018:

- 275% of base salary for the CEO
- 245% of base salary for the CFO

Performance metrics, weightings and targets:
When setting targets, the Committee took into account the disposal of Wall Street English, share buyback and the adjustments to tax in 2018, resulting in a 2018 EPS outcome for incentive purposes of 63.1p and ROIC of 4.7%. These adjustments are explained in further detail on p118 and p119. The Committee also took into account the sale in early 2019 of the US K12 Courseware business which contributed £364m to 2018 sales and around £20m to 2018 operating profit.

Adjusted EPS (one-third)

Vesting schedule (% max)	EPS for FY21
15%	65p
65%	70p
100%	80p

ROIC (one-third)

Vesting schedule (% max)	ROIC for FY21
15%	5%
65%	6%
100%	9%

Relative TSR (one-third)

Vesting schedule (% max)	Ranked position versus FTSE 100
25%	Median
100%	Upper quartile

Note: Straight-line vesting in between points shown, with no vesting for performance below threshold.

SG Shareholding guidelines

see p120

Key features

- **Align the interests of Executives and shareholders** and encourage long-term shareholding and commitment to the company
- Executive Directors are expected to build up a substantial **shareholding in the company**. The target holding is 300% of salary for the Chief Executive and 200% of salary for other Executive Directors
- Executive Directors have five years from the date of appointment to reach the guideline
- In 2017, Pearson introduced a requirement whereby Executive Directors are required to retain half of the current guideline for a period of two years post-retirement in respect of shares vested from company incentive plans.

2019 implementation

No changes for 2019.

NEF Non-Executive fees

see p122

Key features

- The **Chairman** is paid a single fee for all of his responsibilities
- The **Non-Executive Directors** are paid a basic fee. The Chairs and members of the main Board Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities
- The **Chairman and Non-Executive Directors** receive no other pay or benefits, except for reimbursement of expenses, and do not participate in incentive plans
- A minimum of 25% of the Chairman's and Non-Executive Directors' basic fee is paid in shares.

2019 implementation

There will be no changes to fees for 2019:

Role	Fees for 2019
Chairman of the Board	£500,000
Base fee for Non-Executive Directors	£70,000
Additional SID fee	£22,000

Role	Chair	Member
Audit Committee	£27,500	£15,000
Remuneration Committee	£22,000	£10,000
Nomination & Governance Committee	£15,000	£8,000
Reputation & Responsibility Committee	£13,000	£6,000

Our Remuneration Policy was approved by shareholders at the AGM held on 5 May 2017 (and can be found in the Governance section of our website Pearson.com/governance). The table above summarises the key elements of the remuneration framework for Directors as set out in our Policy, including how we intend to implement it in 2019.

2018 remuneration report

Certain parts of this report have been audited as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. Those tables which have been subject to audit are marked with an asterisk.

Single total figure of remuneration and prior year comparison*

Total aggregate emoluments for Executive and Non-Executive Directors were £6,241m in 2018. These emoluments are included within the total employee benefit expense in note 5 to the financial statements (p167).

Executive Directors

The remuneration received by Executive Directors in respect of the financial years ended 31 December 2018 and 31 December 2017 is set out below.

Executive Director 'single figure' remuneration

Element of remuneration £000s	John Fallon		Coram Williams	
	2018	2017	2018	2017
B Base salary	**795**	780	**525**	515
A&B Allowances and benefits	**43**	45	**14**	39
AIP Annual incentives	**644**	624	**401**	412
LTIP Long-term incentives	**1,454**	0	**843**	0
R Retirement benefits	**206**	309	**54**	52
Total remuneration	**3,142**	1,758	**1,837**	1,018

Notes to single figure table

B Base salary

The base salary shown in the single figure table reflects salary paid in the financial year.

A&B Allowances and benefits

The breakdown of benefits is as follows for 2018:

	John Fallon	Coram Williams
Travel	**41**	**12**
Healthcare	**2**	**2**

Travel benefits comprise company car, car allowance, private use of a driver and reimbursements of a taxable nature resulting from business travel and engagements. Health benefits comprise healthcare, health assessment and gym subsidy. In addition to the above benefits and allowances, Executive Directors may also participate in company benefit or policy arrangements that have no taxable value.

AIP Annual incentives

The 2018 annual bonus for the Executive Directors was based on a mix of financial (80% weighting) and strategic measures (20% weighting). Annual bonuses are paid in cash. For more detail on performance metrics and performance against targets, see below.

LTIP Long-term incentives

The single figure of remuneration for 2018 includes the vesting of the 2016 LTIP award, which was subject to performance conditions assessed to 31 December 2018. For more detail on performance metrics and performance against targets, see below. The values of vested LTIP awards included in the figures for total remuneration have been calculated using a three-month average share price to year end of 904p and do not reflect any dividends accrued on those shares.

R Retirement benefits

Further detail on retirement benefits is set out later in this report.

AIP Executive Directors' annual incentive payments for 2018*

The following summarises bonus outcomes, performance targets for 2018 AIP awards and performance against these targets:

Summary

CEO		CFO	
Bonus paid	**% of maximum**	**Bonus paid**	**% of maximum**
£643,889	45%	£401,376	45%

Overall outcome

		Performance range				Payout
Performance measure	**% of total**	**Threshold**	**Target**	**Max**	**Actual results**	**% of max bonus opportunity**
Adjusted operating profit	40%	£518m	£543m	£598m	**£546m**	58%
Sales	20%	£4,200m	£4,250m	£4,325m	**£4,129m**	0%
Operating cash flow	20%	£485m	£506m	£558m	**£513m**	61%
Strategic measures	20%		See below			47%
	100%					**45%**

Note 1: The overall outcome is 45% of maximum (2017: 44% of max for the CEO and 47% of max for the CFO).

Note 2: The CEO's target bonus is half of the maximum bonus allowed under policy. However, as a measure to restrict the level of maximum payouts for the CEO, his payout is capped at 180% of salary. The CFO's target bonus is 50% of his maximum opportunity.

Note 3: The outcomes under all measures have been reviewed by internal audit.

2018 remuneration report

Performance against strategic measures

The targets (and outcomes) for performance against each of the strategic measures are shown in the table and supporting narrative below.

Strategic Priority	Measure	% of total funding	Threshold	Target	Max	Outcome
Gain share through digital transformation	Growth in digital and digitally-enabled sales as a proportion of revenues (excluding WSE and K12 Courseware)	5%	59.8% (+0.5% on 2017 result)	60.3% (+1% on 2017 result)	60.8% (+1.5% on 2017 result)	Made significant progress with Pearson's digital transformation in 2018 with digital and digitally-enabled sales increasing to 62% of revenues in 2018 vs. 59% in 2017.
	Global Learning Platform (GLP) – delivery of key 2018 milestones related to Rio and Revel pilots	5%	Critical milestones on track	Critical milestones and key deliverables on track	All milestones and deliverables on track	Continued to invest in the Global Learning Platform and innovative product and feature pipeline. In 2018, launched pilot versions of new Developmental Math courseware – 'Rio' – and will launch multiple Revel titles with enhanced assignment options and data analytics on the GLP during 2019.
Growing market opportunities	› Virtual schools FTE enrolment growth › Growth 'Big Bets' › Pearson VUE contract wins and renewals › US OPM partners, programs and enrolment › English PTE growth	5%	No payout below target	Progress in three areas	Progress in all five areas	Strong performance in structural growth opportunities with enrolment up 14% in US Online Program Management (revenue up 10% globally), enrolment up 11% in Virtual Schools (revenue up 8% in Connections Academy), revenue up 4% in Professional Certification and Pearson Test of English Academic test volume growth of 30%.
Become simpler and more efficient	The Enabling Programme (TEP) – linked to key deliverables/milestones including (successful) deployment of Wave 7 Release 1, 2 & 3 and progress on RoW and Release 4	5%	Critical milestones on track	Critical milestones and key deliverables on track	All milestones and deliverables on track	Went live with new enterprise software system in the US in May, replacing decades-old technology with a new platform that reduces risk, accelerates digital transformation, and enables us to become even more efficient. As a result of the roll-out, there were some supply chain challenges, but issues were dealt with quickly. Made good progress.

Taking into account the above assessment of performance, the Committee judged that the overall payout on the strategic element was 47% of maximum.

Executive Directors' Long-Term Incentive Plan award vesting for 2018*

In May 2016, the Executive Directors were made awards under the LTIP which vest based on performance of the business delivered over the three-year period from 2016 to 2018. The target ranges were set at that time based on the shape of the business in 2016, and took into account internal and external expectations of performance when the awards were made. The targets were considered by the Committee to be appropriately stretching.

How the Committee has exercised its discretion

The Committee has been very thoughtful about how to assess the performance of the business against targets set to ensure that the outcomes appropriately reflect the principles against which targets were originally set and the underlying performance of the business over the period. In determining the outcomes, the Committee has made adjustments in three areas: business disposals, share buybacks and the reduced effective corporate tax rate for 2018. Further details are outlined below.

The overall outcome is 42% of the maximum awards will vest. This is the first time that LTIP awards have vested for Executive Directors since 2013.

Business disposals

Since the targets were set, the Group has made a number of disposals; GEDU in August 2017, a 22% stake in Penguin Random House (PRH) in October 2017, and the disposal of Wall Street English (WSE) in March 2018. The adjusted earnings per share (EPS) and return on invested capital (ROIC) target ranges have been adjusted to remove the contribution that was anticipated from the businesses which no longer form part of the Pearson Group. These adjustments ensure that the performance of the retained portion of the Group is being assessed on a like-for-like basis over the performance period. The Committee considers this approach ensures that the revised targets represent the same degree of stretch as the original target ranges taking into account the evolving shape of the business.

Share buyback

The proceeds of the partial sale of PRH were used to fund the share buyback of £300m. The Committee determined that it was appropriate to remove the positive impact of the buyback on EPS in 2018 when determining the outcome of the LTIP awards.

Corporate tax rate for 2018

The effective corporate tax rate for 2018 is lower than for a number of years due to a combination of external corporate tax rate changes and the conclusion of some long outstanding matters. The Committee did not believe that management should benefit from the rate changes which relate to US tax reforms, but should receive the benefit of the release of tax provisions which have been built up over prior years as these reflected prudent financial management.

Taking into account the share buyback and the adjustments to tax, the Committee therefore considered the appropriate EPS outcome for incentive purposes to be 63.1p and the appropriate ROIC outcome to be 4.7%. This compares to adjusted EPS of 70.3p and a ROIC of 4.7%.

The adjusted targets and performance against these adjusted targets are as follows:

		Performance range					Vesting	
Performance measure	% of total	Threshold unadjusted (25% payout)	Maximum unadjusted (100% payout)	Threshold as adjusted (25% payout)	Maximum as adjusted (100% payout)	Actual	% achievement	% of total award
Adjusted EPS	1/2	61.4p	78.3p	55.3p	73.1p	63.1p	58%	29%
ROIC	1/3	5.5%	6.7%	4.9%	6.3%	4.7%	0%	0%
Relative TSR	1/6	Median	Upper quartile	Median	Upper quartile	26 out of 78	78%	13%
	100%						**Total**	**42%**

Relative TSR was measured against the constituents of the FTSE World Media Index at the start of the performance period.

The Committee considers that the overall vesting outcome is fair and appropriately reflects the underlying performance during the relevant period.

LTIP Long-term incentives awarded in 2018*

The following LTIP awards were granted during the year:

Director	Date of award	Vesting date	Number of shares	Face value	Face value (% of base salary)	Value for threshold performance (% of maximum)*	Performance Period
John Fallon	8 May 2018	1 May 2021	246,000	£2,198,256	275%	18%	1 Jan 18–31 Dec 20
Coram Williams	8 May 2018	1 May 2021	145,000	£1,295,720	245%	18%	1 Jan 18–31 Dec 20

* Under the EPS and ROIC element 15% vests for threshold performance, under the TSR element 25% vests for threshold performance. This is the weighted average of vesting for threshold.

Face value was determined using a share price of 893.60p (previous trading day closing price as at the date of grant).

Any shares vesting based on performance will be subject to an additional two-year holding period to 1 May 2023.

2018 remuneration report

Details of the performance targets for the 2018 long-term incentive awards are set out in the tables below.

Adjusted earnings per share (EPS) (one-third)		Return on invested capital (ROIC) (one-third)		Relative total shareholder return (TSR) (one-third)	
Vesting schedule (% max)	Adjusted EPS for FY20	Vesting schedule (% max)	Adjusted ROIC for FY20	Vesting schedule (% max)	Ranked position vs FTSE 100
15%	65p	15%	5%	25%	Median
65%	68p	65%	6%	100%	Upper quartile
100%	80p or above	100%	8% or above		

Note 1: Straight-line vesting will occur in between the points shown, with no vesting for performance below threshold.

Note 2: Pearson's total shareholder return performance is measured relative to the constituents of the FTSE 100 Index over the performance period.

SG Directors' interests in shares 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 share ownership and to align further the interests of Executive Directors and shareholders. The 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 an Executive Director, their spouse and/or dependent children plus any shares vested but held pending release under a share plan. Executive Directors have five years from the date of appointment to reach the guideline. Once the guideline has been met, it is not retested, other than when shares are sold.

With effect from 2018, shareholding guidelines for Executive Directors were extended post-retirement. Executive Directors are required to retain half of the current guideline for a period of two years post-retirement in respect of shares vested from company incentive plans.

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.

Directors' interests*

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

Director	Current shareholding (ordinary shares) at 31 Dec 18	Conditional shares at 31 Dec 18	Total number of ordinary and conditional shares at 31 Dec 18	Guideline (% salary)	Guideline met?
Chair					
Sidney Taurel	89,422	–	–	–	–
Executive Directors					
John Fallon	326,784	995,000	1,321,784	300%	Yes
Coram Williams	15,010	582,000	597,010	200%	n/a (see note 4)
Non-Executive Directors					
Elizabeth Corley	13,245	–	–	–	–
Vivienne Cox	6,282	–	–	–	–
Josh Lewis	12,524	–	–	–	–
Linda Lorimer	8,902	–	–	–	–
Michael Lynton	3,488	–	–	–	–
Tim Score	26,489	–	–	–	–
Lincoln Wallen	6,346	–	–	–	–

Note 1: The current value of the Executive Directors' shareholdings is based on the closing market value of Pearson shares of 841.4p on 1 March 2019 against base salaries at 31 December 2018.

Note 2: 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 under the long-term incentive plan and any legacy share plans they might have participated in.

Note 3: Conditional shares means unvested shares which remain subject to performance conditions and continuing employment for a pre-defined period.

Note 4: Coram Williams has five years from the date of his appointment as an Executive Director on 1 August 2015 to reach the shareholding guideline.

Note 5: There have been no changes in the interests of any Director between 31 December 2018 and 1 March 2019, being the latest practicable date prior to the publication of this report.

Movements in Directors' interests in share awards during 2018*

Plan	Date of award	Vesting date	Number of shares as at 1 Jan 2018	Awarded	Released	Lapsed	Number of shares as at 31 Dec 2018	Status
John Fallon								
LTIP	8 May 2018	1 May 2021		**246,000**			**246,000**	Outstanding subject to performance
	11 Sep 2017	1 May 2020	366,000				**366,000**	Outstanding subject to performance
	3 May 2016	3 May 2019	383,000				**383,000**	Performance tested to 31 December 2018 (see Note 3)
			749,000	**246,000**			**995,000**	
Coram Williams								
LTIP	8 May 2018	1 May 2021		**145,000**			**145,000**	Outstanding subject to performance
	11 Sep 2017	1 May 2020	215,000				**215,000**	Outstanding subject to performance
	3 May 2016	3 May 2019	222,000				**222,000**	Performance tested to 31 December 2018 (see Note 3)
			437,000	**145,000**			**582,000**	

Note 1: Released means where shares have been transferred to participants.

Note 2: TSR is measured relative to the constituents of the FTSE World Media Index for 2016 LTIP awards. For the LTIP awards granted in 2017 and 2018, TSR is measured relative to the constituents of the FTSE 100.

Note 3: The performance targets for the 2016 award were partially met and therefore 42% of this award will vest on 1 May 2019 and the remaining portion will lapse. Vested shares will be subject to an additional two-year holding period to 3 May 2021.

Performance targets for outstanding awards under the Long-Term Incentive Plan (LTIP)

The details of outstanding awards and their performance conditions under the Long-Term Incentive Plan (LTIP) as described in the table above is set out in the following table.

Date of award	Share price on date of award	Vesting date	Performance measures	Weighting	Performance period	Payout at threshold	Payout at maximum
8 May 2018	893.6p	1 May 2021	Relative TSR	One-third	1 Jan 2018 to 31 Dec 2020	25% at median	100% at upper quartile
			ROIC	One-third	FY 2020	15% for ROIC of 5%	100% for ROIC of 8%
			Adjusted EPS	One-third	FY 2020	15% for EPS 65p	100% for EPS 80p
11 September 2017	586.0p	1 May 2020	Relative TSR	30%	1 Jan 2017 to 31 Dec 2019	25% at median	100% at upper quartile
			ROIC	30%	FY 2019	15% for ROIC of 4.5%	100% for ROIC of 7.5%
			Adjusted EPS	40%	FY 2019	15% for EPS 55p	100% for EPS 75p

R 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 £000s	Other allowances in lieu of pension £000s	Total annual value in 2018 £000s	Accrued pension at 31 Dec 18 £000s
John Fallon		206	206	106
Coram Williams	54		54	36

Note 1: The accrued pension at 31 December 2018 is the deferred annual pension to which the member would be entitled on ceasing pensionable service on 31 December 2018. It relates to the pension payable from the UK Plan. Normal retirement age is 62.

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

Note 3: Other allowances in lieu of pension represent the cash allowances paid in lieu of the previous FURBS arrangements.

Note 4: Total annual value is the sum of the previous two columns and is disclosed in the single figure of remuneration table.

2018 remuneration report

Plans

John Fallon – The Pearson Group Pension Plan

John attained the maximum service accrual for this benefit when he reached 20 years' service in October 2017. With effect from this date, he had accrued a benefit of two-thirds of his final pensionable salary and no further service-related benefits can accrue under the Plan. Based on the 2018/2019 earnings cap of £160,800, he will have accrued a pension of £105,884 per annum at this time. When the earnings cap under the Plan rules is increased in the future in line with increases in the UK retail price index, his final salary pension benefit will increase accordingly.

In addition, he received a taxable and non-pensionable cash supplement (of 26% of salary) in lieu of the previous FURBS arrangement. During 2018, John received the pension supplement of 26% of salary only. There are no enhanced early retirement benefits.

Coram Williams – The Pearson Group Pension Plan

Accrual rate of 1/60th of pensionable salary per annum, restricted to the Plan earnings cap (£160,800 per annum in 2018/19), with continuous service with a service gap. There are no enhanced early retirement benefits.

Chair and Non-Executive Director remuneration*

The remuneration paid to the Chairman and Non-Executive Directors in respect of the financial years ended 31 December 2018 and 31 December 2017 are as follows:

			2018			2017
Director £000s	**Total fees**	**Taxable benefits**	**Total**	**Total fees**	**Taxable benefits**	**Total**
Sidney Taurel	**500**	**11**	**511**	500	12	512
Elizabeth Corley	**115**	**–**	**115**	112	–	112
Vivienne Cox	**128**	**3**	**131**	123	3	126
Josh Lewis	**88**	**4**	**92**	85	59	144
Linda Lorimer	**98**	**4**	**102**	97	5	102
Michael Lynton	**69**	**–**	**69**	–	–	–
Harish Manwani	**29**	**1**	**30**	81	4	85
Tim Score	**116**	**–**	**116**	113	–	113
Lincoln Wallen	**91**	**5**	**96**	91	6	97
Total	**1,234**	**28**	**1,262**	1,202	89	1,291

Note 1: A minimum of 25% of the Chairman's and Non-Executive Directors' basic fee is paid in shares, effective from the 2017 AGM policy approval.

Note 2: Taxable benefits refer to travel, accommodation and subsistence expenses incurred while attending Board meetings during the period 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. Michael Lynton joined the Pearson Board as a Non-Executive Director with effect from 1 February 2018. Harish Manwani retired from the Board at the AGM in May 2018.

Payments to former Directors*

There were no payments to former Directors in 2018.

Payments for loss of office*

There were no payments for loss of office made to or agreed for directors in 2018.

Service contracts

The terms and conditions of appointment of our Directors are available for inspection at the company's registered office during normal business hours and at the annual general meeting. The Executive Directors have notice periods in their service contracts of 12 months from the company and six months from the Executives. Their contracts are dated 31 December 2012 (John Fallon) and 26 February 2015 (Coram Williams). Non-Executive Directors serve Pearson under letters of appointment which are renewed annually and do not have service contracts. The Non-Executive Directors' letters of appointment do not contain provision for notice periods or for compensation if their appointments are terminated.

Executive Directors' non-executive directorships

Coram Williams is engaged as a non-executive director of Guardian Media Group plc where he also chairs the audit committee. He received fees of £39,000 during 2018 in respect of this role. In accordance with our policy, he is permitted to retain these fees.

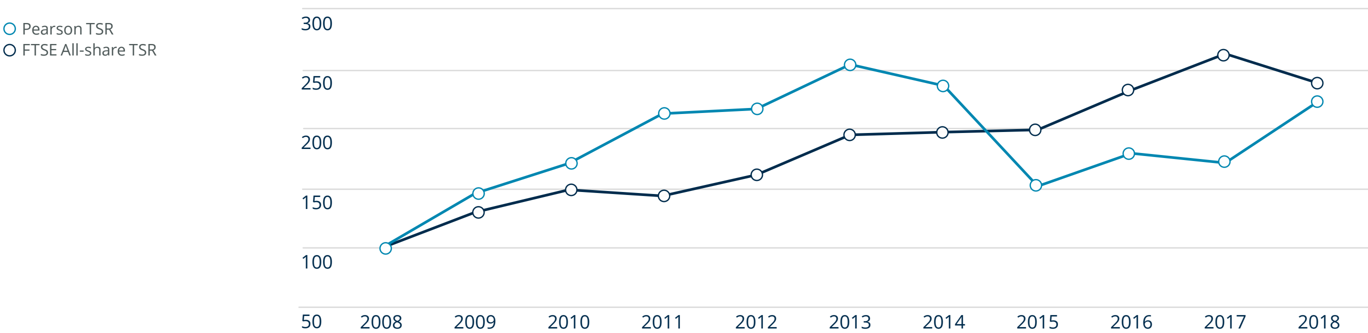
Historical performance and remuneration

Total shareholder return performance

We set out below Pearson's total shareholder return (TSR) performance relative to the FTSE All-Share index on an annual basis over the ten-year period 1 January 2009 to 31 December 2018. 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 nine years and a summary of the variable pay outcomes relative to the prevailing maximum at the time.

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	1,518	1,758	**3,142**
Annual incentive (% of maximum)	91%	92%	76%	24%	34%	51%	Nil	24%	44%	**45%**
Long-term incentive (% of maximum)	80%	98%	68%	37%	Nil	Nil	Nil	Nil	Nil	**42%**

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

Long-term incentive is the payout of performance-related restricted shares under the LTIP 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 is as reflected in the single total figure of remuneration table.

John Fallon's total remuneration opportunity is lower than that of the previous incumbent. Variable payouts 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 2017 and 2018 in three elements of remuneration for the CEO, in comparison with the average for all employees. While the Committee reviews 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.

Average employee base salary has increased due to the disposal of businesses which included a significant number of employees in lower cost locations. Annual incentives for employees were higher in 2017 relative to the CEO whose bonus was reduced to reflect shareholder experience at the time.

Change in CEO remuneration 2017/18

Base salary	Allowances and benefits	Annual incentives
↑ 2%	↓ 4%	↑ 3%

Change in employee remuneration 2017/18

Base salary	Allowances and benefits	Annual incentives
↑ 14%	↑ 19%	↓ 17%

2018 remuneration report

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 adjusted 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.

All figures in £ millions	2018	2017	Change £m	Change %
Adjusted operating profit	**546**	576	(30)	**-5%**
Dividends & share buy-backs	**136**	618	(482)	**-78%**
Total wages and salaries	**1,421**	1,567	(146)	**-9%**

Note 1: Adjusted operating profit is as set out in the financial statements.

Note 2: 2017 figure for dividends & share buy-backs includes one-off share buyback of £300m in 2017.

Note 3: Wages and salaries include continuing operations only and include Directors. Average employee numbers for continuing operations for 2018 were 24,322 (2017: 30,339). Further details are set out in note 5 to the financial statements on p167.

Note 4: Total wages and salaries would be -7% at constant exchange rates.

Dilution and use of equity

Pearson 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 LTIP, the company 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. The headroom available for all Pearson plans, Executive or discretionary, and shares held in trust is as follows:

Headroom	2018
All Pearson plans	**8.5%**
Executive or discretionary plans	**5.0%**
Shares held in trust	**4.6%**

The Remuneration Committee in 2018

Role	Name	Title
Chair	Elizabeth Corley	Independent Non-Executive Directors
	Josh Lewis	
	Tim Score	
	Sidney Taurel	Chairman of the Board
Internal attendees	John Fallon	Chief Executive
	Coram Williams	Chief Financial Officer
	Anna Vikström Persson	Chief Human Resources Officer
	Stuart Nolan	SVP, Reward
	Stephen Jones	Company Secretary
External advisers	Deloitte LLP	

Sidney Taurel was a member of the Committee throughout 2018 as permitted under the UK Corporate Governance Code.

Advisers to the Remuneration Committee

During 2018, the Remuneration Committee received advice from independent Remuneration Committee advisers, Deloitte LLP. Deloitte LLP were appointed by the Committee in July 2017 following a tender process.

Deloitte LLP supplied the Committee with advice on current market trends and developments, incentive plan design and target setting, investor engagement and other general Executive remuneration matters. In respect of their services to the Committee, Deloitte LLP were paid fees, which were charged on a time spent basis, of £135,900. During the year, separate teams within Deloitte LLP also provided Pearson PLC with certain tax and other advisory and consultancy services.

Deloitte LLP are founding members of the Remuneration Consultants' Group and adhere to its code of conduct.

The Committee remains satisfied that the advice provided by Deloitte LLP was objective and independent and that the provision of other services in no way compromised their independence. It is the view of the Committee that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Pearson that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Remuneration Committee meeting focus during 2018

Area of responsibility	Activities			
Market	Noted Deloitte's overview of the current remuneration and governance environment.	Received a number of updates on and considered changes to the corporate governance environment for executive compensation in particular in relation to the new UK Corporate Governance Code.		
Performance	Received input from the Audit Committee, internal audit and from management on the financial performance of the business and progress against strategic measures. Received input from investor relations on market consensus expectations.	Noted and reviewed the status of outstanding long-term incentive awards based on the current view of likely Pearson financial performance.	Reviewed and approved 2017 annual incentive performance and payouts for Executive Directors, Pearson executive management, senior leaders and eligible employees.	Noted report on talent, retention and voluntary leavers from CHRO.
Implementation	Reviewed annual salary increases for Pearson's Executive Directors, Executive management and senior leaders.	Reviewed and approved 2018 individual annual incentive opportunities for the Executive Directors and Pearson executive management. Reviewed and approved 2018 employee annual incentive plan targets.	Approved nil payout under 2015 long-term incentive plan awards. Reviewed and approved 2018 long-term incentive awards for the Executive Directors and Pearson Executive management, including the quantum of awards and targets. Noted 2018 long-term incentive awards for managers.	Noted remuneration packages for new appointments to the Pearson Executive management team and termination arrangements for leavers.
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.	Conducted an evaluation of the Committee's performance.	
Policy	Reviewed wider workforce remuneration and related policies.	Reviewed and reconfirmed the operation of the Policy for 2019 taking into account workforce remuneration and related polices.		
Disclosure and engagement	Considered feedback from key shareholders and governance bodies.	Reviewed and approved 2017 Directors' remuneration report. Noted shareholder feedback on 2017 Directors' remuneration report.	Reviewed 2018 Annual General Meeting season, shareholder voting and engagement strategy.	Noted template and outline of 2018 Directors' remuneration report and shareholder engagement strategy. Reviewed 2017 gender pay gap report, feedback on actions taken and draft 2018 report.

2018 remuneration report

Terms of reference

The Committee's full charter and terms of reference are available on the Governance page of the company's website. A summary of the Committee's responsibilities is set out below.

The terms of reference have been updated to reflect the provisions of the 2018 Code.

Committee responsibilities:

Determine and review policy	Determine and regularly review the remuneration policies for the Executive Directors, the presidents and other members of the Pearson executive management (who report directly to the CEO), and overview the approach for the senior leadership group. These policies include base salary, annual and long-term incentives, pension arrangements, any other benefits and termination of employment. When setting remuneration policy the Committee also takes into account remuneration practices and related policies for the wider workforce.
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.
Review and approve implementation	Regularly review the implementation and operation of the remuneration policy and approve the individual remuneration and benefits packages of executive management.
Approve performance-related plans	Approve the design of, and determine targets for, any performance-related pay plans operated by the Group for Pearson executive management and approve the total payments to be made under such plans.
Review long-term plans	Review the design of the company's long-term incentive and other share plans operated by the Group and where relevant recommend such plans for approval by the Board and shareholders.
Set termination arrangements	Advise and decide on general and specific arrangements in connection with the termination of employment of executive management.
Review targets	Review and approve corporate goals and objectives relevant to executive management remuneration and evaluate the Executive Directors' performance in light of those goals and objectives.
Determine Chairman's remuneration	Delegated responsibility for determining the remuneration and benefits package of the Chairman of the Board.
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.
Talent, retention and gender pay gap	Review updates from management on talent, retention and gender pay gap.

Committee evaluation

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 September 2018, 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 continued to operate effectively but should keep looking for opportunities for greater simplicity and clarity, and that maintaining the high quality of papers continues to be important for the effectiveness of the Committee.

Voting on remuneration resolutions

The following table summarises the details of votes cast in respect of the remuneration resolutions.

	% of votes cast for	% of votes cast against	Votes withheld
Annual remuneration votes (2018 AGM)	99.4% (622,728,372)	0.6% (4,001,793)	5,547,864
2017 Remuneration Policy vote (2017 AGM)	68.8% (404,615,934)	31.2% (183,100,737)	43,738,267

The Directors' remuneration report has been approved by the Board on 11 March 2019 and signed on its behalf by:

Elizabeth Corley
Chair of Remuneration Committee

Additional disclosures

Pages 78–131 of this document comprise the Directors' report for the year ended 31 December 2018.

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

Going concern

The Directors have made an assessment of the Group'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 p76, the Board has also reviewed the prospects of Pearson over the three-year period to December 2021 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 p62.

Based on the results of these procedures, and considering the Company's strong balance sheet, 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 2021. Further details of the Group's liquidity are shown in Financial review (see p44–50).

Share capital

Details of share issues and cancellations are given in note 27 to the financial statements on p201. 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 2018, 781,078,167 ordinary shares were in issue. At the AGM held on 4 May 2018, the Company was authorised, subject to certain conditions, to acquire up to 78,065,281 ordinary shares by market purchase. Shareholders will be asked to renew this authority at the AGM on 26 April 2019.

Share buyback

In line with our capital allocation priorities, the Board decided to use part of the proceeds from the transaction regarding our stake in Penguin Random House in 2017 to return £300m of surplus capital to shareholders, in addition to continuing to invest in our business and maintain a strong balance sheet.

We launched a £300m share buyback, beginning on 18 October 2017 and completed the programme on 16 February 2018, repurchasing a total of 42,835,577 shares at an average price of 700p.

Major shareholders

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 2018, 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
Schroders plc	97,090,310	12.43%
Silchester International Investors LLP	77,889,093	9.98%
The Goldman Sachs Group, Inc	49,024,780	6.33%
Lindsell Train Limited	41,393,237	5.03%
Ameriprise Financial, Inc. and its group	41,236,375	5.02%
Libyan Investment Authority[1]	24,431,000	3.01%

1 Based on notification to the Company dated 7 June 2010. We have been notified of no change to this holding since that date. Assets belonging to, or owned, held or controlled on 16 September 2011 by the Libyan Investment Authority and located outside Libya on that date, are frozen in accordance with Article 5(4) of Regulation 2016/44 of the Council of the European Union.

Between 31 December 2018 and 11 March 2019, being the latest practicable date before the publication of this report, the Company received further notifications under DTR 5, with the most recent positions being as follows:

› Schroders plc disclosed a holding of 11.73%

› The Goldman Sachs Group, Inc disclosed a holding of 7.75%.

Additional disclosures

Annual General Meeting

The notice convening the AGM, to be held at 12 noon on Friday, 26 April 2019 at IET London, 2 Savoy Place, London WC2R 0BL, is contained in a circular to shareholders to be dated 25 March 2019.

Registered auditors

In accordance with section 489 of the Act, a resolution proposing the reappointment of PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the AGM, at a level of remuneration to be agreed by the Audit Committee.

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 25p 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 Chair 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.

Pearson operates an employee benefit trust to hold shares, pending employees becoming entitled to them under the Company's employee share plans. There were 3,224,665 shares held as at 31 December 2018. 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 2,387,192 shares held in the Sharestore account and 443,616 shares held in the Global Nominee account as at 31 December 2018. 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 UK Corporate Governance Code (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.

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Powers of the Directors

Subject to the 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:

At 31 December 2018, the Group had a $1,750m revolving credit facility agreement dated August 2014 which matures in August 2021 between, among others, the Company, Barclays Bank plc (Agent) and the banks and financial institutions named therein as lenders (the Facility), under which 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. On 19 February 2019, this revolving credit facility was amended to total $1,190m and the maturing date was extended to February 2024 with the same provisions. 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.

Other statutory information

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:

With the exception of the dividend waiver described on p128–129 there is no information to be disclosed in accordance with Listing Rule 9.8.4.

No political donations or contributions were made or expenditure incurred by the Company or its subsidiaries during the year.

Fair, balanced and understandable reporting and disclosure of information

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 2018. The full Board then had the opportunity to review and comment on the report as it progressed.

Representatives from financial reporting, corporate affairs, company secretarial, legal and internal audit, compliance and risk 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 Verification Committee conducts a thorough verification of narrative and financial statements. We also have procedures in place to ensure the timely release of inside information, through our Market Disclosure Committee.

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.

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 Group and 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 Group and the company's auditors are aware of that information.

Directors in office

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

E P L Corley	**H Manwani** **(stepped down 4 May 2018)**
V Cox	**T Score**
J J Fallon	**S Taurel**
S J Lewis	**L Wallen**
L K Lorimer	**C Williams**
M M Lynton **(appointed 1 February 2018)**	

The Directors' report has been approved by the Board on 11 March 2019 and signed on its behalf by:

Stephen Jones
Company Secretary

Statement of Directors' responsibilities

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and 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 Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

› Select suitable accounting policies and then apply them consistently

› State whether applicable IFRSs as adopted by the European Union have been followed for the Group and Company financial statements, subject to any material departures disclosed and explained in the financial statements

› Make judgements and accounting estimates that are reasonable and prudent

› Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company 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 United Kingdom 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 p80–81, confirms that, to the best of their knowledge:

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

› The 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 and Company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement has been approved by the Board on 11 March 2019 and signed on its behalf by:

Coram Williams
Chief Financial Officer