Governance report

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Letter from the Chair

Chair
Sidney Taurel

Dear shareholders,

As I have said elsewhere in this report, 2019 has been a significant year of change for Pearson, and the Board's role in laying the foundations for sustainable, profitable growth is critical. 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 stakeholder engagement.

The 2018 edition of the UK Corporate Governance Code (the Code) came into effect for Pearson at the start of 2019. Building upon the solid preparatory work we had undertaken for the new Code during 2018, the Nomination & Governance Committee steered the implementation of various new or revised practices at Board level to reflect changes in the external governance landscape. The Board considers that Pearson has a strong corporate governance framework in place but nevertheless we recognised that the new Code presented a timely opportunity to review and benchmark our approach to ensure that we remain committed to the highest standards of governance. You can read more about our corporate governance framework, processes and activities during 2019 on the pages that follow.

Pearson recognises the increasing focus on the importance of all stakeholders in running a sustainable company – a view taken not just by regulators but by global business leaders, investor communities and society. Engaging with, and understanding the views of, our stakeholders is imperative to developing and delivering educational products which meet the needs of learners, educators, governments and employers. As a Board, we aim to incorporate opportunities to meet stakeholder groups whenever our schedule permits, and our Reputation and Responsibility Committee oversees Pearson's wider stakeholder engagement activity on our behalf. You can read more about the Board's engagement with stakeholders on p62 and about the importance of stakeholders to our business as a whole on p14 ➔

Board leadership and company purpose

Over the past several years, the Board's focus has been on Pearson's three strategic priorities – accelerating the digital transformation of our traditional courseware and assessment businesses; growing our 'structural growth' opportunities – exciting businesses such as Virtual Schools, OPM, English and Pearson VUE; and becoming a simpler, more efficient and sustainable business. As we reach the end of our simplification programme, we have now created the foundations to become a platform-based company well placed to succeed in the digital age. As such, our strategy is now evolving, building on the work we have done over the last few years and driving our efforts to be a learner-centric company focused on employability and lifelong learning.

The Board regularly receives a dashboard which allows Directors to monitor progress on Pearson's financial and strategic priorities, enabled by critical discussion of these matters at each Board meeting and supported by agreed indicators and milestones which the Board and management have identified as key measures of performance. Through this, we maintain oversight of digital transformation initiatives such as the Pearson Learning Platform, growing market opportunities such as online learning, and simplification programmes such as The Enabling Programme and Business Value Realisation.

During the year, the Board considered Pearson's portfolio strategy, with the aim of ensuring that Pearson focuses on retaining or acquiring businesses of which it is the best owner. These discussions enabled the Board to identify opportunities for inorganic growth, resulting in the acquisition of Lumerit Education, a US-based ed-tech company, as part of our Accelerated Pathways business, and Smart Sparrow, a small ed-tech company which specialises in the creation of rich, interactive content – Pearson's first acquisitions in five years. Our portfolio discussions also led to the agreement to dispose of our remaining 25% stake in Penguin Random House, to our partner in that venture, Bertelsmann – a transaction which is expected to complete in the first half of 2020. Taking account of the expected proceeds from this disposal, and bearing in mind Pearson's capital allocation policy, the Board agreed to return £350m of capital to shareholders by commencing a share buyback programme in January 2020.

The Board continues to focus on engendering a corporate culture that is inclusive, innovative and meritocratic, and on ensuring that this aligns with the company's purpose, values and strategy. In doing so, all Directors are committed to acting with integrity and leading by example. This report illustrates how the Board has monitored Pearson's culture throughout the year, including through the launch of our Employee Engagement Network and the implementation of successful talent initiatives, as well as considering the results of our latest organisational health survey and discussing the actions which management planned in response.

Composition, succession and evaluation

Crucial to successful delivery of our strategy is 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 & Inclusion form a continuing thread throughout the Board's and Committees' sessions.

Succession planning is a key responsibility for the Board, supported by the Nomination & Governance Committee, and effective executive succession planning is key to ensuring continuity within the business. In December 2019, Pearson's Chief Executive, John Fallon, announced his intention to retire from the company during the coming year after seven years as Chief Executive and 22 years in total serving Pearson. As Chair, I routinely consider the matter of Chief Executive succession and it was a frequent theme of my discussions with Non-Executive Directors during the year, recognising the length of Mr Fallon's tenure in the role. When John advised the Board of his intentions, I accelerated the succession process promptly with the assistance of the Nomination & Governance Committee, and Committee members and I discuss developments on a regular basis as our search and interview process moves forward.

In January 2020, Pearson's CFO, Coram Williams, announced his intention to step down from the Board and leave the company. The Board and I are delighted that Pearson's Deputy CFO, Sally Johnson, has agreed to take on the position of CFO, and shareholders will be invited to vote on Sally's appointment to the Board at the AGM on 24 April, at which point Coram will step down from the Board.

Pearson has a fully engaged Board, including a strong Non-Executive team with a breadth of experience and perspectives. We were pleased to welcome Sherry Coutu and Graeme Pitkethly to the Pearson Board, following their appointments as Non-Executive Directors with effect from 1 May 2019. Sherry's experience in building fast-growth, entrepreneurial businesses, focused on technology and education, and Graeme's financial expertise, global overview and deep understanding of consumer behaviour have further strengthened our capabilities in these areas, and I am pleased to confirm that each is already making a valuable contribution to our deliberations as a Board and to the Committees which they have joined.

In the coming year, we will say goodbye to Josh Lewis, a Non-Executive Director of Pearson since 2011, who intends to step down from the Board at the forthcoming AGM in April 2020, in line with our normal practice for Non-Executive Directors to remain on the Board for a maximum of nine years. The Board joins me in thanking both Coram and Josh for their commitment and contributions to Pearson during these years of change for the company.

The 2019 Board evaluation, which was led by our Senior Independent Director, Vivienne Cox, found the Board to be well-functioning, with a good quality of relationships between members of the Board and an appropriate level of challenge and support provided to management. There was recognition by the Board of how much has been achieved by Pearson and its employees in recent years, and of the energy and effort which this journey has required from all concerned. More detail on our 2019 Board evaluation can be found on p66. Progress on recommendations arising from our annual Board evaluation is reported at each Nomination & Governance Committee meeting until such recommendations are complete or embedded to the Committee's satisfaction.

Audit, risk and internal control

The Board of Directors is 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 compliance and risk management processes, providing independent oversight of our external audit and internal control programmes, accounting policies and business transformation projects, and in assisting the Board in reporting in a fair, balanced and understandable manner to our shareholders.

Remuneration

In 2019, the Remuneration Committee has reviewed and updated Pearson's remuneration philosophy and developed a set of principles to underpin its updated remuneration policy which will be put to shareholder vote at the 2020 AGM. These principles will inform how Pearson develops remuneration strategy for the whole organisation and give the business flexibility to deliver on its strategy and digital transformation. Pearson's current approach to Executive remuneration is explained in more detail in the remuneration section of this report on p84

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

The UK Corporate Governance Code

The principles set out in the UK Corporate Governance Code (the Code) emphasise the value of good corporate governance to the long-term sustainable success of listed companies. These principles, and their supporting provisions, cover five broad themes and the Pearson Board is responsible for ensuring that the Group has in place appropriate frameworks to comply with the Code's requirements.

The five themes are covered in particular on the following pages of the Governance report, with additional information contained in the Strategic report.

› Board leadership and company purpose; Division of responsibilities; and Composition, succession and evaluation on p54–73

› Audit, risk and internal control on p74–83

› Remuneration on p84–106

This year, we are reporting against the 2018 edition of the Code. The Board believes that during 2019 the company was in full compliance with all applicable principles and provisions of the Code, save that as noted on p87 the Company continues to work to align pension contributions for Executive Directors to those available to the workforce. This Governance report and the Strategic report set out how Pearson has applied the principles of the Code throughout the year.

The Code can be found on the Financial Reporting Council's website at www.frc.org.uk and we encourage readers to view our compliance schedule on the company website at www.pearson.com/governance.

Board 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.

Key to Committees

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

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

Chair

Sidney Taurel Chair
aged 71, appointed 1 January 2016 N R

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)

Executive Directors

John Fallon Chief Executive
aged 57, 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. John is also President of the London Chamber of Commerce & Industry (LCCI).

John has announced his intention to retire from Pearson during 2020.

Coram Williams Chief Financial Officer
aged 46, 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.

Coram will be stepping down from the Board and his role as Chief Financial Officer at the Annual General Meeting on 24 April 2020.

Executive Director-elect

Sally Johnson
Chief Financial Officer-elect
aged 46, to be appointed 24 April 2020

Sally joined Pearson in 2000, and has held various finance and operations roles across The Penguin Group, the education business and at a corporate level. She brings to the Board extensive commercial and strategic finance experience as well as transformation, treasury, tax, risk management, business and financial operations, investor relations and M&A expertise. She has held various senior level roles across the business, most recently as Deputy CFO of Pearson. Sally is a member of the Institute of Chartered Accountants in England and Wales and trained at PricewaterhouseCoopers. She was also a Trustee for the Pearson Pension Plan from 2012 to 2018.

Non-Executive Directors

Dame Elizabeth Corley, DBE
Non-Executive Director A N R
aged 63, 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 was a senior adviser to the firm until the end of December 2019. 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 is a member of the Committee of 200. She was appointed Dame Commander of the Order of the British Empire in the Queen's Birthday Honours in 2019 for her services to the economy and financial services.

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

Sherry Coutu, CBE Non-Executive Director
aged 56, appointed 1 May 2019 N R

Sherry has extensive experience in the technology industry. She is the Chairman of Founders4Schools and founder of the Scaleup Institute. Previously, she was CEO of Interactive Investor International plc, served on the board of Bloomberg New Energy Finance and the London Stock Exchange plc. In education, she was SID and Remuneration Committee Chair of RM plc, on the board of Cambridge University, Cambridge Assessment and Cambridge University Press, and Chesterton Community College. Sherry has started and or invested in over 60 technology businesses and served on the boards of Zoopla plc, Raspberry Pi, NESTA, and the Advisory boards of the National Gallery, Royal Society and Linkedin. She was appointed Commander of the British Empire in the 2013 New Year Honours for her services to entrepreneurship.

Vivienne Cox, CBE
Senior Independent Director A N RR
aged 60, 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, and a Non-Executive Director at pharmaceutical company GlaxoSmithKline plc. She serves as Chair of the Rosalind Franklin Institute and Vice Chair of the Saïd Business School (part of Oxford University). 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)

Josh Lewis Non-Executive Director
aged 57, appointed 1 March 2011 N R

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)

Linda Lorimer Non-Executive Director
aged 67, appointed 1 July 2013 A RR

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 and is a trustee of Hollins University. She also remains on several consequential advisory committees at Yale University.

Michael Lynton Non-Executive Director
aged 60, appointed 1 February 2018 A RR

Michael served as CEO of Sony Entertainment from 2012 until 2017, overseeing Sony's global entertainment businesses. He was also 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., Schrödinger, Inc. and Warner Music, and currently serves on the boards of IEX and Ares Management Corporation LLC.

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

Board of Directors

Non-Executive Directors continued

Graeme Pitkethly Non-Executive Director
aged 53, appointed 1 May 2019 A RR

Graeme joined Unilever in 2002 and, prior to being appointed CFO and Board member, was responsible for Unilever's UK and Ireland business. Previously, he had held a number of senior financial and commercial roles within Unilever and spent the earlier part of his career in senior corporate finance roles in the telecommunications industry. Graeme served as Vice President of Financial Planning and Vice President of Corporate Development at FLAG Telecom and started his career at PricewaterhouseCoopers. Graeme is a Vice Chair of the Task Force on Climate Related Financial Disclosures and is a Chartered Accountant.

Current notable commitments: Unilever plc and Unilever NV (Chief Financial Officer)

Tim Score Non-Executive Director
aged 59, appointed 1 January 2015 A N R

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 serves as Chairman of The British Land Company plc, a role to which he was appointed in July 2019, a non-executive director of HM Treasury, and 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 (Chairman)

Lincoln Wallen Non-Executive Director
aged 59, appointed 1 January 2016 A RR

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)

Governance at Pearson

Board of Directors

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)

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
- President – UK & Global Online Learning
- President – International
- President – Global Assessment
- President – North American Courseware & Global Product
- General Counsel & Chief Legal Officer

see opposite

FLOW OF INFORMATION

Pearson Executive Management

Tim Bozik President – North American Courseware & Global Product

Tim Bozik has extensive experience in product development and higher education. Tim joined Pearson in 1983 as a sales representative and has since held leadership roles in product and general management.

Rod Bristow President – UK & Global Online Learning

Rod is a Trustee for the Education and Employers Taskforce, a Fellow of the Royal Society of Arts, and Governor for Harlow College and the BMAT multi-academy trust.

Jonathan Chocqueel-Mangan Chief Strategy Officer

Jonathan was formerly Chief Strategy and Transformation Officer at Kantar Consumer Insights. Jonathan has professional qualifications in Consulting and Coaching for Change from the Saïd Business School and a Doctor of Business Administration in Organisational Behaviour from the University of Surrey.

Gio Giovannelli President – International

Gio was previously CEO of Grupo Multi, which was acquired by Pearson in 2013. He has also held three other CEO positions in Brazil, across different sectors. Gio is a former board member of Natura and of CVC Viagens, both listed in the São Paulo Stock Exchange.

Albert Hitchcock Chief Technology & Operations Officer

Albert has been Chief Technology & Operations Officer since March 2014. Previously, Albert was Group CIO at Vodafone and prior to this was Global CIO at Nortel Networks. Albert is a Chartered Engineer and a Fellow of the Institute of Engineering & Technology.

Deirdre Latour Chief Corporate Affairs Officer

Deirdre has been Chief Corporate Affairs Officer since January 2019. She brings over 20 years of experience in corporate communications and issues management. Previously, Deirdre was the Chief Communications Officer for GE and worked for the global public relations firm Edelman.

Bjarne Tellmann General Counsel & Chief Legal Officer

Bjarne previously worked across Europe, Asia and the US in various capacities with The Coca-Cola Company, most recently as Associate General Counsel. He has also held legal positions at Kimberly-Clark and the law firms of Sullivan & Cromwell LLP and White & Case LLP.

Anna Vikström Persson Chief Human Resources Officer

Anna has been Chief Human Resources Officer since February 2018. She has over 20 years of international HR experience. Previously, Anna served as EVP & Head of Group Human Resources for Sandvik, and similarly for SSAB. She was also VP, HR & Organisation for Ericsson.

Bob Whelan President – Global Assessment

Bob has significant expertise in assessment and has driven Pearson's growth as a global leader in computer-based assessments since 2000. Bob leads Pearson's combined assessment businesses including US Student Assessment, Clinical Assessment, as well as Pearson VUE.

Corporate governance review

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 CFO, Coram Williams and nine independent Non-Executive Directors. Sherry Coutu and Graeme Pitkethly were appointed as Non-Executive Directors on 1 May 2019.

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 and provide advice. He also ensures that shareholders' views are communicated to the Board.

Chair's significant commitments There were no changes to the Chair's significant commitments during 2019.

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

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, he promotes Pearson's culture and standards, and is the main representative of the company to its external stakeholders.

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.

Division of responsibilities There is a defined split of responsibilities between the Chair and the executive leadership of Pearson. The roles and responsibilities of the Chair, Chief Executive and the Senior Independent Director 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.

Independence of Directors All of the Non-Executive Directors who served during 2019 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 the Code.

Directors' commitments and conflicts of interest Under the Companies Act 2006 (the Act), the 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 an established 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.

Additionally, in response to Provision 15 of the Code, Pearson has developed 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.

Once notified to the company, any potential conflicts and commitments are considered for authorisation by the Board at its next scheduled meeting or, where necessary in the interests of timeliness, by a Committee comprising the Chair, Senior Independent Director and Company Secretary. In particular, the Board or Committee considers the type of role, expected time commitment and any impact which this may have on the Director's duties to Pearson, as well as any relationships between Pearson and the external organisation. The interested Director is not permitted to vote, or be counted in the quorum, for any resolution relating to his/her commitments, conflict or potential conflict. The Board reviews any authorisations granted on an annual basis.

During 2019, the Board approved two new significant commitments for existing Directors. Firstly, the appointment of Lincoln Wallen as Chief Technology Officer of Improbable, a technology start-up company. The Board was of the opinion that this additional appointment was acceptable as the time commitment expected of Mr Wallen in his new role would be no greater than his previous executive role at the time he joined the Pearson Board. Secondly, the appointment of Tim Score as Chairman of The British Land Company plc (British Land). The Board was of the opinion that this appointment was acceptable as Mr Score holds no other directorships of listed companies apart from Pearson and British Land, therefore it was deemed that the additional time commitment would not impact on Mr Score's duties to Pearson. Additionally, in the cases of both Mr Wallen and Mr Score, the Board believes that the experience gained by Directors through their other commitments can bring valuable perspectives to the Pearson Board. There were no other new commitments of Directors during 2019 which the Board considered to be significant in nature.

Early in 2020, Michael Lynton informed the Chair that two of the companies in which he holds non-executive positions intended to list during the course of the year, namely Schrödinger and Warner Music. Once those companies are listed, Mr Lynton would then be serving on five listed company boards. Mindful of Pearson's own internal guidance, and shareholder sentiment in relation to Directors' commitments, Mr Lynton and the Chair have agreed to review this situation over the course of 2020, once there is absolute clarity regarding Mr Lynton's future intentions. To date there has been no impact on Mr Lynton's ability to commit to the Pearson Board, and he has demonstrated a full attendance record at Pearson since his appointment in 2018.

It should be noted that, should this position not change during the course of 2020, Mr Lynton has agreed with the Chair that he will not stand for re-election to the Pearson Board at the 2021 AGM.

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.

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.

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

Culture, purpose and values

Pearson's core values – to be brave, imaginative, decent and accountable – go to the heart of our purpose: to help people make progress in their lives and careers, and the Board and employees are committed to demonstrating these characteristics throughout their work and deliberations. The Board endorses Pearson's culture of innovation, fostering talent and inclusivity at all levels and demonstrated this during the year by engaging with employees from across Pearson through a variety of in-person and virtual events. The Board monitors the culture and organisational health of the company with the assistance of its Committees, including through regular updates from the Chief Human Resources Officer on talent, D&I and Pearson's values as well as considering Group-wide programmes such as Code of Conduct, compliance, Health & Safety, and training initiatives. Building on discussions during 2019 and with the help of the Chief Human Resources Officer, we aim to introduce a dashboard drawing together key cultural indicators from across the Group, which will add quantitative metrics to augment the Board's existing oversight of culture and organisational health.

Strategic planning and decision-making

The Board spends considerable time in assessing that any proposed transaction aligns with the strategy and future prospects for the business. In addition, an annual strategy session enhances the Board's decision-making in shaping the company's strategic and financial plans.

The Board and Committees receive timely, regular and necessary financial, management and other information to fulfil their 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. The Directors can obtain independent professional advice, at the company's expense, in the performance of their duties. All Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter reserved for the full Board.

The Directors recognise their duties towards the shareholders and other stakeholders of the company as set out in Section 172 of the Act, and a continued understanding of the key issues affecting stakeholders is an integral part of the Board's decision-making process. You can read more on the pages that follow about the Board's engagement with stakeholders and an illustrative example of how it takes stakeholder views into account in its decision-making.

Board meetings

The Board held seven scheduled meetings in 2019, with discussions and debates focused on the key strategic issues facing the company. Major items covered by the Board in 2019 are shown in the table on p60. In addition to its scheduled meetings, the Board meets in person or by telephone as necessary to consider matters of a time-sensitive nature. There were two such meetings in 2019 to allow the Board to consider matters relating to business performance and acquisition and disposal opportunities.

October, North America At a two-day meeting in October, the Board and Pearson Executive reviewed Pearson's digital transformation journey towards a single set of global platforms and the alignment of these initiatives with the long-term company strategy. The Board reviewed the Pearson Learning Platform (PLP) and discussed and agreed ways in which to accelerate the release of new products on the platform. They also considered the ways in which Pearson's technology and platform strategy would enable innovation through the ongoing development of the PLP while keeping learner experience and requirements at the centre of the plan.

Two stakeholder panel sessions allowed the Board to hear directly from authors, educators and learners about their experiences of digital teaching and learning in schools and higher education. You can read more about the Board's engagement with these stakeholders on p62–63. The Board also attended an event with new and emerging talent, particularly employees with digital and technology skills, engaged with new members of Pearson's senior leadership team who have enhanced our skills and expertise in digital platforms and AI, and gained valuable insights into employees' views on Pearson's current challenges and opportunities through a session facilitated by HR and Talent leadership.

December, North America At a three-day meeting in December, the Board and the Pearson Executive were joined by members of the Global Online Learning leadership team who provided an overview of the global business. The Board took a deeper dive into the OPM and Virtual Schools businesses, considering areas such as:

- Strategic plans and potential growth opportunities for OPM and Virtual Schools
- The customer-focused culture of the Virtual Schools business, and transformation programmes in respect of Virtual Schools technology and curriculum which would be delivered in the coming year
- Key points of differentiation between Connections Academy, our Virtual Schools business, and traditional 'bricks and mortar' schools
- Examples of OPM partnerships in action such as Arizona State University, Northeastern University and the University of Adelaide

The Board also participated in a tour of the facilities to see the OPM business in action and to meet with employees.

Corporate governance review

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. In these circumstances, the Directors receive relevant papers and, where possible, will communicate any comments and observations in advance of the meeting for raising as appropriate during the meeting. They are updated on any developments after the meeting by the Chair of the Board or Committee, as appropriate. Individuals' attendance at Board and Committee meetings is considered, as necessary, as part of the formal review of their performance.

In appointing Graeme Pitkethly as a Non-Executive Director during 2019, the Board noted that, due to Mr Pitkethly's external commitment as Chief Financial Officer of Unilever, there was expected to be a transitional period of approximately two years following Mr Pitkethly's appointment in which there may be a small number of meeting date conflicts due to the pre-existing corporate calendars of Pearson and Unilever. The Directors were of the view that Mr Pitkethly was a strong addition to the Board and approved this transitional arrangement. Mr Pitkethly has worked closely with the Chair and Company Secretary to minimise the impact of any overlapping dates.

There was a high level of attendance by the Directors at Board and Committee meetings in 2019 as shown in the table below and in the Committee reports that follow:

	Board meetings attended
Chair	
Sidney Taurel	9/9
Executive Directors	
John Fallon	9/9
Coram Williams	9/9

	Board meetings attended
Non-Executive Directors	
Elizabeth Corley[1]	8/9
Sherry Coutu[2]	6/6
Vivienne Cox	9/9
Josh Lewis	9/9
Linda Lorimer	9/9
Michael Lynton	9/9
Graeme Pitkethly[3]	5/6
Tim Score	9/9
Lincoln Wallen	9/9

[1] Unable to attend one meeting due to an external commitment. Ahead of the meeting, Mrs Corley communicated her comments on the business of the Board to the Chair.

[2] Ms Coutu joined the Board on 1 May 2019.

[3] Mr Pitkethly joined the Board on 1 May 2019. Unable to attend one meeting due to a pre-existing commitment as noted above. Ahead of the meeting, Mr Pitkethly communicated his comments on the business of the Board to the Chair.

Board meeting focus during 2019

Strategy

- US Higher Education Courseware
- OPM and Global Online Learning
- Acquisitions of Lumerit Education and certain assets of Smart Sparrow
- Disposal of US K12 Courseware business
- Disposal of stake in Penguin Random House and use of proceeds
- Capital allocation
- Interactive product demonstrations
- Product, technology and operations strategies
- Operating and strategic plan discussions
- Digital advisory network

Performance

- 2018 preliminary results and annual report and accounts
- Interim results and trading updates
- Regular dashboard and milestone reports
- Oversight of 2019 operating plan and goals, and preparation for 2020
- Final and interim dividend proposals

Leadership & people

- Talent and succession planning
- Culture, values and organisational health
- Chief Executive's goals
- Employee Engagement Network feedback
- Events with senior management and facilitated talent breakfasts
- Receptions with employees in US and UK

Read more on employee engagement on p62 →

Governance & risk

- Legal and regulatory compliance including UK Corporate Governance Code, Companies Act and listing obligations
- Regular Brexit updates
- Shareholder activism and defence planning
- Organisational risk and resilience 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
- Approval of Committee terms of reference
- Tax update

Shareholder engagement

- Investor relations strategy and share price performance
- Major shareholders and share register analysis
- Shareholder issues and voting
- Feedback from Chair and Executive Director meetings with shareholders
- Focus on forthcoming AGM

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 p56 ➜

More Committee information:

Audit Committee	p74 ➜
Nomination & Governance Committee	p68 ➜
Remuneration Committee	p84 ➜
Reputation & Responsibility Committee	p72 ➜

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 stakeholder 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.

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 decision-making – Acquisition of Lumerit Education

This case study on Pearson's recent acquisition of Lumerit Education provides an illustrative example of how the Board has regard to relevant stakeholders and their interests in its decision-making processes.

In October 2019, Pearson announced the acquisition of Lumerit Education, an ed-tech company that leverages technology to provide students with a customised path to earn up to three-quarters of their degree online and outside of a traditional college. It aims to address the rising problem of the lack of affordability of a degree, while trying to increase flexibility and reduce the time commitment required to complete a degree. Its clients include private-pay consumer students as well as corporations providing tuition assistance programmes for their employees. Lumerit Education uses data and analytics to match learner profiles to academic programmes to enable more people to prosper in their lives through learning. Pearson viewed the acquisition of Lumerit Education as an opportunity to strengthen and develop its strategic focus on employability and lifelong learning. With this acquisition, we will use the Lumerit Education technology to accelerate the growth of our Accelerated Pathways business, making education more affordable and accessible in all phases of life. Lumerit Education works with employers to deliver education programs that improve employees' skills and knowledge, building a workforce that's more competitive, engaged, and prepared for the future of work. As Pearson's first acquisition for five years, Lumerit Education was an important milestone. The Board focussed on there being a strong strategic rationale, clear integration plans and achievable synergies.

As part of the consideration process for this acquisition, the Board received detailed updates from management, prepared by the internal advisory team (with key input from the business and external advisers) setting out the matters for evaluation, which included the anticipated synergies, due diligence findings, valuation and return impacts, stakeholder considerations and detailed post-acquisition integration plans. In its deliberations, the Board also considered developing the capability in-house, deciding against that option due to the expected time to complete.

Through the decision-making process, the Board considered the impact on its key stakeholders, including:

Employers: The Board noted the potential role for Pearson as a 'matchmaker', leveraging our experience to provide educational options to organisations looking to recruit, retain, upskill and re-skill their employee base. Lumerit Education's offering ensures better utilisation of costs already allocated to tuition reimbursement programmes, improves employee retention, course completion and helps to upskill employees.

Learners: Lumerit Education's offering provides learners with flexibility, helping them find the most efficient way to earn a degree. The acquisition will enable Pearson to apply its expertise in courseware to the delivery of general education and gateway courses and to make an impact on student learning outcomes.

Educational Institutions and Educators: The ability to offer on-demand courses through Lumerit Education's 'Global Digital Classroom' provides educational institutions and educators with the ability to offer any of the classes, at any time. The technology also allows partners access to a funnel of transfer students who want to complete their degree.

Employees: The Board considered the current employees of Lumerit Education in their deliberations, including how best to preserve the culture and sense of energy that the strong Lumerit Education leadership team had created and minimise the disruption to them while integrating the Lumerit Education team into the wider Pearson culture.

Shareholders: In evaluating the acquisition prospect, the Board considered the alignment of Lumerit Education with Pearson's strategy, ensuring that it was a good fit and would bring synergies to the business.

Corporate governance review

Engagement with stakeholders

A strong understanding of our stakeholders and their views is integral to Pearson's strategic planning process, and the Board's strategy sessions are informed by the views and needs of a wide range of stakeholders including customers (such as learners and educational institutions), technology companies, authors, shareholders, members of our Digital Advisory Network, Pearson management and the wider workforce. As required by the Code, the Board ensures that Pearson engages effectively with, and encourages participation from, its key stakeholders. The Board maintains its oversight through a variety of direct and indirect mechanisms as illustrated below and the Reputation & Responsibility Committee monitors the Group's stakeholder engagement framework. The key activities undertaken by the Board or by individual Directors in relation to stakeholder matters are set out below.

Learners

- Pearson helps millions of learners across the world to progress across all stages of learning.
- During the year, the Board met a panel of US higher education Campus Ambassadors who provided a learner's perspective on higher education, including on course materials, print versus digital, technology and employability.
- The Board receives new product demonstrations, including Aida during 2019, to understand first-hand the benefit of such products to learners.
- The Pearson Learning Platform (PLP), a key customer and learner-facing element of the digital transformation programme, was considered by the Board and Committees regularly throughout the year from strategic, operational and risk perspectives, including considering learner and educator impact and requirements.
- The Board considered the evolving brand strategy through a lens of robust reputational research which included the views of 2,000 learners and educators in the US and UK.
- The Reputation and Responsibility Committee considered Pearson's response to a security breach of a UK A level Mathematics examination and the lessons learned, including the engagement with learners, parents, schools, regulators and media.

Employees

- Our purpose-driven employees are key to the sustainable success of Pearson.
- Pearson has in place a well-established range of mechanisms to engage with employees, including town hall meetings, virtual global conversations, employee resource groups, and employee engagement and organisational health surveys. The Board has a variety of opportunities to engage both formally and informally with the workforce during events such as Board site visits and talent breakfasts. In the spirit of the Code's focus on stakeholder engagement, an Employee Engagement Network was established in early 2019 as an additional means for the Board to hear directly from employees. See more on p64 ➔
- During the year, Pearson held two gatherings of its Female & Diverse Executive Leadership Forum, hosted by Sidney Taurel in London and John Fallon in New York. The events were attended by external speakers as well as internal and external talent to raise awareness of Pearson's purpose and career opportunities, and to highlight the Group's commitment to talent development, D&I. Non-Executive Directors Elizabeth Corley and Linda Lorimer also attended.
- The Chair, Executive Directors and Non-Executive Director, Michael Lynton, attended the Pearson Leadership Summit held in Brooklyn, New York. 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 transformation, becoming a learning organisation, building our talent and culture and fostering diversity. The Chief Executive also attended the annual North America Higher Education Sales Conference where he engaged with sales and customer-facing representatives from across the North American business.
- You can read more about talent and succession planning on p65 ➔

Shareholders

- Pearson has a broad range of investors who entrust their capital with us and for whom we aim to deliver long-term sustainable value while recognising their diverse range of views.
- The Chair and Executive Directors, supported by the Company Secretary and Investor Relations team, meet regularly with institutional investors to discuss the business and to respond to any concerns they may have, and the Chair ensures that the Board is kept informed of investors' and advisers' views on strategy and corporate governance.
- In February 2020, Pearson hosted an event for our top five shareholders to meet Board members and discuss aspects of Pearson's strategy, product pipeline and governance framework. In attendance from the Board were: the Chair, Sidney Taurel; Chairs of the Audit, Remuneration and Nomination & Governance Committees; Non-Executive Director, Michael Lynton; and members of senior management.
- Committee Chairs are available to meet with major shareholders should they so wish, and undertake direct engagement in respect of significant matters within their remit, such as remuneration.
- Board members meet informally with shareholders after the AGM and respond to shareholder queries and requests as necessary throughout the year.
- Board Committees consider shareholder views on environmental, social and governance (ESG) and remuneration matters, as required.
- At each Board meeting, the Directors consider commentary from advisers on major shareholders' positions and Pearson's share price.

The insights which the Board gains into the views of its stakeholders through mechanisms such as those set out below form an important part of the context for all of the Board's discussions and decision-making processes. More information on Pearson's key stakeholders, including their areas of concern and our response, is set out in the Strategic report on p14. Further information on how the Directors discharge their duties under s172 of the Act is available on p28 ➜

Educational institutions and educators

- Pearson engages with teachers, instructors and educators across all stages of education.
- At its October meeting, the Board met a panel of authors and educators who provided insights into the challenges and opportunities they face with digital teaching and learning in schools and higher education. Participants discussed the importance of high-quality digital content, assessment and tools and the need for access to a high-quality career-focused education. This session enabled the Board to explore the issues posed by educators and to consider how Pearson's strategy would enable the Group to be part of the solution.
- The Board monitors brand tracker insights including satisfaction scores.
- The Chief Executive engages personally with high-level educator and teacher contacts whose views inform operating and strategic plans, products, technology and operations strategies.

Employers

- Pearson works with employers, trade associations and industry bodies to meet the demands of the workforce and equip learners with the skills they need to thrive.
- The Chief Executive regularly meets with and listens to employers around the world including at the Pearson Leadership Forum in the US where leaders in higher education, business and government came together to network, share insights and explore how technology is creating opportunities for bold change. Sessions included: 'Preparing students for employment and partnering to support workforce needs'; and 'The demand for lifelong learning'.
- Employers are strategically material to our business, and the case study on p61 illustrates how the Directors discharged their duties under Section 172 of the Companies Act when considering the decision to acquire Lumerit Education.

Government and Regulators

- Pearson partners with governments (local, state, federal, national) to ensure learners have access to high-quality instruction, materials and assessments linked to beneficial outcomes, including building workforce skills.
- Engagement with statutory bodies such as listing authorities and financial regulators is key to doing business as a listed global company.
- The Chief Executive meets regularly with government representatives and regulators around the world. In 2019 he met with, among others, the Chinese Ministry of Human Resources and Social Security (MOHRSS), the UK Department for International Trade in China, the Deputy British High Commissioner in India, the Governor of São Paulo, the Canadian Minister of Immigration, Refugees, and Citizenship, and White House officials who lead workforce and education policy, including the Deputy Assistant Secretary, Employment and Training Administration, US Department of Labor.

Business Partners

- From vendors to suppliers, channel partners to our authors, Pearson has a broad range of partners across our global business.
- The Chief Executive and the Executive management team attended the annual supplier summit and meet regularly with key global suppliers and ensure smooth flow of information to Board level on material issues or concerns arising.
- Throughout the year, the Audit Committee had oversight of programmes such as: The Enabling Programme and PLP (each involving technology providers and suppliers); Internal Audit and Control's Centre of Excellence (including controls and audits at delivery partners' service centres); and Pearson's third-party anti-bribery and corruption due diligence programme.
- The Reputation & Responsibility Committee has oversight of Pearson's supply chain including strategic supplier partnerships and supply chain risk.
- The Board held a joint session with Pearson's Digital Advisory Network – a group of external thought leaders who are partnering with us as we navigate the digital transformation and look to maximise opportunities that this brings.

Corporate governance review

Employee Engagement Network

Pearson uses a wide range of effective mechanisms to enable the Board to keep a finger on the pulse of the organisation and employees' views on Pearson's strategy, communications, compensation and benefits, and the senior leadership team overall. In the spirit of the Code, Pearson has introduced an additional mechanism – an Employee Engagement Network – which is a hybrid of two methods suggested by the Code, consisting of a designated Non-Executive Director engaging with a panel of employee representatives. The Board considers this method of engagement to be effective as it provides a means for the Board to hear directly from employees as well as creating an opportunity to gain additional insight on how to enhance employee satisfaction and work effectiveness within Pearson and help engage and retain high performers.

Employee representatives were selected from across Pearson reflecting geographical, generational, operational and cultural diversity as well as length of service. The designated Board representative participating in the Network is Vivienne Cox, Non-Executive Director, who updates the Board on matters discussed with employees following each Network meeting. The Chief Executive and Chief Human Resources Officer also attend meetings.

The Network met twice in 2019. Prior to its first meeting, a survey was distributed to Network members to gauge views on topics for conversation. The first meeting set out the background and purpose of the Network, considered the results of the last organisational health survey as well as hearing a case study from the head of our Virtual Schools business – a high performer in the survey. Members also discussed broad topics of interest for further discussion.

Following consultation with Network members, a new format for subsequent meetings was proposed and approved by the Nomination & Governance Committee. This saw the adoption of a single focus area for discussion, a pre-meeting briefing and a request for employee representatives to seek feedback and perspectives on the issue from colleagues.

During the second meeting, the Network members participated in a facilitated exercise, the outputs of which were shared with Ms Cox and Mr Fallon. They recognised employees' desire for learning and development opportunities, building a culture of learning throughout Pearson, which has resulted in the Group-wide introduction of a learning 'time budget' for each employee to devote to their own learning and career development activities.

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. Our Directors can also make use of external courses.

During 2019, the Directors participated in a deep dive into information security and data privacy, enhancing their understanding of recent developments within Pearson from a technology and process perspective as well as considering cyber risk and other external factors affecting the company and the wider business landscape.

The 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 framework is reviewed by the Nomination & Governance Committee in advance of any Director onboarding.

The induction programmes for Sherry Coutu and Graeme Pitkethly, our most recently appointed Non-Executive Directors, took place in 2019. A tailored and bespoke induction programme was designed for each of them and included meetings with other Board members, business area familiarisation with members of the Pearson Executive, and a briefing on Directors' legal duties and governance obligations. Additionally, Sherry and Graeme each participated in sessions relating to their individual areas of interest as well as topics which were pertinent to the Committees which they have joined. The Company Secretary sought Sherry and Graeme's feedback following completion of their induction programmes, both of whom were positive about the benefits of the programme.

Succession planning and talent

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 on an annual basis; however, recognising Mr Fallon's seven-year tenure as Chief Executive, the Chair led discussions on Chief Executive succession at each of the Non-Executive sessions during 2019.

Succession planning for the Board as a whole and for the role of Chair is considered annually by the full Board and on an ongoing basis by the Nomination & Governance Committee, with the Chair and Senior Independent Director also discussing Committee Chair succession planning on a regular basis. There is regular discussion and oversight by the Board of succession planning for key positions at Executive management level. The Executive team has a key role to play in both our strategic planning process and in succession planning and fostering the culture of D&I required to continue to deliver on our strategy.

As well as Board and Executive management succession, the Board also oversees our leadership pipeline. In October, the Board's discussions on talent and culture, including a succession planning session focused on the executive pipeline from which the future leaders of Pearson were likely to emerge, both at PEM level and for other key roles. A diverse pipeline of 'ready now' and 'ready later' emerging talent has been identified, and plans are put in place to accelerate their development and path to succession where possible, including through measures such as participating in Board and Committee meetings, mentoring by Non-Executive Directors, and by encouraging and enabling individuals to take on external non-executive roles in order to increase their exposure to new areas of business. The company also has targeted development programmes for high-potential talent, mentorship programmes for senior women leaders, as well as a Manager Fundamentals programme for middle management.

Succession planning for Executive Directors

In late 2019, the Chief Executive, John Fallon, announced his intention to retire from Pearson during 2020. The Chair, Sidney Taurel, keeps the matter of Chief Executive succession under regular consideration and accelerated the search process following this announcement. The Board has a clear sense of the attributes which it is looking for in the new Chief Executive – these include, but are not limited to, having demonstrable experience in corporate transformation, digital experience, a global view, and an ability to nurture a strong and healthy organisational culture. The Board recognises the challenge in securing all of these attributes in one individual, but is confident with the progress made to date in the search process and will update shareholders at the appropriate time.

In early 2020, the Chief Financial Officer, Coram Williams, announced his intention to step down from the Board and leave Pearson. Accordingly, the Board activated its executive succession plans which had identified Sally Johnson, current Deputy CFO, as a 'ready now' candidate to succeed Coram as Chief Financial Officer. Mr Taurel and Ms Cox, Senior Independent Director and Chair of the Nomination & Governance Committee, led discussions on behalf of the Board which resulted in the recommendation of Ms Johnson as CFO-elect, a matter which the Board approved in principle in January 2020. Pearson has subsequently announced that Ms Johnson will join the Board and assume the position of Chief Financial Officer at the conclusion of the forthcoming AGM on 24 April 2020 (subject to being elected by shareholders at the AGM), with Mr Williams stepping down from the Board at that time. You can read Ms Johnson's biography on p54 ➜

Corporate governance review

Board evaluation

The Board operates a three-yearly evaluation cycle which employs a variety of methodologies to ensure the most effective evaluation outcomes.

Three-yearly evaluation cycle

Year	Methodology	Last undertaken
1	In-depth evaluation, externally facilitated	2017
2	Questionnaire, tailored to specific needs of the business	2018
3	Internally facilitated interview, to be led by the Chair, Senior Independent Director and/or Company Secretary as appropriate	2019

The Nomination & Governance Committee is responsible for overseeing the evaluation process on behalf of the Board and it spent time during the year scoping the process and themes for the 2019 evaluation, with Committee members being invited to suggest particular questions or items for discussion.

In line with the framework agreed by the Committee, the Senior Independent Director held one-to-one conversations with each member of the Board during October 2019. Discussion areas covered during the individual interviews included matters which are important to Pearson in particular, as well as those items laid down in the Code, including:

- the Board's understanding of markets, products and stakeholders, the quality of the information provided and discussion time to facilitate this
- Pearson's strategy, including its articulation and strategic process, and the quality of the Board's discussions on strategy
- the functioning of the Board, including composition, competencies, diversity and agendas
- relationships between the Board and senior leaders, and between members of the Board itself
- succession planning for Executive Directors and other senior leaders
- the Board's monitoring of organisational culture and behaviours
- understanding of risks facing the company, including probability and mitigation
- concerns and areas for improvement.

The Company Secretary invited all members of the Pearson Executive to provide their views on these topics by way of a questionnaire prior to the Directors' individual interviews. The findings from this exercise involving the Pearson Executive were analysed with the assistance of an external advisory firm, Lintstock,[1] and shared with the Senior Independent Director in advance of her conversations with Board members to allow for the Executive's opinions to be taken into account during the process.

The Nomination & Governance Committee reviewed the findings from the Board evaluation with the full Board at its meeting in December 2019. The Committee will develop an action plan to address areas for improvement and will monitor progress during the year.

Key findings included:

- a high overall level of satisfaction with the functioning of the Board, the competence and capabilities of the Directors, and the quality of relationships between Chair, Non-Executive Directors and the Executive
- the level of support and challenge provided by the Board to management was generally viewed to be of an appropriate and balanced level
- positive views in relation to the performance of the Committees including the volume and importance of work which they undertake on behalf of the Board
- the composition and size of the Board was considered to be appropriate, with a good balance of skills and capabilities. Board members noted that consideration should be given to agreeing the skills profile for any new Non-Executive Directors as part of ongoing succession planning for the Board.

The main areas identified by the Board for continued focus during 2020 were:

- refinement of the strategy, in particular continuing to develop the framework supporting lifelong learning and employability and ensuring clear and tight articulation of the strategy
- the Board's monitoring and challenge of the digital transformation, including scrutiny of progression metrics and oversight of the continued rollout of digital products
- an awareness of the risk of transformation fatigue within the organisation
- an ongoing focus on customers, including appropriate market and behavioural insights to facilitate the right level of scrutiny and challenge by the Board.

In addition, a number of actions were taken during the year in response to findings arising from the 2018 externally facilitated Board evaluation process. You can read more about progress on these in the table opposite. The Board has confirmed that these items were addressed to its satisfaction, with recommendations having been put into practice or a clear action plan identified for each.

Further, the Chair meets regularly with the Non-Executive Directors as a whole and these sessions include reciprocal feedback on the functioning of the Board to augment the formal Board evaluation process.

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[1] Lintstock's involvement with the Pearson Group is limited to matters led by the Company Secretary's office, namely to assist with tools and market insights in respect of listed company governance practices and obligations.

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 the key metrics for the company, including both financial and strategic objectives as well as goals linked to culture, talent and brand. Progress against each of these metrics is reviewed by the Board on a regular basis, as part of a dashboard of KPIs.

The Chair leads a formal individual evaluation of each Non-Executive Director every other year and encourages open channels of communication between Directors and the Chair on an ongoing basis. In the Board's opinion, these ongoing lines of communication, combined with a Group-wide culture which allows and encourages feedback at any time, provide the most effective means for evaluation. In assessing the contribution of each Non-Executive Director, the Chair has confirmed that each continues to make a significant contribution to the business and deliberations of the Board. 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 2019, the Committee evaluation process formed part of the wider Board evaluation led by the Senior Independent Director, and the findings from this were considered by the Board as a whole in December 2019. Read more on this in the Committee reports on the pages that follow.

Progress on findings of 2018 evaluation

Finding	Response/action taken
Ongoing development and articulation of the strategy	There is acknowledgement by longer-serving members of the Board of the significant progress that has been made on development of the strategy, particularly in respect of the articulation of the five-year strategic vision. Refinement and articulation of the strategy will be a continued area of focus throughout 2020, and the Board is mindful of the need to balance the thinking on the long term with execution of short-term goals in a challenging environment for certain parts of the business.
Board succession planning	Two new Non-Executive Directors, Sherry Coutu and Graeme Pitkethly, joined the Board in 2019. Succession planning for Non-Executives, including for the Committee Chair and Senior Independent Director roles, will be a continued focus in 2020. This will include a skills mapping process to enable the Board to design a candidate profile for future Non-Executive Directors in preparation for retirements in the coming years.
Leadership development and succession planning below Board level	Executive talent and succession planning are regular items on the Board's agenda, with two such sessions taking place during the year, augmented by networking and mentoring programmes involving the Board and senior leaders. Read more about succession planning on p65 ➜
Continue to enhance Board's oversight of culture	In early 2019, the Board considered results of the latest employee engagement survey, and it receives periodic updates on employee engagement from the designated Non-Executive Director, Vivienne Cox. The Nomination & Governance Committee discussed in detail the Code's requirement for the Board to monitor culture, and how best to achieve this, which led to a session on talent, culture and values at the Board's October meeting. The Board and its Committees also receive information which provides insights into organisational culture, such as compliance and talent metrics, and has a variety of opportunities to see the culture in action at events throughout the year. Culture will remain an area of focus during 2020 as the Board is mindful of the potential effects of business transformation on organisational culture.
Continue to consider the competitive landscape and customer views	During the year, the Board received updates on the competitive landscape and discussed customer trends during its regular sessions on the US Higher Education Courseware business, as well as meeting in person with learner and educator representatives. In December, as part of its site visit to the Online Program Management business in the US, the Board considered the competitive landscape for that sector. Additionally, the Board's milestones dashboard contains metrics regarding Pearson's performance in the markets in which the company operates, and the competitive landscape is a factor considered in any proposals relating to acquisitions or disposals.
Board's understanding of risk	Risk deep dives take place at each Audit Committee meeting on key risk areas, supplemented by Reputation & Responsibility Committee oversight of certain risks. The Board retains oversight of the organisational risk management process, with support from the Audit Committee, and during the year the full Board held a deep dive into data privacy and information security, considering the external landscape and Pearson's frameworks to address these risks.

Nomination & Governance Committee report

Committee Chair
Vivienne Cox

Members
Elizabeth Corley, Sherry Coutu, 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**

Reviewing and overseeing 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 at www.pearson.com/governance.

Committee attendance

Attendance by Directors at Nomination & Governance Committee meetings throughout 2019:

	Meetings attended
Elizabeth Corley[1]	3/4
Sherry Coutu[2]	2/2
Vivienne Cox	4/4
Josh Lewis	4/4
Tim Score	4/4
Sidney Taurel	4/4

[1] Unable to attend one meeting due to an external commitment. Ahead of the meeting, Mrs Corley communicated her comments on the business of the Committee to the Chair.

[2] Ms Coutu joined the Committee on 1 July 2019.

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. Following the appointment of Sherry Coutu to the Committee on 1 July 2019, the Committee comprises five 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 2019

Throughout 2019, a major area of focus for the Committee was the consideration of the newly effective UK Corporate Governance Code, in particular to ensure that the agreed revisions to Pearson's governance framework were working effectively following implementation. As part of this, the Committee received a status tracker on a regular basis to enable it to consider the appropriateness and maturity of various elements of the framework. Notable items which the Committee discussed as part of its oversight role included:

- implementation of the new Employee Engagement Network (see p64) ➔
- an internal guidance framework relating to Directors' external commitments (see p58) ➔
- ways in which to facilitate further engagement by investors with the Board
- the Board's monitoring and understanding of organisational culture and values.

At its February meeting, the Committee considered the induction framework for potential new Board members, in addition to reviewing the company's standard form letter of appointment for Non-Executive Directors.

Other areas of focus for the Committee during the year included preparation for and oversight of the annual Board evaluation process, recommendation of revisions to the membership of Board Committees in response to the appointment of new Non-Executive Directors, and review of the Board Diversity Policy and adoption of revised accompanying objectives. The Committee also received periodic updates from the Chief Human Resources Officer and members of the D&I team in respect of D&I initiatives across the business – see p22 for further detail.

Board search

A key element of the Committee's remit is to lead the process for Board appointments in line with appropriate succession plans. The Committee has defined a set of specific criteria for potential new Non-Executive Directors, in particular giving consideration to the skills, experience and knowledge 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.

In its most recent search, the Committee agreed that it was particularly interested to identify candidates who would complement its current skill set, ideally bringing a combination of global executive experience, financial background and UK listed company expertise.

Taking into account the agreed person specification, the Committee engaged Russell Reynolds Associates in 2018 to commence a search process for new Non-Executive Directors. This process continued into early 2019 and, in line with the objectives of the Board's Diversity Policy, the Committee, led by Ms Cox, worked closely with Russell Reynolds Associates to ensure that the list of candidates reflected diversity of gender and ethnicity as well as diversity in its broadest sense.

Following consideration by the Committee of a shortlist of candidates, including their current commitments, skills and previous experience, and bearing in mind the Pearson culture, the search process culminated in the appointments of Sherry Coutu and Graeme Pitkethly as Non-Executive Directors with effect from 1 May 2019.

At the end of 2019, reflecting the announcement by John Fallon of his intention to retire from the Pearson Board, the Committee commenced a search process for a new Chief Executive, putting into practice the Chief Executive succession plans which are reviewed by the Board on an annual basis. This search process, in which both internal and external candidates are under consideration, is being led by the Chair of the Board, Sidney Taurel, with support from Ms Cox and other Board members as well as the Chief Human Resources Officer. Pearson is being assisted in the external element of this search process by Russell Reynolds Associates (search activity) and Jan Hall Consulting Limited (trading as 'No. 4') (advisory activity). You can read more about Succession planning for Executive Directors on p65

In addition to the Non-Executive Director and Chief Executive search processes, 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. Jan Hall Consulting Limited has no other current connection to Pearson.

Committee evaluation

The Committee undertook an annual evaluation to review its own performance and effectiveness. The process was undertaken as part of the wider Board evaluation process and sought views from the Board and Company Secretary 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.

The Committee was considered to have operated effectively throughout 2019 with a clear agenda and effective leadership, and there was recognition of the volume of work which the Committee had undertaken during the year. In response to the findings of the 2018 evaluation, the Committee gave consideration to the processes relating to Non-Executive Director search activity, as a result of which the Committee agreed an interview framework for candidates which would encourage openness and communication between potential candidates and existing Board members.

Nomination & Governance Committee meeting focus during 2019

Appointments

- Search for two new Non-Executive Directors, resulting in appointments of Sherry Coutu and Graeme Pitkethly
- Directors' commitments guidance framework

Balance

- Membership of Board Committees
- D&I initiatives at Pearson
- Review and approval of Board Diversity Policy and accompanying objectives

Succession

- Executive and Non-Executive Director succession planning
- Induction outline for new Directors

Governance

- Board evaluation preparation and findings
- 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

Committee aims for 2020

In 2020, the Committee will continue to pay attention to the principles and provisions of the Code, giving consideration to areas in which there may be scope to go above and beyond Pearson's current governance arrangements in ensuring a world-class corporate governance framework. Building on discussions during 2019, we will continue to monitor Pearson's organisational culture and, with the help of the Chief Human Resources Officer, we aim to introduce a dashboard drawing together key cultural indicators from across the Group, which will add quantitative metrics to augment the Board's existing oversight of culture and organisational health. We will also hold updates on D&I and talent and succession. As part of these sessions we will consider the Board D&I policy and wider initiatives in place across Pearson, such as Valuable 500 and mentoring programmes, and we will review the format of the Employee Engagement Network after its first complete year of operation. Additionally, the Committee will oversee the Board evaluation process which, for 2020, will be externally-facilitated.

Vivienne Cox
Chair of Nomination & Governance Committee

Nomination & Governance Committee report

Board diversity

The commercial benefits of having a diverse Board are well established. At Pearson, we believe that diversity of all types on the Board makes us a better business by enabling enhanced commercial results and also that inclusive leadership for the company leads to better decision-making. It also reflects an overt commitment to finding and retaining the best, most diverse talent.

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 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 recent Non-Executive Director search process, the Committee encouraged the retained search firm to place an emphasis on putting forward candidates who would enhance the overall diversity of the Board.

The gender diversity of the Board was 33% female representation as at 31 December 2019 (2018: 30%), achieving the recommendations suggested by the Hampton-Alexander Review aimed at having at least 33% female representation on the Board by 2020. We are committed to maintaining female representation on our Board at or in excess of this level. Pearson also satisfies the recommendation in the Parker Review that at least one Director should be from an ethnic minority background ahead of the 2021 target date.

Board D&I objectives

The Committee has agreed the following objectives on behalf of the Board, which were reviewed and updated during the year, to support the Board D&I Policy:

Objectives	Progress
We will strive to maintain a Board composition of: △ › at least 33% female Directors › at least one Director of colour.	✓ 33% 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.	✓ Rigorous process used during recent search for Sherry Coutu and Graeme Pitkethly who each have relevant experience and skills.
△ The Board will continue to incorporate a focus on a diverse pipeline in its succession and appointment planning including to prioritise the use of search firms which adhere to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) when seeking to make Board-level appointments	✓ Russell Reynolds Associates assisted Pearson with the recent Non-Executive Director search process and are engaged on the external element of the Chief Executive search. Russell Reynolds Associates are a signatory to the Voluntary Code.
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.
⊕ The Board will consider its composition and diversity as part of its consideration of effectiveness in the Board evaluation review process	✓ These matters were considered in the 2019 evaluation process.
Where appropriate, we will assist with the development and support of initiatives that promote all forms of D&I in the Board, Pearson Executive and our senior management.	✓ Board mentoring scheme of senior leadership talent ongoing throughout 2019. ✓ Board members participated in Pearson's Female & Diverse Executive Leadership Forum events held in London and New York, developed in direct response to a suggestion by the Nomination & Governance Committee.
We will review and report on our progress in line with the policy and our objectives in the annual report, including providing details of initiatives to promote D&I in the Board, Pearson Executive and our senior management.	✓ The Nomination & Governance Committee reviewed the Board's Diversity Policy and accompanying objectives during the year, as well as developments on diversity in the external landscape.
We will continue to make key D&I information, about the Board, senior management and our wider employee population, available in the annual report, and aim for ongoing transparency in this area in line with best practice.	✓ This information is included in the annual report.

✓ Target achieved ⊕ New target △ Changed target

During the year, the Committee received a detailed progress update on the company's D&I strategic approach, framework, governance and measurement models and priority areas.

The Board also received an update on a new internal mentoring scheme and participated in the programme whereby each Director was paired with a high-potential Senior Vice President female leader at Pearson. This launched at the end of 2018 and ran throughout 2019.

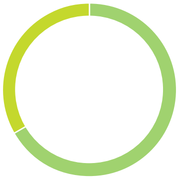
Diversity and talent in Executive pipeline

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 D&I Council launched in early 2019 chaired by Chief Executive, John Fallon. This comprises around 30 members representing employee resource groups, business leaders as well as allies and advocates. For more information on the company's approach to D&I, please see p22 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 nine members (22%) – this excludes the Chief Executive and Chief Financial Officer who are counted in the Board's metric (2018: 20%). As of 31 December 2019, the number of women forming part of the senior management team, i.e. the Pearson Executive and their direct reports, including the Company Secretary, as required by the Code, is 34 women representing 34% of that group (2018: 31%).

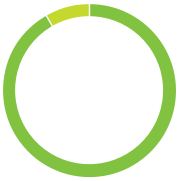
We believe that we have a multi-pronged plan in place to build our pipeline of women in leadership and senior management positions, and the Board and Committee will carefully monitor their development, and the development of all key talent.

Gender balance of Board



🟩 Male	8
🟨 Female	4

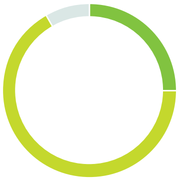
Ethnicity



🟩 White	11
🟨 Mixed	1

Mixed – White & Black Caribbean (1)
White – English/Welsh/Scottish/ Northern Irish/British (7)
White – Any other White background (4)

Nationality of Directors



🟩 US	3
🟨 UK	8
⬜ Canada	1

Tenure on the Board for Chair and Non-Executive Directors

🟩 Under 3 years	3
🟨 3–6 years	4
⬜ Over 6 years	3

All information correct as at 31 December 2018.

Reputation & Responsibility Committee report

Committee Chair
Linda Lorimer

Members
Vivienne Cox, Linda Lorimer, Michael Lynton, Graeme Pitkethly 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, and ensuring that clear roles have been assigned for the management of the reputation dimension of risks identified.

→ 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 that clearly set out its authority and duties. These are reviewed annually and can be found on the company at website www.pearson.com/governance.

Committee attendance

Attendance by Directors at Reputation & Responsibility Committee meetings throughout 2019:

	Meetings attended
Vivienne Cox	4/4
Linda Lorimer	4/4
Michael Lynton	4/4
Graeme Pitkethly[1]	3/3
Lincoln Wallen	4/4

[1] Appointed to the Committee on 1 July 2019.

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 remit covers 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 a regular review of those incidents that could adversely affect the company's reputation. We promote Pearson's 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 Sustainability on p16 ➜

Changes to the Committee

Graeme Pitkethly, who joined the Board in May 2019, was appointed to the Reputation & Responsibility Committee on 1 July 2019. Graeme brings valuable experience in sustainability practice and consumer behaviour from his time at Unilever, as well as a strong understanding of best practice in external reporting on sustainability and climate change due to his role as Vice Chair of the Task Force on Climate-related Financial Disclosures. I look forward to working closely with him on the Committee; he is already adding important insights.

Areas of focus during 2019

The Committee conducts in-depth reviews of issues that are important to the sustainability of our business and our reputation. Key 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 & 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.

In the first year of the Code's stakeholder engagement requirements, we helped to scope and monitor the company's framework for gathering and responding to stakeholder views (see p14). Learners are a key stakeholder for Pearson, and we held in-depth discussions into privacy and ethical issues related to learners' data. The Committee also reviewed Pearson's planned standard for learner data management, which will shape the company's use of AI technology and personal data collection.

In October, the Committee considered plans for Pearson's 2030 Sustainability Strategy and carbon reduction targets. In particular, we discussed the three main pillars for the 2030 plan that had been identified through extensive stakeholder engagement and materiality mapping, namely: advance equity in learning; build skills for sustainable futures; and lead by example through initiatives for advancing such areas as human rights and the environment. Committee members offered guidance regarding potential goals for each of the three pillars and the timeline for the strategy, and considered the integration of sustainability within Pearson's business model with reference to the UN Sustainable Development Goals.

During 2019, the Committee also reviewed proposed public statements on modern slavery and considered Pearson's broader human rights strategy, both of which are important to Pearson's values and the delivery of its sustainability plan. We also considered incidents of reputational note, including those which had received coverage through traditional or social media such as Pearson's response to the security breach of a UK A level Maths exam paper and the company's subsequent engagement with learners, schools and the exam regulator.

Pearson's brand strategy was another important area of focus during the year for the Committee. The brand strategy was informed by reputational research insights from a study of learners, educators and members of the public across the US and UK. The Committee also spent time with the Chief Corporate Affairs Officer, who had joined Pearson at the start of 2019, in order to understand her priorities.

We also examined progress on supply chain risk and, as every year, delved into the areas of health, safety and safeguarding, which are principal risks for Pearson. The Committee also reviewed Pearson's efficacy programme and discussed future plans for continued integration of efficacy findings into our product development cycle.

Read more about Efficacy on p27

Committee evaluation

In 2019, the Committee evaluation formed part of the wider Board evaluation process led by Senior Independent Director, Vivienne Cox. She sought views from all members of the Board and the Company Secretary through a series of one-to-one interviews. The evaluation found that Directors were pleased with the functioning of the Committee, recognising the Chair for the manner in which the Committee's work is cogently reported to the Board. The Directors commented that the work of the Committee is becoming ever more important and closely linked to strategy, and that it was necessary to ensure sufficient time during the year to cover the growing roster of matters within its remit. Particular areas highlighted by the Directors for continued focus during the coming year were privacy and data management and the development of the brand in support of the strategy.

Progress on findings of 2018 evaluation

The responses to the 2018 evaluation, which was conducted by way of a questionnaire to Committee members and key internal stakeholders, highlighted that:

- the Committee has matured, with increasing focus on strategically material issues. The development of the 2030 Sustainability Strategy will only make the Committee's work more valuable.
- the introduction of private sessions as part of each meeting, similar to Audit and Remuneration Committees, was recommended. They have proven to be beneficial and enable Committee members to discuss and agree on key issues to take forward with management. These sessions will be continued as a regular part of each Committee meeting over the coming year.

Committee aims for 2020

Over the next year, we will continue to focus on data privacy from the perspective of the learner and continue to monitor the advancement of our brand strategy as well as Pearson's approach to reputational risk.

We will continue to explore Pearson's material sustainability issues (e.g. 21st-century skills and climate change), monitor progress on supply chain risk, engage in the next phase of development of our 2030 Sustainability Strategy (focusing on the goals and KPIs to underpin successful delivery of the strategy). The Committee will also examine the results of our global learner survey and investor priorities and opportunities in the environmental, social and governance (ESG) space.

Linda Koch Lorimer

Linda Lorimer
Chair of Reputation & Responsibility Committee

Reputation & Responsibility Committee meeting focus during 2019

→ Reputation

- Supply chain and third-party risk management
- Issues and incidents reports
- Reputation research
- Editorial Policy – progress report

→ Risk

- Safeguarding
- Health & Safety

→ Sustainability

- 2030 Sustainability Strategy
- Greenhouse gas emissions and carbon reduction targets

→ Brand & culture

- Brand strategy
- Efficacy update and future plans

→ Ethics

- Human Rights Policy
- Modern Slavery Act statement

→ Strategy

- Learner data
- Artificial intelligence

→ Governance

- Committee terms of reference
- Stakeholder engagement framework

Audit Committee report

Committee Chair
Tim Score

Members
Elizabeth Corley, Vivienne Cox,
Linda Lorimer, Michael Lynton,
Graeme Pitkethly,
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.

→ Internal audit, risk & internal control

Risk management systems and the internal control environment including oversight of the work of the internal audit function.

→ 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 at www.pearson.com/governance.

Committee attendance

Attendance by Directors at Audit Committee meetings throughout 2019:

	Meetings attended
Elizabeth Corley[1]	3/4
Vivienne Cox	4/4
Linda Lorimer	4/4
Michael Lynton	4/4
Graeme Pitkethly[2]	2/2
Tim Score	4/4
Lincoln Wallen	4/4

[1] Part-attendance at one meeting due to an external commitment – this is formally recorded as an absence.
[2] Appointed to the Audit Committee on 1 July 2019.

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 CFO 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 May 2019, Graeme Pitkethly was appointed to the Audit Committee on 1 July 2019. Graeme's leadership experience in complex global businesses, as well as his background as a Chartered Accountant and in-depth knowledge of financial and operational matters, will complement the Committee's existing skill set, and I look forward to working closely with him. Following Graeme's appointment, the Committee comprises seven 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 principle N 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 p110 →

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 2019, 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 p40 →

Business transformation

Ongoing business transformation and change 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 has received an update at each meeting during the planning and implementation phases of TEP, engaging with the senior management team leading the programme. The primary areas of focus for the Committee in 2019 were:

- in the first half of the year, oversight of the implementation of finance, procurement, e-commerce and supply chain systems to: (i) the remainder of our North American business which had been operating on legacy systems; and (ii) the Assessments business, including Clinical and VUE. In particular, the Committee considered the preparatory steps from technology, employee and customer perspectives, progress on system integration and testing, and status of key readiness milestones in advance of the implementation
- preparations for the Rest of World phase of TEP which will see most remaining markets outside of Pearson's UK and US business move to the new systems and processes
- in the second half of the year, monitoring the progress of the business value realisation (BVR) programme. Following TEP deployment in the UK and US, management took the decision to review the live environment in order to: (i) identify continuous improvement opportunities; and (ii) explore areas of the deployment where further integration was required, with the overall aim of BVR being to assess how best to leverage business value from TEP and integrated release investments. As part of the Committee's regular deep dives, Committee members were updated on the ways in which processes had been considered from an employee, customer and data quality perspective, resulting in opportunities being identified for improvements in areas such as data quality and end-to-end delivery. The Committee then considered the progress made in those areas, noting that attention was now turning to prevention and maintenance of those data assets.

Audit Committee meeting focus during 2019

→ Reporting

- Accounting and technical updates
- Impact of legal claims and regulatory issues on financial reporting
- Fair, balanced and understandable, going concern and viability statements
- 2018 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
- Analysis supporting viability statement

→ Policy

- Accounting matters and Group accounting policies
- Annual review and approval of external auditors' policy
- Treasury policy and reporting
- Tax strategy, including an update on EU state aid and impact of US tax reforms

→ 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
- 2019 external audit plan
- Remuneration and engagement letter of external auditors
- Review opinion on interim results
- Review of the effectiveness of external auditors

→ Internal audit, risk & internal control

- Internal audit activity reports and review of key findings
- Organisational risk management
- 2020 internal audit plan
- 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 and insurance; anti-bribery and corruption (ABC); tax; business resilience
- Oversight of the programme to develop the Pearson Learning Platform
- Controls Centre of Excellence updates

→ 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

Alongside TEP, Pearson has moved to a shared services model for delivery of certain Finance and HR processes, and the Committee considered regularly the work undertaken by the Controls Centre of Excellence team. The external auditors, PwC, updated the Committee at each meeting on the work that they had conducted in respect of testing controls, and they shared perspectives on strategic opportunities to further enhance the controls framework.

Data privacy and Information security

Pearson considers data privacy and information security as principal risks reflecting a business model which is increasingly based around digital products. In 2019, the Chief Privacy Officer and Chief Information Security Officer reported on both topics to the Committee, and the Board as a whole, recognising the increasing importance of cyber-risk to modern businesses.

As part of the report, the Committee reviewed Pearson's readiness for the California Consumer Privacy Act (which came into effect at the start of 2020), and an overview of privacy laws which would soon be introduced in other jurisdictions in which Pearson operates. Key aspects of Pearson's data privacy programme were also considered, including:

- the principles and priorities underpinning Pearson's multi-year data privacy strategy
- the emphasis on 'privacy by design' in the development of new Pearson products and platforms
- the advancement of processes to respond to user/data subject requests, including the rights to access, correct and delete data
- the review and enhancement of the data privacy governance structure

In addition, an update on the AimsWeb 1.0 security incident was provided.

The information security report allowed the Committee to consider the progress made in recent years. In considering the current status of the information security programme, the Committee noted the frameworks which had been put in place in respect of:

- fundamental and proactive user, network and cloud security building blocks which limit outsider access to critical information
- platforms and processes which control least-privilege access to various IT systems
- Pearson's ability to react as quickly as possible to a detected event, thereby aiming to reduce the window of vulnerability
- Tools and processes to help the business assess and manage risk, set standards and measure compliance with internal and external requirements
- The establishment of standards and methods to ensure Pearson products are designed to protect learners' data and to ensure products continue to function if attacked

The Committee considered in particular the ways in which the architecture of the PLP and ways of working in its design and development aim to greatly increase the inherent platform security as well as the many 'digital native' security features which have been built into PLP. Separately, the Chief Information Security Officer noted that the decommissioning of certain legacy systems was a particular area of focus in reducing the level of risk attached to Pearson's information security programme.

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 is evolving in support of Pearson's Global Business Services model.

In addition to the risk deep dives described above, the Committee also conducted deep dives into business resilience and crisis management, treasury, tax, and anti-bribery and corruption. In February 2020, the Committee considered the 2019 annual report and accounts, including the preliminary results announcement, financial statements, strategic report and Directors' report.

View the key activities of the Audit Committee on p75 ➜

Internal audit evaluation

The International Standards for the Professional Practice of Internal Auditing (the Standards) require an independent external assessment of internal audit to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. At its December meeting, the Audit Committee considered the findings of an external quality assessment of internal audit, facilitated by Protiviti. The objectives of the review were to assess conformance with the Standards; to assess the effectiveness of internal audit within the context of its mandate and stakeholder expectations; and to provide recommendations to internal audit on improvement opportunities and emerging practices. The assessment

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. Until July 2019, he also served as Audit Committee Chair for The British Land Company plc. The qualifications and relevant experience of the other Committee members are detailed on p54–56 ➜

was conducted by: interviewing key stakeholders of the internal audit function including the Committee Chair, members of the Pearson Executive, and senior financial, legal and operational management; reviewing a sample of internal audit files and other functional documentation including the audit universe and plan; and interviewing members of the internal audit function.

The findings indicated an effective internal audit function that conforms to the IIA's International Standards. One conformance gap was identified – the requirement to have an external quality assessment every five years – which was addressed by the review itself taking place. Opportunities for improvement were also noted, largely related to the quality of supporting documentation. Based on the findings of the external review, and on its own ongoing assessment of the effectiveness of the internal audit function, the Committee is of the opinion that the quality, experience and expertise of the function is appropriate for the business.

Additional meeting attendees

In addition to the Committee members, advisers and executives from across the business also attended meetings during the year. 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 and customer focus such as the ongoing transformation and digital initiatives. The Committee also meets regularly in private with the external auditors; SVP-Internal Audit, Risk and Compliance; and VP-Internal Audit.

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. In 2019, the Committee and other members of the Board and management participated in a training session covering:

- the reviews of the audit market and regulatory landscape
- corporate reporting and governance matters
- a technical update on IFRS 16 (Leases).

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 2019, the Committee evaluation formed part of the wider Board evaluation process led by Senior Independent Director, Vivienne Cox, which sought views from all members of the Board and the Company Secretary through a series of one-to-one interviews. The evaluation found that Directors were pleased with the functioning of the Committee, and they recognised the Chair for the quality of the work conducted by the Committee and the manner in which this is reported to the Board.

Progress on findings of 2018 evaluation

The responses to the 2018 evaluation found an effective and well-functioning Audit Committee, which uses its time well and has an appropriate focus on the key issues.

Suggestions arising from the 2018 process, and the progress which has been made on these, include:

- invite a wider range of business leaders to Committee meetings, enabling leaders to engage in Board-level discussions, as well as facilitating a greater understanding of the Committee's role in the wider business – the Committee has embraced this suggestion, with a number of leaders and senior managers (typically one or two levels below the Pearson Executive) leading sessions such as risk deep dives, internal control and process updates and financial review matters. The Committee also invited Pearson's Local Compliance Counsel of the year to lead a session on compliance and ABC achievements in Pearson's Brazilian 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 – progress on TEP and the associated BVR programme was a regular item for discussion for the Committee throughout the year and will continue to be considered as transformation initiatives continue during 2020. Read more detail on the risk deep dive overview on p74 ➔

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 CFO, 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. Progress 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 progress in implementing action plans, agreed as part of audits, to resolve any control deficiencies identified. Internal audit will request and assess evidence of action plan implementation and may re-test controls if necessary. 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 and, on behalf of the Board , considers 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.

Audit Committee report

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 2019, 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; CFO; 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 and independent external audit process. The main area identified as presenting an opportunity for possible improvement related to coordination between PwC and the Pearson team, namely ensuring clear and timely communication in respect of requirements and deliverables.

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 the current lead audit partner, Giles Hannam, rotated onto the Pearson audit at the beginning of 2018.

AQR Review of the external audit

During the year, the FRC's Audit Quality Review (AQR) team selected for review PwC's audit of the Group's 2018 financial statements as part of its 2019 annual inspection of audit firms. On completion of its review, the AQR team wrote to the Committee Chair and provided a copy of its final report. The Committee discussed the findings of the review with PwC at its February 2020 meeting, in particular focusing on those areas of the external audit procedures that had been identified as requiring improvement. The Committee was satisfied that PwC had taken all necessary actions to address the AQR findings in the audit of the Group's 2019 financial statements.

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. EU regulations and the 2014 Order by the UK Competition and Markets Authority (CMA) impose mandatory tendering and rotation requirements, with Pearson required to appoint a new auditor no later than for the 2024 financial year end.

In last year's annual report, the Committee reiterated its expectation that an audit tender process would commence in 2022, taking into account the significant level of business change being experienced by the Group – including through The Enabling Programme (TEP) – and the focus that would be required by finance and management teams to conduct the tender process, and any resulting auditor transition, thoroughly and effectively. As indicated however, the Committee, with the support of management, has kept under review whether this timing remains appropriate in the light of business developments. With TEP implementation and finance transformation in the UK and North America now complete, and more than 80% of Pearson's business in revenue terms having now transitioned to new systems and processes, the Committee has revisited the matter. As a result, at its meeting in February 2020, the Committee decided to proceed with an audit tender during 2020, which will commence with issuing a Request for Proposal (RFP) in April 2020, with a view to changing audit firm for the financial year ending 31 December 2021.

In making this decision, the Committee noted that finance and management teams believe they have the capacity to support a tender and change in auditor, leveraging changes from the finance transformation programme. Although TEP and the finance transformation are yet to be implemented in Pearson's remaining International markets, the majority of Group audit scope sits within North America and the UK and it is felt manageable by the Committee, management and the finance function to onboard a new auditor at a time of change in those smaller International markets.

In discussing its preferred approach to the tender process, the Committee has had regard to the detailed timeline, governance framework (including confirmation of the working group that will lead the process), selection criteria and the degree of involvement by all Committee members in the various stages of the process. The Committee has also given consideration to the Chief Financial Officer transition process which will take place during 2020 and has determined, with the agreement of the incoming CFO, Sally Johnson, that the proposed timeline achieves the optimal balance between business priorities and internal capacity while also allowing for the new senior finance team to ensure a rigorous and comprehensive audit tender process.

Following the upcoming audit tender, 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 Sir Donald Brydon's independent review into the quality and effectiveness of audit; and the outcome of the BEIS consultations on the recommendations made (i) by Sir John Kingman in his independent review of the FRC, and (ii) by the CMA in its market study into the statutory audit market, and will take these into account as and when appropriate.

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 2019.

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 2019 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 2019 Committee meeting, having concluded that their analysis of significant and elevated risks remained the same.

The table on p80–81 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 2019 and again at the conclusion of their audit of the financial statements for the full year in February 2020.

All the significant issues were also areas of focus for the auditors. Learn more in the Independent auditor's report on p114

In December 2019, 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 long-term revenue contracts and judgements in relation to provisions for returns
- Their work in evaluating management's goodwill impairment exercise, on a value-in-use basis, including assessing assumptions around CGU identification, goodwill reallocation, operating cash flow forecasts, the appropriateness of the inclusion of restructuring cost savings, perpetuity growth rates and discount rates
- The work performed over the nature and presentation of non-trading items, 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 and related disclosures
- Their evaluation of the recoverability of investments in digital platforms and pre-publication assets
- Their work over the completed disposal of the US K12 Courseware business
- 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 continued roll-out of TEP and the organisational change resulting from implementing the target operating model
- Their work in relation to the adoption of 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 unadjusted misstatements that they had found in the course of their work, which were immaterial, 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 that 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 policy takes into account certain voluntary commitments by PwC regarding independence and applies to all Pearson businesses globally, including associate companies.

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 2019, Pearson spent £0.7m less on non-audit fees with PwC compared with 2018, due to the absence of a requirement for the audit of disposals and a reduction in fees associated with the audit of efficacy reporting. For 2019, non-audit fees represented 6% of external audit fees (17% in 2018).

For all non-audit work in 2019, 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 2019 included:

- audit of Pearson's efficacy programme
- provision of comfort letters for potential bond issues
- controls assurance related to non-financial controls
- 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 p145

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. Pearson has made significant impairments to goodwill across a variety of its businesses in recent years.	The Committee monitored the Group's plans and forecasts during the year to determine if there were impairment triggers and considered the results of the Group's annual goodwill impairment review including the revision to CGUs and the related reallocation of goodwill driven by organisation changes and systems consolidation. Key assumptions – including cash flows derived from strategic and operating plans that include longer-term plans for the OPM business, long-term growth rates and the weighted average cost of capital – were reviewed and challenged. The Committee considered the sensitivities to changes in assumptions and the adequacy of disclosures required by IAS 36 'Impairment of Assets' in relation to the Group's CGUs, noting that certain CGUs still remain sensitive to assumption changes after a number of impairments in recent years.	Revised CGUs confirmed and goodwill allocations agreed. Annual impairment review finalised with confirmation of sufficient headroom in each of the CGUs with the exception of Brazil, where a £65m impairment to acquired intangible assets was made to align the carrying values with the value in use.
→ Leases and IFRS 16		
Pearson adopted IFRS 16 in respect of its lease portfolio in 2019. The Group has a significant number of property leases and several other low-value vehicle and equipment leases. The implementation of the standard has resulted in the recognition of right-of-use assets and sublease investments and corresponding lease liabilities on the balance sheet for the first time.	The Committee continued to monitor progress on the IFRS 16 lease conversion process. This included review of the implementation of 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, strategic plans and the reporting of cash flow and net debt. In addition, the Committee reviewed the new policies and lease disclosures presented in the interim report and in this report.	The Committee reviewed the impact of adopting the new standard on the financial statements, key performance indicators, banking covenants and future strategy and approved the transition options taken, discount rates applied, and disclosures made.
→ Disposal transactions		
The Group finalised the sale of its US K12 Courseware business and announced the sale of its remaining stake in Penguin Random House.	The Committee reviewed the accounting for the disposal of the US K12 Courseware business with specific focus on the fair value of non-cash proceeds in the form of loans and an earn-out. The Committee also reviewed tax assumptions relating to the disposal transaction. The implications for the treatment of Penguin Random House as held for sale were noted.	The Committee determined that disposal accounting had been appropriately recorded and that the fair value of proceeds reflected its understanding of the disposal transaction and future expectations for cash flow. The Committee also agreed that the criteria for held for sale treatment in respect of the Penguin Random House interest had been met.

Issue	Action taken by Audit Committee	Outcome
Restructuring		
The restructuring programme announced in 2017 was in its final year of implementation in 2019. Costs incurred in 2019 were mainly related to redundancies and asset impairments. There are several accounting judgements to be made regarding categorisation and timing of cost recognition.	The Committee continued to review progress on the restructuring programme and considered the judgements required in accounting for the costs of redundancy and asset impairment, mainly in respect of the Group's North America operations and enabling functions. In particular, in 2019, the Committee reviewed the impact of restructuring on technology and content assets and the implications of initiatives to drive cost-efficiencies on strategic partnerships.	The Committee confirmed that the assumptions underlying the timing of cost recognition were reasonable and that the accounting and disclosure for the restructuring programme were appropriate.
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. The Committee were particularly interested to understand the impact of the new digital first strategy in North America on estimates associated with returns and stock obsolescence.	Assumptions underlying the returns reserve methodology were reviewed and challenged.
Tax		
The impact of tax legislation changes including US tax reform, EU state aid, proposed digital services tax, the trend for increased tax transparency, and provision levels.	The Committee considered various developments during the year, including the internal refinancing of the Group's US operations which completed in June, US tax reform, tax authority audit activity in Brazil and the EU state aid case. The outcome of the refinancing combined with provision releases reduced the 2019 adjusted tax rate. The 2019 adjusted tax rate is higher than the prior year due to several one-off benefits occurring in 2018. This was reported to the Committee at the December meeting. The Committee considered an update on Pearson's involvement endorsing the B-Team Responsible Tax Principles initiative. The Chair of the Committee approved the third report on tax strategy prior to its publication in November 2019.	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.

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 29 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 p74), and receives reports on the efficiency and effectiveness of internal controls. You can read more about Pearson's internal audit function on p77. 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.

The Board is ultimately accountable for effective risk management in Pearson and determines our strategic approach to risk. It confirms our organisational risk management framework as well as our risk appetite targets. Twice yearly it receives and reviews reports on the status of the top Group-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 Organisational Risk and Resilience 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 Pearson-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 organisational risk management section on p40 ➜

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.

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 Deputy Chief Financial Officer and Chief Financial Officer. Regular reports are prepared for the Audit Committee and the Board and an annual risk review meeting takes place between the Treasurer and Audit Committee. The Treasury Policy is described in more detail in note 19 to the financial statements on p165 ➔

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.

Tax

The Board has delegated responsibility for the integrity of financial reporting and risk management to the Audit Committee. This includes setting tax strategy and monitoring tax risk. The Tax Department reports at least annually to the Audit Committee. Regular updates are provided to the Deputy CFO and the CFO throughout the year.

Directors' remuneration report

Committee Chair
Elizabeth Corley

Members
Elizabeth Corley, Sherry Coutu,
Josh Lewis, Tim Score and
Sidney Taurel

Key messages from the Remuneration Committee

- 2019 incentive outcomes reflect the headwinds the company faced during the year, whilst recognising that Pearson is on track to deliver ahead of target for cost savings and is growing revenue in 76% of the company, whilst also becoming a leaner, more efficient and digitally-focused business. As a result, there will be no payout under the AIP for 2019 and a 33% payout under the 2017 LTIP vesting in 2020.
- We have reassessed our Remuneration Policy, following a fundamental review of remuneration principles to ensure it supports our purpose and strategy throughout the company.
- Changes have been made to align further the Remuneration Policy with the principles of remuneration, the 2018 UK Corporate Governance Code and shareholders' guidance.
- The Committee reviewed the remuneration implications of leadership changes to the Board and senior management, and the appointment terms of the new CFO.
- There will be no salary increases for incumbent Executive Directors in 2020.
- We have decided to maintain a significant discount to LTIP award levels in light of share price performance.
- The Committee remains focused on ensuring the remuneration arrangements in place for the broader employee population remain consistent with the need to attract the right talent for a digital future.

Terms of reference

The Committee's terms of reference are in line with the 2018 UK Corporate Governance Code and are available on the Governance page of the company's website at www.pearson.com/investors/governance. A summary of the Committee's responsibilities is shown on p96 ➜

Board Committee attendance

The following table shows attendance by Directors at Committee meetings throughout 2019:

	Remuneration
Elizabeth Corley	7/7
Sherry Coutu[1]	3/3
Josh Lewis	7/7
Tim Score	7/7
Sidney Taurel	7/7

[1] Sherry Coutu joined the committee on 1 July 2019 and has attended all Committee meetings since her appointment.

In this section

Dear shareholders,

Over the last year, the Committee has been undertaking a thorough review of its remuneration principles and Directors' Remuneration Policy to ensure that they enable us to achieve the company's purpose of helping people make progress in their lives through learning and support the execution of the goal of generating long-term sustainable value for our shareholders.

To deliver on Pearson's purpose and strategy we need a strong global management team. Pearson competes for talent and key skills in an increasingly 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. The Committee considers that our revised principles of remuneration and Policy achieve this aim.

Our remuneration principles are described on p97 ➜

Changes have been made to our Policy to reflect best practice

The Committee rigorously re-evaluated the current remuneration framework from first principles as part of our review of Policy. Having done so, we believe that the current remuneration framework of annual incentive plan (AIP) plus Long-term Incentive Plan (LTIP) continues to support the execution of Pearson's strategy. The Committee will, however, continue to keep its approach to remuneration arrangements under review to ensure that it remains effective as we transition the leadership team and as Pearson's strategy continues to evolve.

Notwithstanding that the broad framework remains the same, the Committee has made changes to some elements of its Remuneration Policy and its implementation to simplify the approach, to reflect the 2018 UK Corporate Governance Code and evolving best practice, and to align better with business objectives over the long-term.

Changes to Policy include:

- In order to align with shareholder expectations, the **AIP paid for 'on target' performance** will be no more than 50% of the maximum potential. This results in a **reduction in target AIP opportunity for the Chief Executive** from 100% of salary to 90% of salary with no change to the maximum opportunity.
- Under our Policy, the **maximum LTIP opportunity has been reduced to 350% of salary** (previously 400% of salary in normal circumstances, up to 500% of salary in exceptional circumstances), in order to simplify the approach and to bring it more closely in line with how we have been applying the policy over the last three years. The intention is that annual LTIP opportunity will remain below this level.
- Currently, the **LTIP holding period** is structured so that, following the three-year performance period, 75% of any vested shares are released with the net award subject to a mandatory sales restriction for a further two years. The vesting of the remaining 25% of the shares is subject to continued employment over the same period. In order to **simplify the approach and to align with market practice**, 100% of the LTIP award (for awards made from 2020 onwards) will be subject to a two-year holding period following the end of the three-year performance period (i.e. five years from award).

- From 2018, 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. This is in line with the maximum company contribution as a percentage of salary that UK employees are eligible to receive. This provision will be incorporated into our new Policy.
- In light of evolving shareholder expectations and market practice, we have **strengthened our existing post-employment shareholding guideline** (implemented in 2017) such that Executive Directors are expected to retain their current guideline (300% of salary for the Chief Executive and 200% of salary for the CFO) for two years following stepping down as an Executive Director.

Performance measures for 2020

The Committee is proposing some minor changes to performance measures for the AIP and LTIP.

The AIP will continue to be based on a mix of adjusted operating profit, sales, operating cash flow and strategic objectives. The weightings of operating profit and sales have been changed to 30% on each (previously 40% on operating profit and 20% on sales). This change is to reflect that Pearson is focusing on delivering value for shareholders through top-line growth as well as through operational efficiencies and to strengthen further alignment with this objective. The remaining 40% of AIP opportunity will be equally weighted on operating cash flow and strategic objectives which will be aligned with our corporate goals.

The LTIP will continue to be based on adjusted EPS, ROIC and relative TSR vs. FTSE 100 (measures equally weighted). We have previously communicated that the Committee believes net ROIC is a fairer assessment of management's performance in generating shareholder returns on the capital currently invested in the business, but that this metric would only be introduced after the company had tracked it for a number of years. Net ROIC has now been used as a key metric in Board reporting and reported as a KPI since Pearson's 2017 strategic report; therefore, going forward, we will measure net ROIC rather than gross ROIC for the purposes of the LTIP. The Committee's intention is to operate net ROIC such that any payouts reflect the underlying performance of the new management team by measuring return on capital excluding existing impairments on legacy acquisitions only. If the management team impairs an asset within the performance period, the final calculation of the outcome under the LTIP will be adjusted to ensure it does not benefit the outcome.

Leadership changes

On 18 December 2019, we announced that our Chief Executive, John Fallon, will retire in 2020 once a successor has been appointed. John Fallon will remain eligible to participate in the AIP for 2020 on a pro-rata basis. He will not receive an LTIP award in respect of 2020 and his salary will remain at £817,400 per annum. His benefits also remain unchanged.

The Committee reviewed the approach to the Chief Executive's pension in light of shareholder views and best practice, and agreed with him that his pension allowance would be reduced on a phased basis over the next three years to bring it into line with the UK workforce at 16% of salary. Notwithstanding his planned retirement, John Fallon's cash pension allowance has been reduced by 3 percentage points to 23% of salary as the first step on this planned phased reduction.

On 16 January 2020, we announced that Coram Williams will be leaving the company and Sally Johnson, currently Deputy CFO, will succeed him as CFO. It has since been confirmed that Coram Williams will step down at the AGM on 24 April 2020 and Sally Johnson will be appointed as CFO and as an Executive Director on this date.

Coram Williams will not be eligible for AIP and LTIP in respect of 2020 and he will forfeit any unvested LTIP awards on departure. His salary will continue at £539,500 per annum until he steps down. His pension and other benefits remain unchanged. He will receive no payment in relation to loss of office.

Sally Johnson's salary will be £515,000 per annum. Her maximum AIP opportunity will be 170% of salary and her LTIP award will have a face value of 245% of salary (which is the same award opportunity as for Coram Williams in 2017, 2018 and 2019), reflecting the previous discounts to LTIP awards in light of share price performance.

The Committee believes that a further reduction in the CFO-elect's award level is not appropriate, beyond the discount already applied. This discount was set at a time when the share price was comparable to the current share price and the Committee considers that alignment between management and shareholders would be better supported by maintaining her level of grant at 245% of salary in 2020.

Sally Johnson is a member of the Pearson Pension Plan and will continue to accrue pension at a rate of 1/60th of pensionable salary per annum, restricted to the plan earnings cap, in line with other participants in the Plan.

Incentive outcomes for 2019 reflect a challenging year

Pearson as a whole was able to match prior year underlying sales for the first time since 2014 because the broader 76% of Pearson grew by 4% in aggregate, demonstrating that Pearson is starting to see the returns from the strategy of investment in growth businesses and the evolution towards a simpler, more sustainable business. This progress was, however, offset by an underlying decline in the US Higher Education Courseware business where sales from print textbooks reduced more rapidly than anticipated. Pearson delivered Group adjusted operating profit of £581m, an increase of 6% on 2018.

Despite strong progress against strategic objectives, financial performance did not meet the threshold required to result in a payment under the AIP and therefore there will be no bonus payment for the Executive Directors in respect of 2019. The Committee carefully considered the impact of no payout on talent and retention across the company, and agreed with management that to have no payout at all would not be a fair reflection of the progress that was made across the company. As such, the Committee approved discretionary funding for employees, excluding the Executive Directors.

LTIP awards granted in 2017 were based on adjusted EPS, gross ROIC and relative TSR performance. Adjusted EPS for 2019 was 57.8p which was between threshold and target, resulting in 39% of this portion of the award vesting. ROIC for 2019 was 5.2% which is again between threshold and target, resulting in 57% of this portion of the award vesting. TSR performance is below median and therefore no portion of this award vested. Overall, therefore, performance resulted in 32.7% of the 2017 LTIP award vesting.

Directors' remuneration report

The Committee very carefully considered the vesting outcome in the context of the shareholder experience, the progress made against the delivery of our strategic initiatives and sustainable efficiency measures, as well as achievements in innovation, people, culture and sustainability agendas. Despite the challenges the company has faced over the last year in US Higher Education Courseware, the Committee concluded that the vesting outcome was a fair reflection of the performance the company has achieved over the last three years and the progress against the strategic objectives and therefore it was not necessary to exercise discretion to adjust the vesting outcome. In doing so, we also considered that the LTIP targets were set with considerable stretch after extensive shareholder consultation.

The Committee consulted with shareholders regarding the changes to Policy and its implementation for 2020; the final proposals reflect feedback from shareholders. Continuing conversations with shareholders have been invaluable and we thank shareholders for the time they have spent with us in shaping our approach. I look forward to receiving your support at the AGM in relation to our Directors' Remuneration Policy and our remuneration report.

Elizabeth Corley
Chair of Remuneration Committee

6 March 2020

Remuneration framework

Remuneration Policy development and alignment to remuneration principles and company strategy

Our remuneration principles and Directors' Remuneration Policy have been developed to support our purpose and strategy throughout the company.

The Committee's review of our remuneration philosophy and Directors' Remuneration Policy focused on ensuring that the company was equipped to achieve its purpose of helping people make progress in their lives through learning, and supports the execution of the goal of generating long-term sustainable value for shareholders. Throughout the process, we had due regard for the 2018 Corporate Governance Code, wider workforce remuneration and emerging best practice in relation to Executive Director remuneration.

- Pearson developed a company-wide set of remuneration principles to govern how people are rewarded. The principles have been developed to ensure alignment to company culture, and the ability to attract and reward the right talent to enable the company's digital future, whilst recognising that remuneration is one part of the broader employee value proposition at Pearson. These principles were used to shape the development of our 2020 Executive Directors' Remuneration Policy.
- The Committee has taken steps to simplify our Policy and its implementation to ensure that it is clearly aligned to company strategy, including re-weighting measures in the AIP, aligning on target opportunities and consolidating maximum LTIP opportunity.
- In addition, the committee has reviewed quantum under incentive plans and reduced the Chief Executive target AIP opportunity to 90% of salary and the maximum LTIP award limit to 350% of salary – removing the exceptional maximum limit.
- Our remuneration framework and outcomes are designed to be aligned with performance achieved:
  - Performance measures selected for the AIP and LTIP are key to achieving strategic objectives. This year, we have made some changes to performance measures to ensure they continue to incentivise the right management behaviours and goals.
  - We carry out a robust target-setting process each year, taking into account Pearson's strategic plan, as well as analyst expectations to reflect market expectations, resulting in stretching yet achievable targets for the AIP and LTIP.
  - Maximum awards under the AIP and LTIP are capped and the maximums are disclosed in our Policy.
  - When determining payouts under each plan, the Committee discusses if the outcome is reflective of overall company performance and shareholder experience over the period and, if not, has discretion to alter plan outcomes up or down.
- The Committee is mindful of reputational and other risks when determining Remuneration Policy and outcomes for Executive Directors and senior management. The company also has safeguards in place, such as clawback and malus and a two-year holding period on the LTIP, as well as robust shareholding guidelines including post-employment which have been further strengthened this year.
- Before signing off the remuneration report and Remuneration Policy, the Committee reviewed drafts of the report and provided input to clarify our disclosure. We also undertook consultation with our top 20 shareholders, who represent 74% of our share capital, giving early sight to our Policy changes and to inform our final conclusions.

In 2019, Pearson developed remuneration principles that govern the whole organisation. We have evolved our Remuneration Policy to match the following updated remuneration principles, which are described on p97 ➔

- Aligned to longer-term strategy
- Pay for performance
- Market competitive
- Targeted differentiation
- Tailored
- Remuneration is one part of the employee value proposition at Pearson

Summary of key Policy changes for 2020

A summary of the material changes to be introduced in the 2020 Policy is provided below, more detail can be found in the notes to the Policy table on p102. The full future policy table is on p98–101 ➔

Element	Overview of changes	Description
Annual incentive plan AIP	› Target AIP will be no more than 50% of maximum	In order to align with shareholder expectations, the AIP paid for 'on target' performance will be no more than 50% of the maximum potential. This results in a reduction in target AIP opportunity for the Chief Executive from 100% of salary to 90% of salary, with no change to the maximum opportunity.
Long-term incentive plan LTIP	› Reduction in exceptional maximum for LTIP awards	Under current policy, LTIP awards of up to 400% of salary may be made in normal circumstances, with awards of up to 500% of salary in exceptional circumstances. In order to simplify the approach and to bring it more closely in line with how we have been applying the policy over the last three years, the award level limit under the LTIP will be reduced to be up to a maximum of 350% of base salary.
	› Simplification of the structure of the LTIP holding period	Currently, the LTIP holding period is structured so that, following the three-year performance period, 75% of any vested shares are released but subject to a mandatory sales restriction (other than shares used to settle tax) for a further two years. The vesting of the remaining 25% of the shares is subject to continued employment over the same period. In order to simplify the approach and to align with market practice, 100% of the LTIP award (for 2020 onwards) will be subject to a two-year holding period following the end of the three-year performance period (i.e. five years from award). During this period the awards will not be forfeitable for cessation of employment other than via clawback, e.g. in the case of gross misconduct.
Retirement benefits R	› Pension alignment with wider employee population over the life of the policy	From 2018, 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, in line with the maximum company contribution as a percentage of salary that UK employees who are over 45 are eligible to receive. Where an individual appointed to the Board is already a member of the Pearson Pension Plan (our defined benefit plan) then they will continue to be eligible to participate in the Plan on a consistent basis with other employees in the Plan. In October 2017, the Chief Executive 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 continued to receive a taxable cash supplement of 26% of base salary, in lieu of the previous FURBS arrangement. The Committee reviewed the approach to the Chief Executive's pension in light of shareholder views and best practice and agreed with the Chief Executive that his pension allowance would be reduced on a phased basis over the next three years to bring it in line with the UK workforce of 16% of salary. Notwithstanding his planned retirement, John Fallon's cash pension allowance has been reduced by 3% to 23% of salary as the first step on this planned phased reduction.
Shareholding guidelines SG	› Strengthening post-employment shareholding guidelines	Pearson was one of the first companies to introduce a post-retirement shareholding guideline as part of the review undertaken in 2017, such that Executive Directors are required to retain half of their shareholding guideline for a period of two years post-retirement. In light of evolving shareholder expectations and market practice in this area, we have strengthened the post-employment shareholding guideline in place so that Executive Directors are required to retain their current guideline (300% of salary for the Chief Executive and 200% of salary for the CFO) for a period of two years following stepping down as an Executive Director.

2019 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 £3.825m in 2019. These emoluments are included within the total employee benefit expense in note 5 to the financial statements (p146)

Executive Directors

The remuneration received by Executive Directors in respect of the financial years ended 31 December 2019 and 31 December 2018 is set out below.

Executive Director 'single figure' remuneration

Element of remuneration £000s	John Fallon		Coram Williams	
	2019	2018	**2019**	2018
B Base salary	**813**	795	**537**	525
A&B Allowances and benefits	**30**	43	**8**	14
R Retirement benefits	**211**	206	**62**	54
Total fixed pay	**1,054**	1,044	**607**	593
AIP Annual incentives	**–**	644	**–**	401
LTIP Long-term incentives	**803**	1,406	**–**	815
Total variable pay	**803**	2,050	**–**	1,216
Total remuneration	**1,857**	3,094	**607**	1,809

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 2019:

£000s	John Fallon	Coram Williams
Travel	28	5
Health	2	3

Travel benefits comprise car allowance, shared use of a company car and driver for business purposes, 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 and/or are available to all other employees in the same location.

R Retirement benefits

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

AIP Annual incentives

The 2019 AIP for the Executive Directors was based on a mix of financial (80% weighting) and strategic measures (20% weighting). The 2019 award resulted in a nil payout for both the Chief Executive and CFO. For more detail on performance metrics and performance against targets in 2019, see overleaf.

LTIP Long-term incentives

The single figure of remuneration for 2019 includes the vesting of the 2017 LTIP award, which was subject to performance conditions assessed to 31 December 2019. For more detail on performance metrics and performance against targets, see p90. The values of vested 2017 LTIP awards included in the figures for total remuneration have been calculated using a three-month average share price to year end of 671.0p and do not reflect any dividends accrued on those shares.

The share price on the date of grant of 11 September 2017 was 586.0p. The share price used to value the LTIP for single figure purpose of 671.0p represents an increase of 85p per share. The proportion of the 2017 LTIP value disclosed in the single figure attributable to share price growth for the Chief Executive was therefore £101,730. The Remuneration Committee did not exercise discretion in respect of the share price appreciation. Coram Williams will leave the company at the AGM, before the 2017 LTIP vests, and therefore his award will lapse in full.

The single figure of remuneration for 2018 includes the vesting of the 2016 LTIP award. The value of the award has been updated to reflect the dividends accrued and the share price on the date of vest (3 May 2019) of 813.7p.

The value of the 2016 award previously disclosed in the 2018 remuneration report was estimated to be £1,454,000 for the Chief Executive and £843,000 for the CFO, based on a three-month average share price of 904.0p and did not reflect any dividends accrued on those shares.

The 2016 LTIP awards which vested on 3 May 2019 were granted on 3 May 2016 when the share price was 805.0p. Between the date of grant and the vesting date, the share price had increased to 813.7p which equated to an increase in value of each vesting share of 8.7p. The proportion of the 2016 LTIP value disclosed in the single figure attributable to share price growth was therefore £13,995 for the Chief Executive and £8,112 for the CFO. The Remuneration Committee did not exercise discretion in respect of the share price appreciation.

AIP Executive Directors' annual incentive payments for 2019*

The following table summarises the performance targets and performance against these targets for the 2019 award which resulted in a nil payout for both the Chief Executive and CFO.

Overall outcome

		Performance range				Payout
Performance measure	**% of total**	**Threshold**	**Target**	**Max**	**Actual results**	**% of max bonus opportunity**
Adjusted operating profit	40%	£588m	£612m	£671m	**£581m**	0%
Sales	20%	£3,902m	£3,976m	£4,050m	**£3,869m**	0%
Operating cash flow	20%	£401m	£434m	£492m	**£307m**	0%
Strategic measures	20%		See below			0%
	100%					**0%**

Note 1: Operating cash flow is measured post-restructuring. Operating cash flow pre-restructuring is £418m.

Note 2: See below for performance against strategic measures.

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

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	5%	62.5% (+0.5% on 2018 result)	63% (+1% on 2018 result)	64.0% (+2% on 2018 result)	Digital and digitally-enabled sales increased to 66.3% of total revenues in 2019 vs 62% in 2018.
	Digital platforms – delivery of key 2019 milestones related to AI app and Revel pilots	5%	Critical milestones on track	Critical milestones and key deliverables on track	All milestones and deliverables on track	Aida app and Revel both launched and available for commercial use. Progress made against other milestones has resulted in an accelerated innovative product roadmap, which will drive cumulative incremental value at a lower cost than the original plan over future years.
Growing market opportunities	Invest in growing market opportunities – total revenue growth	5%	+5% revenue growth	+7.5% revenue growth	+10% revenue growth	Our growth businesses – Pearson VUE, Virtual Schools, OPM and PTE Academic – grew by 8% in revenue. These growth businesses will continue to grow in 2020, as we invest in new forms of online education, in better, smarter, online assessments, in new AI-inspired direct-to learner apps, and in shifting Pearson's focus to link education and employability with the workplace.
Becoming simpler, more efficient and sustainable	The Enabling Programme (TEP) – linked to key deliverables/milestones including (successful) deployment of Wave 3 Release, progress on RoW and Red Amber Green (RAG) status of value realisation plan	5%	Critical milestones on track	Critical milestones and key deliverables on track	All milestones and deliverables on track	Good progress was made against the business value realisation plan but further work is still needed to sustain fixes and overcome more complicated issues. Wave 3 was deployed successfully.

Due to significant progress against strategic goals in 2019, an above target result was achieved under these measures. However, as the financial underpin was not met therefore there will not be a payout under the strategic measures for 2019.

2019 remuneration report

Executive Directors' Long-Term Incentive Plan award vesting for 2019*

In September 2017, the Executive Directors were made awards under the LTIP which vest in May 2020 based on performance the business delivered over the three-year period from 2017 to 2019.

The target ranges were set following extensive consultation with our major shareholders in 2017, and took into account internal and external expectations of performance when the awards were made.

The level of awards granted to Executive Directors in 2017 was reduced by approximately 30% to 275% of salary for the Chief Executive and 245% of salary for the CFO to reflect the decline in share price at the time. The level of payout at threshold performance was also reduced under the adjusted EPS and ROIC measures.

The overall outcome based on performance achieved against targets is 32.7% of the maximum awards. However, Coram Williams will leave the company at the AGM, before the 2017 LTIP vests, and therefore his award will lapse in full.

The targets and performance against these targets are as follows:

		Performance range							Vesting	
Performance measure	**% of total**	**Threshold**	**Target**	**Maximum**	**Payout at threshold**	**Payout at target**	**Payout at maximum**	**Actual**	**% achievement**	**% of total award**
Adjusted EPS	40%	55p	62p	75p	15%	75%	100%	57.8p	39%	15.6%
ROIC	30%	4.5%	5.5%	7.5%	15%	75%	100%	5.2%	57%	17.1%
Relative TSR	30%	Median	N/A	Upper quartile	25%	N/A	100%	72 out of 95	0%	0%
	100%								**Total**	**32.7%**

Relative TSR was measured against the constituents of the FTSE 100 at the start of the performance period.

The Committee very carefully considered the vesting outcome in the context of financial performance, the shareholder experience, progress against the delivery of strategic initiatives including the business transformation and sustainable cost reduction delivered by the simplification programme, as well as reviews of talent, diversity, culture, customer experience and sustainability agendas. The Committee considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. Notwithstanding the challenges the company has faced over the last year in the US Higher Education Courseware business, the Committee concluded that the vesting outcome was a fair reflection of the progress the company has made over the last three financial years. No discretion was therefore exercised to adjust the vesting outcome.

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2019 and that the pay outcomes are aligned with the experience of shareholders and other stakeholders over the relevant performance period.

LTIP Long-term incentives awarded in 2019*

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)[1]**	**Performance Period**
John Fallon	**1 May 2019**	**1 May 2022**	**271,000**	**£2,249,842**	**275%**	**18.3%**	**1 Jan 19–31 Dec 21**
Coram Williams[2]	**1 May 2019**	**1 May 2022**	**159,000**	**£1,320,018**	**245%**	**18.3%**	**1 Jan 19–31 Dec 21**

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

2 Coram Williams will leave the company at the AGM therefore his award will lapse in full.

Face value was determined using a share price of 830.2p (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 2024.

Details of the performance targets for the 2019 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 FY21**	**Vesting schedule (% max)**	**Adjusted ROIC for FY21**	**Vesting schedule (% max)**	**Ranked position vs FTSE 100**
15%	65p	15%	5%	25%	Median
65%	70p	65%	6%	–	–
100%	80p or above	100%	9% or above	100%	Upper quartile

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

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

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

The details of 2017 and 2018 LTIP awards and their performance conditions under the Long-Term Incentive Plan (LTIP) are 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 target	Payout at maximum
8 May 2018	893.6p	1 May 2021	Adjusted EPS	One-third	FY 2020	15% for EPS 65p	65% for EPS of 68p	100% for EPS 80p
			ROIC	One-third	FY 2020	15% for ROIC of 5%	65% for ROIC of 6%	100% for ROIC of 8%
			Relative TSR	One-third	1 Jan 2018 to 31 Dec 2020	25% at median	–	100% at upper quartile
11 September 2017	586.0p	1 May 2020	Adjusted EPS	40%	FY 2019	15% for EPS 55p	75% for EPS of 62p	100% for EPS 75p
			ROIC	30%	FY 2019	15% for ROIC of 4.5%	75% for ROIC of 5.5%	100% for ROIC of 7.5%
			Relative TSR	30%	1 Jan 2017 to 31 Dec 2019	25% at median	–	100% at upper quartile

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 2019 £000s	Accrued pension at 31 Dec 19 £000s
John Fallon	–	211	211	106
Coram Williams	62	–	62	40

Note 1: The accrued pension at 31 December 2019 is the deferred annual pension to which the member would be entitled on ceasing pensionable service on 31 December 2019. 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.

Plans

John Fallon – The Pearson Pension Plan

John Fallon 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 2019/20 earnings cap of £166,200, 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 2019, John Fallon received the pension supplement of 26% of salary. There are no enhanced early retirement benefits.

The Committee reviewed the approach to the Chief Executive’s pension in light of shareholder views and best practice, and agreed with John Fallon that his pension allowance would be reduced on a phased basis over the next three years to bring it in line with the UK workforce at 16% of salary. Notwithstanding his planned retirement, John Fallon’s cash pension allowance has been reduced by 3 percentage points to 23% of salary as the first step on this planned phased reduction.

Coram Williams – The Pearson Pension Plan

Accrual rate of 1/60th of pensionable salary per annum, restricted to the Plan earnings cap (£166,200 per annum in 2019/20), with continuous service with a service gap. There are no enhanced early retirement benefits.

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 Chief Financial Officer. 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 re-tested, other than when shares are sold.

In light of evolving shareholder expectations and market practice, we have strengthened our existing post-employment shareholding guideline (implemented in 2017) such that Executive Directors are expected to retain their current guideline (300% of salary for the CEO and 200% of salary for the CFO) for two years following stepping down as an Executive Director. This guideline does not apply to shares purchased by the Director.

The shareholding guidelines do not apply to the Chair and Non-Executive Directors. However, a minimum of 25% of the Non-Executive Directors' basic 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 19	Conditional shares subject to performance at 31 Dec 19	Conditional shares subject to employment only at 31 Dec 19	Total number of ordinary and conditional shares at 31 Dec 19	Guideline (% salary)	Guideline met?
Chair						
Sidney Taurel	103,224	–	–	–	–	–
Executive Directors						
John Fallon	397,313	883,000	40,215	1,320,528	300%	Yes (see note 8)
Coram Williams	56,108	519,000	23,310	598,418	200%	n/a (see note 6)
Non-Executive Directors						
Elizabeth Corley	22,028	–	–	–	–	–
Sherry Coutu	3,175	–	–	–	–	–
Vivienne Cox	7,430	–	–	–	–	–
Josh Lewis	14,200	–	–	–	–	–
Linda Lorimer	11,040	–	–	–	–	–
Michael Lynton	8,535	–	–	–	–	–
Graeme Pitkethly	785	–	–	–	–	–
Tim Score	37,893	–	–	–	–	–
Lincoln Wallen	8,607	–	–	–	–	–

Note 1: The current value of the Executive Directors' shareholdings is based on the closing market value of Pearson shares of 582.0p on 25 February 2020 against base salaries at 31 December 2019.

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 subject to performance means unvested shares which remain subject to performance conditions and continuing employment for a pre-defined period. This includes the LTIP awards granted in 2017, 2018 and 2019; details of the performance period, measures and targets can be found on p90 and p91 ➔

Note 4: The performance targets for the 2017 award were partially met and therefore 32.7% of this award will vest on 1 May 2020 and the remaining portion will lapse for John Fallon. Vested shares will be subject to an additional two-year holding period to 2 May 2022. Coram Williams will leave the company at the AGM, before the 2017 LTIP vests, and therefore his award will lapse in full.

Note 5: Conditional shares subject to employment only means unvested shares which are subject to a holding period and continued employment. The shares shown are in relation to the 2016 LTIP and will be released in May 2021.

Note 6: Coram Williams has five years from the date of his appointment as an Executive Director on 1 August 2015 to reach the shareholding guideline. Coram Williams is due to step down from the Board at the AGM on 24 April 2020.

Note 7: There have been no changes in the interests of any Director between 31 December 2019 and 26 February 2020, being the latest practicable date prior to the publication of this report.

Note 8: John Fallon has met the shareholding guideline. However, as a result of the decrease in share price, the current value of his shareholding is less than 300% of salary. He has not sold any shares during 2019 and the number of ordinary shares held has increased from 326,784 at 31 December 2018.

Chair and Non-Executive Director remuneration*

The remuneration paid to the Chair and Non-Executive Directors in respect of the financial years ended 31 December 2019 and 31 December 2018 are as follows:

Director £000s	2019			2018		
	Total fees	Taxable benefits	Total	Total fees	Taxable benefits	Total
Sidney Taurel	**500**	**8**	**508**	500	11	511
Elizabeth Corley	**115**	**–**	**115**	115	–	115
Sherry Coutu	**56**	**–**	**56**	–	–	–
Vivienne Cox	**128**	**1**	**129**	128	3	131
Josh Lewis	**88**	**2**	**90**	88	4	92
Linda Lorimer	**98**	**4**	**102**	98	4	102
Michael Lynton	**91**	**–**	**91**	69	–	69
Harish Manwani	**–**	**1**	**1**	29	1	30
Graeme Pitkethly	**57**	**–**	**57**	–	–	–
Tim Score	**116**	**1**	**117**	116	–	116
Lincoln Wallen	**91**	**4**	**95**	91	5	96
Total	**1,340**	**21**	**1,361**	1,234	28	1,262

Note 1: A minimum of 25% of the Chair'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.

Note 3: Sherry Coutu and Graeme Pitkethly joined the Pearson Board as Non-Executive Directors with effect from 1 May 2019. 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 and his taxable benefits disclosed above relate to the UK tax year 2018/19.

Payments to former Directors*

There were no payments to former Directors in 2019.

Payments for loss of office*

There were no payments for loss of office made to or agreed for Directors in 2019.

The CFO will not receive any payments for loss of office in 2020. Departure arrangements for the Chief Executive have not yet been agreed.

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 AGM. 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. The Chair's appointment may be terminated on 12 months' notice.

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 2019 in respect of this role. In accordance with our policy, he is permitted to retain these fees.

2019 remuneration report

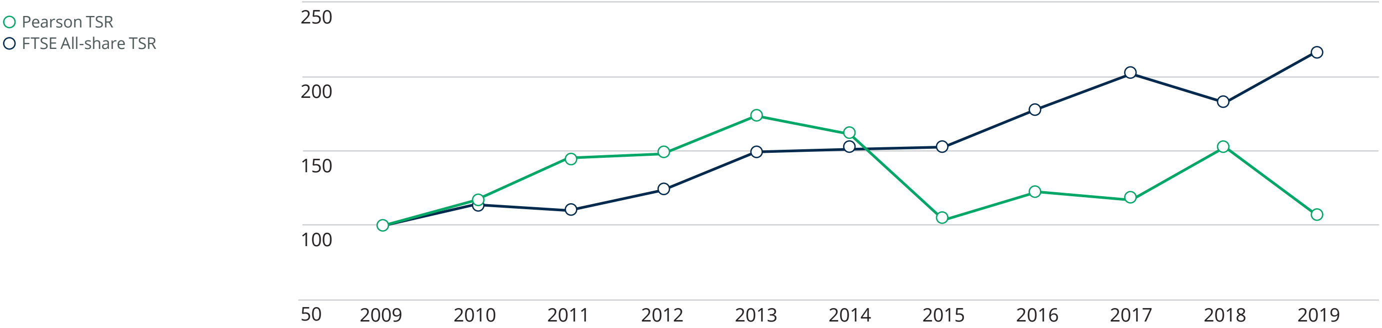
Historical performance and remuneration

Total shareholder return performance

Below, we set out 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 2010 to 31 December 2019. 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 Chief Executive over the last ten years and a summary of the variable pay outcomes relative to the prevailing maximum at the time.

Total shareholder return £



Source: Thomson Reuters Datastream

Chief Executive remuneration	Marjorie Scardino			John Fallon						
Total remuneration (single figure, £000s)	8,466	8,340	5,330	1,727	1,895	1,263	1,518	1,758	3,094	**1,857**
Annual incentive (% of maximum)	92%	76%	24%	34%	51%	Nil	24%	44%	45%	**Nil**
Long-term incentive (% of maximum)	98%	68%	37%	Nil	Nil	Nil	Nil	Nil	42%	**33%**

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 share awards 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 Chief Executive

The following table sets out the change between 2018 and 2019 in three elements of remuneration for the Chief Executive, in comparison with the average for all employees. While the Committee reviews base pay for the Chief Executive 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, annual allowances and benefits have decreased due to a reduction in the number of employees in higher cost locations. The change in Chief Executive base salary is in line with the country budget increase for the UK in 2019 which other UK-based employees were also eligible to receive. Annual incentives for employees have not reduced as much as for the Chief Executive as the all employee AIP was partially funded. The Chief Executive did not receive a payout under the AIP in relation to 2019.

Change in Chief Executive remuneration 2018/19

Base salary	Allowances and benefits	Annual incentives
↑ 2%	↓ 30%	↓ 100%

Change in employee remuneration 2018/19

Base salary	Allowances and benefits	Annual incentives
↓ 1%	↓ 14%	↓ 46%

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. 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.

			Headline change	
All figures in £ millions	2019	2018	£m	%
Adjusted operating profit	**581**	546	35	**6%**
Dividends	**147**	136	11	**8%**
Total wages and salaries	**1,258**	1,421	-163	**-11%**

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

Note 2: Wages and salaries include continuing operations only and include Directors. Average employee numbers for continuing operations for 2019 were 22,734 (2018: 24,322). Further details are set out in note 5 to the financial statements on p146 ➔

Note 3: Total wages and salaries would be -14% at constant exchange rates.

Chief Executive to employee pay ratio

The table below shows the ratio of Chief Executive to employee pay for 2019, using the single total figure remuneration as disclosed on p88 compared to the full-time equivalent total reward of employees whose pay is ranked at the 25th, 50th and 75th percentiles (as identified by the gender pay gap methodology) in the GB workforce.

	Chief Executive pay ratio		
Method	25th percentile	50th percentile	75th percentile
B: Gender pay gap methodology	65.9	47.2	36.0

- The gender pay gap data from April 2019 was used to identify employees at the 25th, 50th and 75th percentiles. Data was analysed for a number of employees around each quartile figure to ensure that there were no anomalies.
- The gender pay gap methodology to select the quartile employees is a good representation of the employee population at year end, and is the most practicable given the timing of the disclosure and final AIP outcome decisions for the wider workforce.
- Base salary and pension are based on full year figures taken from payroll. Benefits have been taken from P11D in line with the methodology used for the Executive Directors. Annual bonus figures are based on the manager recommendations as at 25 February 2020 relating to 2019. None of the employees at the 25th, 50th or 75th percentiles had share awards vesting in 2019.
- Total remuneration for each employee has been compared to the Chief Executive's single figure as shown on p88. Total remuneration figures for the 25th, 50th and 75th percentile employees are as follows: £28,164, £39,375, £51,575. Base salaries are as follows: £26,000, £34,320, £43,763.
- The company considers the median pay ratio consistent with the company's wider policies on employee pay, reward and progression.

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	2019
All Pearson plans	**6.8%**
Executive or discretionary plans	**5.0%**
Shares held in trust	**4.6%**

The Remuneration Committee in 2019

Role	Name	Title
Chair	Elizabeth Corley	Independent Non-Executive Directors
	Sherry Coutu	
	Josh Lewis	
	Tim Score	
	Sidney Taurel	Chair 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 (to April 2019)
	Paul Christian	VP-Executive Reward
	Stephen Jones	Company Secretary
External advisers	Deloitte LLP	

Sidney Taurel was a member of the Committee throughout 2019 as permitted under the UK Corporate Governance Code.

Advisers to the Remuneration Committee

During 2019, 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 £95,900. 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 or its Directors that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

2019 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 Pearson's Executive management (who report directly to the Chief Executive). 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.

→ Set termination arrangements

- Advise and decide on general and specific remuneration arrangements in connection with the termination of employment of Executive management.

→ Determine Chair's remuneration

- Delegated responsibility for determining the remuneration and benefits package of the Chair 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

- Appoint and set the terms of engagement for any remuneration review updates from management on talent, retention and gender pay gap.

Remuneration Committee meeting focus during 2019

During the year the Committee undertook the following activities:

- Reviewed remuneration philosophy for the company and how this will apply to Executive Directors and senior management.
- Developed the Remuneration Policy for 2020, taking into account Pearson's strategy, Remuneration Principles, wider workforce remuneration, emerging best practice and corporate governance developments.
- Reviewed shareholder and shareholder representative body feedback on remuneration, shareholder voting at Pearson's 2019 AGM and considered shareholder engagement strategy. Received input from investor relations on market expectations.
- Received updates on financial performance of the business and progress against strategic measures. Noted and reviewed the status of in-flight incentives.
- Reviewed and approved 2018 annual and long-term performance and payouts for Executive Directors and senior management.
- Reviewed and approved implementation of Remuneration Policy for 2020 for Executive Directors and senior management, including annual salary increases, incentive opportunities, performance targets and strategic measures.
- Noted updates on corporate governance, including a review of the 2019 AGM remuneration reporting season.
- Noted the activity of the Standing Committee of the Board in relation to the operation of the company's equity-based reward programmes and noted the company's use of equity for employee share plans.

Committee evaluation

Annually, the Committee reviews 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 review of its performance and effectiveness in October 2019, looking at areas such as the use of time, the opportunity for discussion and debate, dialogue with management and shareholders, and access to independent advice. The Committee concluded that remuneration continues to be a sensitive and high-profile area but that the support provided and the calibre of the papers were good. That said, given the pace and the scale of strategic developments at Pearson, the Committee remains vigilant in assessing the extent to which its activities support and enable progress in the company.

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 (2019 AGM)	97.9% (617,786,062)	2.1% (13,041,115)	104,839
2017 Remuneration Policy vote (2017 AGM)	68.8% (404,615,934)	31.2% (183,100,737)	43,738,267

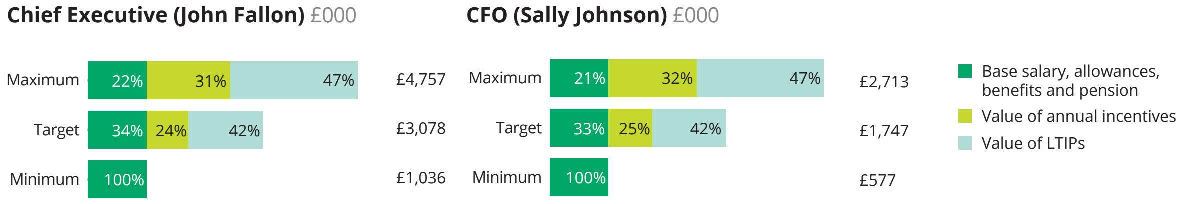
2020 remuneration policy

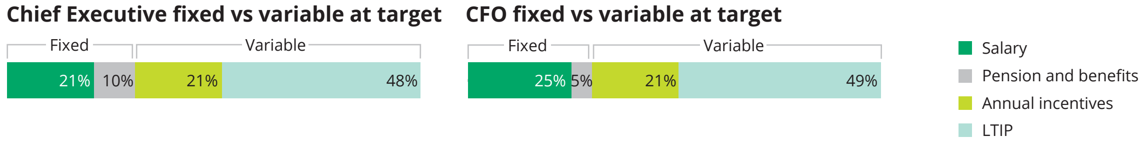
The Remuneration Committee presents the 2020 Directors' Remuneration Policy (2020 Policy), which will be put to shareholders for binding vote at the AGM to be held on 24 April 2020. Subject to shareholder approval, the effective date of this Policy will be 24 April 2020. However, it is proposed, subject to approval at the AGM, that changes to Executive Director incentives be made effective from the start of the 2020 performance periods. The intention of the Committee is that the Policy will remain in place for three years from the date of its approval.

In 2019, Pearson reviewed its remuneration philosophy and developed a set of remuneration principles that govern the whole organisation. We have evolved our Remuneration Policy to align with these updated remuneration principles:

1 **Aligned to longer-term strategy**	**2** **Pay for performance**	**3** **Market competitive**	**4** **Targeted differentiation**	**5** **Tailored**	**6** **One part of the employee value proposition**
Reward will be linked to achieving Pearson's longer-term strategy, growth and sustainability	Remuneration framework and outcomes are aligned with performance	Pay levels will be market competitive, based on role, grade and contribution to ensure individuals are fairly rewarded in line with the market	There will be targeted differentiation of reward across our employees linked to talent and performance management	The approach to reward may be tailored in certain circumstances to address a specific market/business need but will be designed in a way which is consistent with our underlying reward philosophy	Remuneration is one part of our broader employee value proposition and not the only reason to work for Pearson

Pay and performance scenario analysis





Performance scenario	Elements of remuneration and assumptions
Maximum	› Fixed pay › Maximum individual annual incentive (180% of salary for Chief Executive and 170% of salary for CFO) › Maximum value of 2020 long-term incentive award (275% for Chief Executive and 245% for CFO) with no share price growth assumed
Target	› Fixed pay › 50% of the maximum individual annual incentive › 50% of the maximum value of 2020 long-term incentive award (no share price growth assumed)
Minimum	› Fixed pay only

Consistent with its Policy, the Committee places considerable emphasis on the performance-linked elements, i.e. annual and long-term incentives. The charts above show what each Director could expect to receive in 2020 under different performance scenarios, based on the definitions of performance opposite. On this basis, the relative weighting of fixed and performance-related remuneration and the absolute size of the remuneration packages for the Chief Executive and the Chief Financial Officer are shown above. We will continue to review the mix of fixed and performance-linked remuneration on an annual basis, consistent with our overall Policy.

Note 1: Fixed pay includes 2020 base salary (Chief Executive £817,400, CFO £515,000); allowances and benefits and retirement benefits for Sally Johnson have been included based on the same percentage of base salary as Coram Williams in 2019. Retirement benefits for John Fallon are included at 23% of his base salary.

Note 2: The value of long-term incentives does not take into account dividend awards that are payable on the release of LTIP shares or share price growth.

Note 3: The maximum opportunity scenario plus 50% share price growth would result in overall opportunity of £5,882,000 for the Chief Executive and £3,348,000 for the CFO.

Note 4: Coram Williams will step down as CFO at the AGM in 2020. Until this time, he will be paid his base salary and benefits.

2020 remuneration policy

Policy table for Executive Directors

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different strategic objectives. Remuneration is normally reviewed annually in the context of business performance and conditions prevailing, taking into account pay levels for similar positions in comparable companies as well as internal ratios.

B Base salary

Purpose and link to strategy

- Helps to recruit, reward and retain.
- Reflects level, role, skills, experience, the competitive market and individual contribution.

Operation

Base salaries are set to provide the appropriate rate of remuneration for the job, taking into account relevant recruitment markets, business sectors and geographic regions.

Base salaries are normally reviewed annually taking into account: general economic and market conditions; 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 in both the UK, US and internationally; and individual performance.

Opportunity

While there is no maximum salary level or maximum increase that may be offered, salary increases will normally be in line with typical increases awarded to other employees in the Group.

However, increases may be above this level in certain circumstances such as:

- Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience.
- Where an Executive Director has been promoted or has had a change in responsibilities.
- Where there has been a significant change in market practice or where there has been a significant change in the size and/or scope of the business.

Performance conditions and period

None, although performance of both the company and the individual are taken into account when determining an appropriate level of base salary increase each year.

A&B Allowances and benefits

Purpose and link to strategy

- Help to recruit, reward and retain.
- Reflect local competitive market.

Operation

Allowances and benefits comprise cash allowances and non-cash benefits which may include:

- travel-related benefits (such as car allowance, company car and private use of a driver)
- health-related benefits (such as healthcare, health assessment and gym subsidy) and
- risk benefits (such as additional life cover and long-term disability insurance that are not covered by the company's retirement plans).

Executive Directors are also eligible to participate in savings-related share acquisition programmes, which are not subject to any performance conditions, on the same terms and to the same value as other employees.

Where an Executive Director is required to relocate to perform their role, appropriate one-off or ongoing expatriate/relocation benefits may be provided (e.g. housing, schooling, etc.)

The Committee may introduce other benefits if it is considered appropriate to do so, taking into account the individual circumstances, the country of residence of a Director, the benefits available to all employees and the wider external market.

Opportunity

The cost of the provision of allowances and benefits varies from year to year depending on the cost to Pearson and there is no prescribed maximum limit. However, the Committee monitors annually the overall cost of the benefits provided, to ensure that it remains appropriate.

R Retirement benefits

Purpose and link to strategy

- Help to recruit, reward and retain.
- Recognise long-term commitment to the company.

Operation

Employees in the UK are eligible to join the Money Purchase 2003 section of the Pearson Pension Plan. Executive Directors are eligible to join this plan or receive a cash allowance of equivalent value.

If any Executive Director is from, or works, outside the UK, the Committee retains a discretion to put in place retirement benefit arrangements for that Director in line with local market practice including defined benefit pension arrangements operated by Pearson locally. The maximum value of such arrangement will reflect local market practice at the relevant time.

The Committee may also honour all pre-existing retirement benefit obligations, commitments or other entitlements that were entered into by a member of the Pearson Group before that person became a Director, such as participation in the Final Pay section of the Pearson Pension Plan which is now closed to new members.

Opportunity

New appointments: new appointments to the Board are eligible to receive pension contributions of up to 16% of pensionable salary or a cash allowance of up to 16% of salary in line with the maximum company contribution as a percentage of salary that UK employees who are over 45 are eligible to receive.

Current Chief Executive: John Fallon is a member of the Final Pay section of the Pearson Pension Plan. His pension accrual rate is 1/30th of pensionable salary per annum, restricted to the Plan earnings cap. Until April 2006, the company also contributed to a Funded Unapproved Retirement Benefits Scheme (FURBS) on his behalf. Since April 2006, he has received a taxable and non-pensionable cash supplement in replacement of the FURBS of 26% of salary.

John Fallon attained the maximum service accrual under the Final Pay section of his pension benefit when he reached 20 years' service in October 2017. Since this time, John Fallon receives the pension supplement of 26% of salary only.

The Committee reviewed the approach to John Fallon's pension in light of shareholder views and best practice and agreed with the Chief Executive that his pension allowance would be reduced on a phased basis over the next three years to bring it in line with the UK workforce of 16% of salary.

Notwithstanding his planned retirement, John Fallon's cash pension allowance has been reduced by 3 percentage points to 23% of salary as the first step on this planned phased reduction.

CFO-elect: Sally Johnson is also a member of the Final Pay section of the Pearson Pension Plan. Her pension accrual rate is 1/60th of pensionable salary per annum, restricted to the Plan earnings cap.

UK Executive Directors who are, or become, affected by the lifetime allowance may be provided with appropriate benefits, as an alternative to further accrual of pension benefits such as a cash supplement, in line with the treatment for the employee population.

SG Shareholding guidelines

Purpose and link to strategy

- Align the interests of Executives and shareholders and encourage long-term shareholding and commitment to the company.

Operation

Executive Directors are expected to build up a shareholding in the company.

Executive Directors are expected to reach the guideline within five years from the date of appointment.

Post-employment shareholding:

Executive Directors are expected to retain their shareholding guideline (or actual holding if lower) for two years following stepping down as an Executive Director. This provision does not apply to any shares purchased by the Executive Director.

Opportunity

The target holding is 300% of salary for the Chief Executive and 200% of salary for other Executive Directors.

Performance conditions and period

Not applicable.

2020 remuneration policy

AIP Annual incentive plan

Purpose and link to strategy

- Help to recruit, reward and retain.
- Motivate the achievement of annual business goals and strategic objectives.
- Provide a focus on key financial and non-financial metrics.
- Reward individual contribution to the success of the company.
- Align to strategy execution priorities.

Operation

Measures and performance targets are set by the Committee at the start of the year with payment made after year end following the Committee's assessment of performance relative to targets.

Annual incentive plans are discretionary. The Committee reserves the right to adjust payments up or down if it believes that the outcome does not reflect underlying financial or non-financial performance or if such other exceptional factors warrant doing so.

The Committee may apply malus and/or clawback for a period of five years in certain circumstances, such as financial misstatement, individual misconduct or reputational damage to the company.

Opportunity

Annual incentives will not exceed 200% of base salary.

For the Chief Executive, the individual maximum incentive opportunity that will apply for 2020 is 180% of base salary and 170% for the Chief Financial Officer (which are the same opportunities as applied for 2019).

There is normally no payout for performance at threshold.

50% of the maximum opportunity is payable for on-target levels of performance.

Performance conditions and period

The Committee has the discretion to select the performance measures and relative weightings from year to year to ensure continuing alignment with strategy and to ensure targets are sufficiently stretching. The Committee sets performance targets for each measure annually.

Annual incentives will normally be based on financial and strategic performance targets. Financial metrics will account for at least 75% of the total annual opportunity with the remaining portion normally being based on strategic and/or performance against personal objectives. Financial measures currently account for 80% of the total funding, The Committee would intend to consult with shareholders in advance if there was to be a significant change in the weighting of financial and strategic measures.

The plan is designed to incentivise and reward underlying performance. Actual results may be adjusted to remove the effect of foreign exchange and portfolio changes (acquisitions and disposals) and other relevant factors that the Committee considers do not reflect the underlying performance of the business in the performance year.

Details of performance measures, weightings and targets will be disclosed in the annual remuneration report for the relevant financial year if and to the extent that the Committee deems them to be no longer commercially sensitive.

The performance period is one year.

LTIP Long-term incentive plan

Purpose and link to strategy

- Help to recruit, reward and retain.
- Drive long-term earnings, share price growth and value creation.
- Align the interests of executives and shareholders.
- Encourage long-term shareholding and commitment to the company.

Operation	Opportunity	Performance conditions and period	
Awards of shares are made on an annual basis, which vest on a sliding scale based on performance against stretching corporate performance targets measured at the end of the three-year performance period. Awards are normally subject to a post vesting holding period for two years following the end of the performance period. For awards granted prior to 2020, the holding period applied will be in line with the approach set out in the Directors' Remuneration Policy in place at the time of award. Participants may receive additional shares representing the gross value of dividends that would have been paid on shares that vest during the performance period. The Committee reserves the right to adjust payouts up or down before they are released if it believes that the vesting outcome does not reflect underlying financial or non-financial performance or if such other exceptional factors warrant doing so. In making such adjustments, the Committee is guided by the principle of aligning shareholder and management interests. The Committee may apply malus and/or clawback for a period of five years in certain circumstances, such as financial misstatement, individual misconduct or reputational damage to the company.	The maximum award is 350% of base salary in respect of a financial year. For 2020, the incoming CFO will be granted an award of 245% of salary.	The Committee will determine the performance measures, weightings and targets governing an award of shares prior to grant to ensure continuing alignment with strategy and to ensure that targets are sufficiently stretching. The Committee establishes a threshold below which no payout is achieved and a maximum at or above which the award pays out in full. The proportion of the award that vests at threshold may be up to 25%. Awards will normally be subject to the achievement of targets for earnings per share, a return on measure and relative total shareholder return (weighted equally). The Committee may determine that different measures or weightings may apply for future awards; however, the Committee would intend to consult with shareholders in advance if there was to be a significant change in the weighting of measures or the performance measures used.	The performance period is three years.

2020 remuneration policy

Notes to the Policy table

Changes to Policy

The key changes to this Policy compared to the 2017 Policy are summarised below:

- Policy limits and measures – The exceptional maximum limits under base salary, benefits and LTIP have been removed to improve transparency for shareholders around how we intend to implement the Policy. Additional flexibility has been provided to allow for changes to performance measures for future years.
- LTIP limit reduced – The normal maximum potential LTIP award has also been reduced from 400% of salary to 350% of salary to bring it more in-line with how we have implemented the Policy in recent years.
- Target AIP – In order to align with shareholder expectations, the AIP paid for 'on target' performance will be no more than 50% of the maximum potential. This results in a reduction in target AIP opportunity for the Chief Executive from 100% of salary to 90% of salary with no change to maximum opportunity.
- Simplified the holding period – We have simplified the structure of the LTIP holding period to reflect typical market practice. 100% of the LTIP award (for 2020 onwards) will be subject to a two-year holding period following the end of the three-year performance period (i.e. five years from award).
- Best practice – Changes have been made to the Policy to reflect the adoption of the 2018 UK Corporate Governance Code (including to incorporate changes outlined in previous Directors' remuneration reports) as well as other areas of best practice. These include:
  - Pensions for new appointments – Pension arrangements for new appointments have been aligned with the pension arrangements available to the majority of UK employees of a similar age.
  - Pension for the Chief Executive – Chief Executive pension opportunity is being reduced in stages over three years to 16% of base salary to align with the rate available to UK employees.
  - Post-employment guideline – These guidelines have been formalised in the Policy and enhanced such that 100% of in-employment guideline is expected to be retained for two years following ceasing to be an Executive Director.
- Other minor changes have been made to the wording of the Policy to simplify and aid its operation and to increase clarity.

In determining the new Remuneration Policy, the Committee followed a robust process which included discussions on the content of the Policy at four Remuneration Committee meetings in 2019. The Committee considered the input from our independent advisors and management, and sought the views of Pearson's major shareholders. Further information on the Committee's decision-making process is set out in the remuneration report.

Selection of performance measures and target setting

In the selection and weighting of performance measures for the annual and long-term incentive awards, the Committee takes into account Pearson's strategic objectives and short and long-term business priorities.

Annual incentive plan AIP	For 2020, the Committee identified sales, adjusted operating profit, operating cash flow and key strategic business imperatives as being relevant measures of Pearson's performance against its shorter-term strategic objectives and business priorities.
Long-term incentive plan LTIP	For 2020 awards, the Committee has judged the following to be most closely matched to sustained delivery of strategy and alignment with shareholders' interests: › Adjusted earnings per share rewards the delivery of the desired outcomes from our strategic growth objectives and is imperative if the company is to improve our total shareholder return and our return on invested capital. › Return on invested capital is used to track investment returns and to help assess capital allocation decisions within the business. › Total shareholder return relative to the constituents of the FTSE 100 is used as the Committee believes, in line with many of our shareholders, that part of Executive Directors' rewards should be linked to long-term performance relative to companies of comparable size, scale and maturity that are similarly impacted by global macro-economic influences.

The performance ranges chosen set a careful balance between upside opportunity and downside risk and are normally based on targets in accordance with the company's operating and strategic plans.

The charts on p97 illustrate how remuneration will be implemented in 2020 based on threshold, target and maximum performance scenarios.

Pre-existing commitments

The Committee reserves the right to make remuneration payments and payments for loss of office (which includes exercising related discretions) that are not in line with this Policy if the terms of the payment were agreed:

1. before the Policy came into effect, if the payment was agreed or made in line with the policy in force at the time or was otherwise approved by shareholders; and
2. at a time when the recipient was not subject to the Policy, provided the Committee does not consider the payment to have been made in consideration of the recipient becoming subject to the Policy.

For these purposes 'payment' means any payment that would otherwise be subject to the Policy and, in relation to a share award, will not be considered to have been 'agreed' any later than the date of grant.

Remuneration policy for other employees

During the year, the Committee reviewed and developed a revised set of remuneration principles, which shape how we develop our remuneration policies. The principles are consistent across the employee population but how they are applied varies by business need, level and geography as required.

Our remuneration policy is as follows:

- The approach to setting base salary increases elsewhere in the company takes into account economic factors, competitive market rates, roles, skills, experience and individual performance.
- Allowances and benefits for employees reflect the local labour market in which they are based.

- Around 1,200 employees participate in an Annual Incentive Plan. The funding for the plan is based on the same performance conditions as those used for the Executive Directors. A number of other employees participate in other forms of cash-based annual incentive such as profit-share or sales commission plan based on performance targets.
- Share incentive plans for the Pearson Executive management team form the basis of the incentive plans throughout the organisation, establishing performance measures and standards and setting the ceiling for individual incentive opportunities. Approximately 5% of the company's employees below the Pearson Executive management team – selected on the basis of their role, performance and potential – participate in share incentive plans.
- All eligible employees (including Executive Directors) are also eligible to participate in savings-related share acquisition programmes in the UK, US and the rest of the world, which are not subject to any performance conditions.
- Pearson employees in the UK may participate in the same underlying pension arrangements as the Executive Directors, subject to certain age bands and legacy arrangements.

Recruitment

The Committee expects any new Executive Directors to be engaged on the same terms and to be awarded variable remuneration within the same normal limits and subject to the same conditions as for the current Executive Directors outlined in the policy.

The maximum level of variable remuneration which may be awarded (excluding any 'buyout' awards referred to above) in respect of recruitment is 550% of salary, which is in line with the current maximum limit under the annual bonus and LTIP.

In setting the basic salary for any new Executive Director, the Committee will apply a level appropriate to recruit a suitable candidate, having regard to the factors set out in the future policy table.

The Committee recognises that it cannot always predict accurately the circumstances in which any new Directors may be recruited. The Committee may determine that it is in the interests of the company and shareholders to secure the services of a particular individual which may require the Committee to take account of the terms of that individual's existing employment and/or their personal circumstances. The Committee may do this in the following circumstances:

- Where an individual is relocating in order to take up the role, in which case the company may provide certain benefits such as reasonable relocation expenses, accommodation for a short period following appointment and assistance with visa applications or other immigration issues and ongoing arrangements such as tax equalisation, annual flights home, schooling and housing allowance.
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities. The Committee would require reasonable evidence of the nature and value of any forfeited award and would, to the extent practicable, ensure any compensation was provided on a like-for-like basis and was no more valuable than the forfeited award.

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

Where an existing employee of the company is promoted to the Board, the company may honour all existing contractual commitments including any outstanding share awards and benefits, including pensions.

Pearson expects any new Chair or Non-Executive Director to be engaged on terms that are consistent with the general remuneration principles outlined in the relevant sections of this Policy.

Service contracts and termination provisions

In accordance with long established policy, all Executive Directors have service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues indefinitely.

There are no special provisions for notice or non-share-based compensation in the event of a change of control of Pearson.

It is the company's policy that the company may terminate the Chair's and Executive Directors' service agreements by giving no more than 12 months' notice.

Payment in lieu of notice

As an alternative, for Executive Directors the company may at its discretion pay in lieu of that notice. Payment in lieu of notice may be made in equal monthly instalments from the date of termination to the end of any unexpired notice period. Payment in lieu of notice in instalments may also be subject to mitigation and reduced taking into account earnings from alternative employment.

For Executive Directors, payment in lieu of notice comprises 100% of the annual salary at the date of termination and the annual cost to the company of providing pension and all other benefits. For the Chair, payment in lieu of notice comprises 100% of the annual fees at the date of termination.

The company may, depending on the circumstances of the termination, determine that it will not pay the Director in lieu of notice and may instead terminate a Director's contract in breach and make a damages payment, taking into account as appropriate the Director's ability to mitigate his or her loss.

The company may also pay an amount considered to be reasonable by the Remuneration Committee in respect of fees for legal and tax advice and outplacement support for the departing Director. The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith, in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment.

Share awards

On cessation of employment, unless otherwise provided for under the rules of Pearson's discretionary share plans, Executive Directors' entitlements to any unvested awards lapse automatically. In the case of injury, disability, ill-health or redundancy (as determined by the Committee), where a participant's employing company ceases to be part of Pearson, or any other reason if the Committee so decides in its absolute discretion:

2020 remuneration policy

- awards will stay in force as if the participant had not ceased employment and shall ordinarily vest on the original vesting date/be released in line with normal time horizons subject to performance conditions.
- the number of shares that are released shall be pro-rated for the period of the participant's service in the restricted period (although the Committee may in its absolute discretion waive or vary the pro-rating).

In determining whether and how to exercise its discretion under Pearson's discretionary share plans, the Committee will have regard to all relevant circumstances distinguishing between different types of leaver, the circumstances at the time the award was originally made, the Director's performance and the circumstances in which the Director left employment.

The rules of Pearson's discretionary share plans also make provision for the treatment of awards in respect of corporate activity, including a change of control of Pearson. The Committee would act in accordance with the terms of the awards in these circumstances, which includes terms as to the assessment of performance conditions and time apportionment.

Annual bonus

On cessation of employment, Executive Directors may, at the Committee's discretion, retain entitlement to a pro rata annual incentive for their period of service in the financial year prior to their leaving date. Such payout will normally be calculated in good faith on the same terms and paid at the same time as for continuing Executive Directors.

Other elements of remuneration

Eligibility for allowances and benefits including retirement benefits (other than pension payments in connection with subsequent retirement) normally ceases on retirement or on the termination of employment for any other reason.

Individual service agreements

Details of each individual's service agreement are outlined in the table below. Employment agreements for other employees are determined according to local labour law and market practice.

Position	Date of agreement	Notice periods	Compensation on termination of employment by the company without notice or cause
Chair	25 October 2015	12 months from the Director; 12 months from the company	Payment in lieu of notice of 100% of annual fees at the date of termination
Executive Directors	31 December 2012 (John Fallon) 26 February 2015 (Coram Williams) 15 January 2020 (Sally Johnson)	6 months from the Director; 12 months from the company	Payment in lieu of notice of 100% of annual salary at the date of termination and the annual cost of pension and all other benefits

Note Under payment in lieu of notice, the annual cost of pension for Executive Directors is normally calculated as the sum, where applicable, of: an amount equal to the company's cost of providing the Executive's pension under the pension plan based on the Future Service Company Contribution Rate for the relevant section of the pension plan as stated in the most recent actuarial valuation (as at the date of termination of employment) as limited by the earnings cap; and any cash allowance in lieu of pension or to take account of the fact that pension benefits and life assurance cover are restricted by the earnings cap.

Non-Executive Directors serve Pearson under letters of appointment which are renewed annually and do not have service contracts. For Non-Executive Directors, there is no notice period or entitlement to compensation on the termination of their directorships.

Executive Directors' non-Executive Directorships

The Committee's policy is that Executive Directors may, by agreement with the Board, serve as non-executives of other companies and retain any fees payable for their services.

Employment conditions

Under the Committee's charter and terms of reference, the Committee's remit includes determining remuneration for the Chief Executive, other Executive Directors and other members of the Pearson Executive management team. In addition, the Committee's remit includes oversight of certain remuneration matters below this level. Before the remuneration packages for the Pearson Executive management team are set for the year ahead, the Committee considers reports from the Chief Executive on general morale and Chief Human Resources Officer on retention, general pay trends in the market and the level of pay increases and incentives across the company as a whole. This helps to ensure that Executive remuneration packages are reviewed in the context of the wider organisation.

The company consults with various employee representative bodies – including trade unions and works councils in some jurisdictions – about the company's strategy, competitiveness and performance of the business and other matters affecting employees. The company also conducts an employee engagement survey to find out how people feel about working for Pearson, what they think about the work they do, the opportunities they have and the rewards they get (including a section on pay and benefits). The company uses all of this feedback to inform decisions on people-related activities, resources and investment, local management action plans and wider business unit and organisational strategies.

It is the company's intention to continue to engage with employees and employee representatives in this way in the future.

The Committee has not consulted directly with employees on the setting of the Directors' Remuneration Policy.

Shareholder views

The company consults regularly with shareholders on all matters affecting its strategy and business operations. As part of that process, we also engage with shareholders on matters relating to Executive remuneration. The Committee continues to monitor and respond to best practice guidelines of shareholders and their representative bodies.

Over the past three years, we have undertaken a thorough review of our Executive Director Remuneration Policy and its implementation. As part of this review, we engaged extensively with our shareholders to ensure Executive remuneration is set appropriately, rewards for performance and aligns management with the shareholder experience. We would like to thank our shareholders for the time they have spent with us in this regard.

In January 2020, we wrote to our key shareholders and the voting advisory agencies, seeking their views on the proposed changes to Pearson's Directors' Remuneration Policy. We received valuable feedback on a number of points, which reflected a significant range of opinions. This feedback has been helpful to the Committee in formulating policy and is much appreciated.

We are committed to continued engagement going forward.

Future policy table for Chair's and Non-Executive Directors' remuneration

The table below summarises policy with respect to the remuneration of the Chair and Non-Executive Directors:

Chair and Non-Executive Director remuneration

Purpose and link to strategy

› To attract and retain high-calibre individuals, with appropriate experience or industry-relevant skills, by offering market competitive fee levels.

Operation	Opportunity	Performance conditions and period
The Chair is paid a single fee for all of their responsibilities. The Chair's fee is set at a level that is competitive with those of chairmen in similar positions in comparable companies. The Non-Executive Directors are paid a basic fee. The Committee Chairs, members of the main Board Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities. Fees for Non-Executive Directors are determined by the full Board having regard to market practice. Additional fees or other payments may be paid to reflect additional responsibilities, roles or contribution, as appropriate. The Chair and Non-Executive Directors are not entitled to any annual or long-term incentive, retirement or other employee benefits. Selected benefits may be introduced, if considered appropriate. The company reimburses the Chair's and Non-Executive Directors' travel and other business expenses and any tax incurred thereon, if applicable. Normally a minimum of 25% of the Chair's and Non-Executive Directors' basic fee is paid in Pearson shares that the Non-Executive Directors have committed to retain for the period of their directorships. Shares are normally acquired quarterly at the prevailing market price with the individual's after-tax fee payments.	Fee levels are reviewed on a periodic basis. The total fees payable to the Non-Executive Directors (excluding the Chair) are subject to the limit set out in the Articles of Association of the company (currently £750,000) and as increased by ordinary resolution from time to time.	None.

Implementation of remuneration in 2020

B Base salaries

Given their planned departures from the Board, no salary increases were awarded for John Fallon and Coram Williams. Salaries effective 1 April 2020:

John Fallon	£817,400 (0%)
Coram Williams	£539,500 (0%)

Sally Johnson will receive a salary of £515,000 per annum from her appointment on 24 April 2020. This is in line with Coram Williams' starting salary in 2015.

A&B Allowances and benefits

There will be no changes to allowances and benefits allowances for John Fallon and Coram Williams in 2020. Sally Johnson's allowances and benefits are in line with policy.

R Retirement benefits

The Committee reviewed the approach to the Chief Executive's pension in light of shareholder views and best practice and agreed with John Fallon that his pension allowance would be reduced on a phased basis over the next three years to bring it in line with the UK workforce of 16% of salary. Notwithstanding his planned retirement, John Fallon's cash pension allowance has been reduced by 3 percentage points to 23% of salary as the first step on this planned phased reduction.

Coram Williams will continue to be a part of the Final Pay Section of the Pearson Pension Plan until his leave date, accruing at 1/60th of pensionable salary per annum.

Sally Johnson is a member of the Final Pay Section of the Pearson Pension Plan and will continue to accrue pension at a rate of 1/60th of pensionable salary per annum, restricted to the Plan earnings cap, in line with other participants in the Plan.

AIP Annual incentive plan

John Fallon will continue to participate in the AIP until his retirement date. Coram Williams will not be eligible for an AIP payment in respect of 2020.

AIP opportunity will be pro-rated to reflect the period of the year served for John Fallon and Sally Johnson.

Maximum annual opportunity will remain unchanged for 2020:

Chief Executive	180% of base salary
CFO	170% of base salary

The Chief Executive's target AIP opportunity will be reduced to 50% of the maximum opportunity, from 100% of salary to 90% of salary. The CFO-elect's target AIP opportunity will be unchanged at 50% of maximum opportunity (85% of salary).

For 2020, the mix of performance measures has been changed to reflect Pearson's focus on delivering top-line growth as well as operational efficiencies. The following financial and strategic measures will be used:

Adjusted operating profit	Sales	Operating cash flow	Strategic measures
30%	30%	20%	20%

2020 strategic measures will align with our continued efforts to accelerate the digital transformation of the company (10%), make the most of Pearson's world of talent (5%) and create a simpler and more sustainable organisation (5%).

Targets are considered by the Board to be commercially sensitive and will be disclosed in the 2020 Directors' remuneration report.

LTIP Long-term incentive plan

Coram Williams and John Fallon will not be eligible for an LTIP award in 2020.

The LTIP award level for the incoming CFO is 245% of base salary (which is the same award opportunity as for Coram Williams in 2017, 2018 and 2019), reflecting the 2017 discounts to LTIP awards in light of share price performance.

The Committee believes that a further reduction in the incoming CFO's award level is not appropriate, beyond the discount already applied. This discount was set at a time when the share price was comparable to the current share price and the Committee considered that alignment between management and shareholders would be better supported by maintaining her level of grant at 245% of salary in 2020.

Performance metrics, weightings and targets

Performance will continue to be tested over three years.

At the time of writing, the strategic goals for the company over the next three years were still under development by the Board. The targets for the 2020 LTIP grant will therefore be made available on the website before the AGM and disclosed in the RNS announcement accompanying the grant, which is expected to be in May as normal. The Committee remains committed to timely/prompt disclosure of targets once they have been confirmed.

Full details of the award will also be included in the annual remuneration report for 2020.

Chair and Non-Executive Director fees

The fees for the Reputation & Responsibility Committee have been increased to £15,000 and £8,000 to recognise the increasing responsibilities of that Committee. There will be no other changes to fees for 2020:

Role	Fees for 2020
Chair 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	£15,000	£8,000

The Directors' remuneration report has been approved by the Board on 6 March 2020 and signed on its behalf by:

Elizabeth Corley
Chair of the Remuneration Committee.

Additional disclosures

Pages 52–112 of this document comprise the Directors' report for the year ended 31 December 2019.

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 p50, the Board has also reviewed the prospects of Pearson over the three-year period to December 2022 taking account of the company's three-year plan, a 'severe but plausible' downside case and further stress-testing based on the principal risks set out from p40 ➜

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 2022. Further details of the Group's liquidity are shown in the Financial review on p33 ➜

Share capital

Details of share issues and cancellations are given in note 27 to the financial statements on p178. 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 2019, 782,098,929 ordinary shares were in issue. At the AGM held on 26 April 2019, the company was authorised, subject to certain conditions, to acquire up to 78,141,414 ordinary shares by market purchase and to issue up to 520,942,760 ordinary shares. Shareholders will be asked to renew this authority at the AGM on 24 April 2020.

Share buyback

In December, we announced the sale of our 25% stake in Penguin Random House to Bertelsmann, generating total net proceeds of approximately $675m. The partial divestment of our stake in Penguin Random House was in line with our strategy for simplification and allowed us to create significant shareholder value through the synergies from the integration of the two businesses. Our stake in Penguin Random House will have generated c.£1.9bn in net disposal proceeds and dividends.

We have set out clear capital allocation priorities as follows:

- Maintaining a strong balance sheet and solid investment-grade credit ratings through an appropriate capital structure. Accordingly, we intend to maintain a year-end net debt/EBITDA of less than 2.2x on a post IFRS 16 basis and 1.5x on a pre IFRS 16 basis.
- Simplifying our portfolio and investing in the business to drive sustainable organic growth.
- Delivering shareholder returns through a sustainable and progressive dividend policy, returning surplus cash to shareholders where appropriate through buybacks or special dividends.

In line with those priorities, the Board decided that we would use the proceeds from the transaction to maintain a strong balance sheet and invest in our business in addition to returning £350m of surplus capital to shareholders following the closing of the transaction.

The Board considered investor views on preferred methods of cash return, the amount being returned and other factors and concluded a share buyback was the most appropriate methodology to return that capital to our shareholders at that time.

We commenced a £350m share buyback programme on 16 January 2020. As of 3 March 2020, being the latest practicable date before the publication of this report, we had repurchased for cancellation 18,356,161 shares at an average price of 574 pence per share.

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 2019, 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	97,302,791	12.44%
Lindsell Train Limited	78,465,444	10.04%
Silchester International Investors LLP	77,889,093	9.98%
BlackRock, Inc.	50,946,154	6.51%
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.

Additional disclosures

Between 31 December 2019 and 3 March 2020, 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:

	Number of voting rights	Percentage as at date of notification
Schroders plc	101,370,711	13.00%
Silchester International Investors LLP	85,106,480	11.00%

Annual General Meeting

The notice convening the AGM, to be held at 12 noon on Friday, 24 April 2020 at IET London, 2 Savoy Place, London WC2R 0BL, is contained in a circular to shareholders to be dated 23 March 2020.

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 2,095,272 shares held as at 31 December 2019. 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 2,515,611 shares held in the Sharestore account and 902,514 shares held in the Global Nominee account as at 31 December 2019. 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 email 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.

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 a general meeting).

Additional disclosures

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 2019 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.

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 2019, the Group had a $1,190m revolving credit facility agreement dated August 2014 (amended February 2019) which matures in February 2024 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. 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) and by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) to be included in the Directors' report, and which is incorporated by reference, can be located as follows:

Summary disclosures index	See more
Dividend recommendation	**p30**
Financial instruments and financial risk management	**p165**
Important events since year end	**p34**
Future development of the business	**p6**
Research and development activities	**p27**
Employment of disabled persons	**p22**
Employee involvement	**p21**
Greenhouse gas emissions	**p22**
Statement describing employee engagement	**p28**
Statement describing regard to suppliers, customers and other stakeholders' interests	**p28**

With the exception of the dividend waiver described on p108 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 2019. 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, 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
S L Coutu (appointed on 1 May 2019)
V Cox
J J Fallon
S J Lewis
L K Lorimer
M M Lynton
G D Pitkethly (appointed on 1 May 2019)
T Score
S Taurel
L A Wallen
C Williams

The Directors' report has been approved by the Board on 6 March 2020 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 p54–56, 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 6 March 2020 and signed on its behalf by:

Coram Williams
Chief Financial Officer