Board of directors

Chairman

Glen Moreno, †• chairman, aged 66, was appointed chairman of Pearson on 1 October 2005 and is chairman of the nomination committee. He is a director of Fidelity International Limited and effective 1 March 2010, was appointed a non-executive director of Lloyds Banking Group plc and became their senior independent director. He was previously senior independent director of Man Group plc and acting chairman of UK Financial Investments Limited, the company set up by HM Treasury to manage the government's shareholdings in UK banks.

Executive directors

Marjorie Scardino, • chief executive, aged 63, joined the Pearson board in January 1997. She trained and practised as a lawyer, and was chief executive of The Economist Group from 1993 until joining Pearson. She is also vice chairman of Nokia Corporation and on the boards of several charitable organisations.

Will Ethridge, chief executive, Pearson North American Education, aged 58, joined the Pearson board in May 2008, having held a number of senior positions within Pearson Education, including CEO of the International and Higher Education divisions. He is chairman of CourseSmart, a publishers' digital retail consortium and chairman of the Association of American Publishers.

Non-executive directors

David Arculus,*†• aged 63, is a non-executive director of Telefónica SA and was appointed chairman of Numis Corporation plc in May 2009. His previous roles include chairman of O2 plc, Severn Trent plc and IPC Group, chief operating officer of United Business Media plc and group managing director of EMAP plc. He became a non-executive director of Pearson in February 2006 and is chairman of the personnel committee.

Terry Burns,†• aged 65, is chairman of Santander UK and Glas Cymru Limited and is a non-executive director of Banco Santander SA. He was recently appointed chairman of the Channel 4 Television Corporation. He was previously chairman of Marks and Spencer Group plc. He was the UK government's chief economic adviser from 1980 until 1991 and Permanent Secretary of HM Treasury from 1991 until 1998. He was appointed a non-executive director of Pearson in May 1999 and senior independent director in February 2004.

Patrick Cescau,*• aged 61, is a non-executive director of Tesco plc and joined the board of directors of INSEAD, the Business School for the World, in June 2009. He was previously group chief executive of Unilever. He became a non-executive director of Pearson in April 2002.

Rona Fairhead, chairman and chief executive of The Financial Times Group, aged 48, joined the Pearson board in June 2002 as chief financial officer. She was appointed chief executive of The Financial Times Group in June 2006 and became responsible for Pearson VUE in March 2008. From 1996 until 2001, she served as executive vice president, group control and strategy at ICI. She is also chairman of Interactive Data, a non-executive director of HSBC Holdings plc and chairs the HSBC audit committee.

Robin Freestone, chief financial officer, aged 51, joined Pearson in 2004 as deputy chief financial officer and became chief financial officer in June 2006, when he also joined the Pearson board. He was previously group financial controller of Amersham plc (now part of GE). He qualified as a chartered accountant with Touche Ross (now Deloitte). He is also a non-executive director and founder shareholder of eChem Limited.

John Makinson, chairman and chief executive of The Penguin Group, aged 55, joined the Pearson board in March 1996 and was finance director until June 2002. He was appointed chairman of The Penguin Group in May 2001. He is also chairman of the Institute for Public Policy Research, director of The Royal National Theatre and trustee of The International Rescue Committee (UK).

* A member of the audit committee.
† A member of the personnel committee.
• A member of the nomination committee.

Susan Fuhrman,*• aged 65, is president of Teachers College at Columbia University, America's oldest and largest graduate school of education and president of the National Academy of Education. She was previously dean of the Graduate School of Education at the University of Pennsylvania and on the board of trustees of the Carnegie Foundation for the Advancement of Teaching. She became a non-executive director of Pearson in July 2004.

Ken Hydon,*†• aged 65, is a non-executive director of Reckitt Benckiser Group plc, Royal Berkshire NHS Foundation Trust and Tesco plc. He was previously financial director of Vodafone Group plc and of subsidiaries of Racal Electronics. He became a non-executive director of Pearson in February 2006 and is chairman of the audit committee.

CK Prahalad, • aged 68, is a distinguished university professor of corporate strategy and international business at The University of Michigan Business School. He is a non-executive director of NCR Corporation and Hindustan Unilever Corporation and director of the World Resources Institute and The Indus Entrepreneurs. He became a non-executive director of Pearson in May 2008.

Board governance

Directors

The present members of the board, together with their biographical details, are shown on pages 44 and 45. The chairman was appointed to the board of Lloyds Banking Group plc, effective 1 March 2010. Given his retirement from two major boards in 2009, both the chairman and the Pearson board are confident that he can carry out his new role without diluting his time commitment to Pearson.

Details of directors' remuneration, interests and dealings in ordinary shares and options of the company are contained in the report on directors' remuneration on pages 56 to 78.

In accordance with good corporate governance, the board has resolved that all directors should offer themselves for re-election on an annual basis at the company's Annual General Meeting (AGM). Accordingly, all eligible directors will offer themselves for re-election at the forthcoming AGM on 30 April 2010.

Details of directors' service agreements can be found on pages 66 and 67.

Corporate governance

Introduction

The board believes that the company is in full compliance with Section 1 of the Combined Code 2008 (The Code). A detailed account of the provisions of the Code can be found on the company website at
ⓘ **www.pearson.com/investors/shareholder-information/governance**

Composition of the board

The board consists of the chairman, Glen Moreno, five executive directors including the chief executive, Marjorie Scardino, and six independent non-executive directors. Terry Burns, Pearson's senior independent director, will be retiring at the forthcoming AGM and will not offer himself for re-election. The nomination committee is currently recruiting an independent non-executive director to replace Terry.

Senior independent director

Terry Burns was appointed senior independent director in 2004. His role includes being available to shareholders if they should have concerns that have not been addressed through the normal channels, and attending meetings with shareholders in order to gain a balanced understanding of any concerns that they might have. The senior independent director also meets with the non-executive directors at least once a year in order to appraise the performance of the chairman, and would be expected to chair the nomination committee in the event that it was considering succession to the role of chairman of the board. Following Terry's retirement, Patrick Cescau will be appointed senior independent director.

Independence of directors

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.

Although Terry Burns has served on the board for more than nine years, the board believes that due to his experience, knowledge and objectivity, he continued to be a highly effective non-executive director throughout the year.

All of the other non-executive directors, including the chairman, were considered by the board to be independent for the purposes of the Code during the year ended 31 December 2009.

Conflicts of interest

From October 2008, directors have had a statutory duty under the Companies Act 2006 (the Act) to avoid conflicts of interest with the company. As permitted by the Act, the company adopted new Articles of Association at its AGM in 2008 to allow the directors to authorise conflicts of interest. The company has established a procedure to identify actual and potential conflicts of interest, including all directorships or other appointments to companies which are not part of the Pearson Group and which could give rise to actual or potential conflicts of interest. Such conflicts are then considered for approval by the board. The potential conflicted director cannot vote on an authorisation resolution or be counted in the quorum. The board reviews on an annual basis any authorisations granted.

Board meetings

The board meets six times a year and at other times as appropriate. The following table sets out the attendance of the company's directors at board and committee meetings during 2009:

	Board meetings (maximum 6)	Audit committee meetings (maximum 4)	Personnel committee meetings (maximum 4)	Nomination committee meetings (maximum 2)
Chairman				
Glen Moreno	6/6	–	4/4	2/2
Executive directors				
Marjorie Scardino	6/6	–	–	2/2
David Bell•	2/2	–	–	–
Will Ethridge	6/6	–	–	–
Rona Fairhead	6/6	–	–	–
Robin Freestone	6/6	–	–	–
John Makinson	5/6	–	–	–
Non-executive directors				
David Arculus	6/6	4/4	4/4	2/2
Terry Burns	6/6	–	4/4	2/2
Patrick Cescau	6/6	4/4	–	2/2
Susan Fuhrman	5/6	3/4	–	2/2
Ken Hydon	6/6	4/4	4/4	2/2
CK Prahalad	5/6	–	–	2/2

• Resigned from the board on 1 May 2009.

The role and business of the board

The formal matters reserved for the board's decision and approval include:

- The company's strategy and review of performance against it;
- Major changes to the company's corporate structure;
- Approval of all shareholder documents;
- Acquisitions, disposals and capital expenditure projects above certain thresholds;
- All guarantees over £10m;
- Treasury policies;
- The interim and final dividends and the financial statements;
- Borrowing powers;
- Ensuring adequate succession planning for the board and senior management;
- Appointments to the board; and
- The appointment and removal of the company secretary.

The board receives timely, regular and necessary financial, management and other information to fulfil its duties. Directors can obtain independent professional advice at the company's expense in the performance of their duties as directors. All directors have access to the advice and services of the company secretary.

We endeavour to give non-executive directors access to the senior managers of the business via involvement at both formal and informal meetings. In this way we hope that the experience and expertise of the non-executive directors can be utilised for the benefit of the company. At the same time, this practice enables the non-executive directors to develop an understanding of the abilities of senior management which will help them judge the company's prospects and plans for succession.

Board evaluation

For the review of 2008, conducted early in 2009, the chairman asked the directors to complete an evaluation questionnaire which was targeted specifically around issues of strategy and risk management. Responses to this questionnaire and from face-to-face meetings with the chairman were gathered and communicated to the board at the May 2009 board meeting.

Board governance continued

This process reinforced the view that strategy remained a key focus for the board in 2009. As a direct result of these discussions, strategic reviews of International Education and Education Technology were held in June and October respectively and the Pearson strategic plan was reviewed and updated in December.

The evaluation of 2009 is currently underway. The chairman is conducting detailed interviews with all directors to ensure the board is effectively focused on its agreed priorities: governance; strategy; business performance and people. The outcome of this review will be discussed at the April 2010 board meeting. The board anticipates using an external advisor for its 2010 review.

In addition, during the course of the year the executive directors were evaluated by the chief executive on their performance against personal objectives under the company's standard appraisal mechanism. The chairman leads the assessment of the chief executive and the senior independent director conducts a review of the chairman's performance.

Directors' training

Directors receive a significant bespoke induction programme and a range of information about Pearson when they join the board.

This includes background information on Pearson and details of board procedures, directors' responsibilities and various governance-related issues, including procedures for dealing in Pearson shares and their legal obligations as directors. The induction also includes a series of meetings with members of the board, presentations regarding the business from senior executives and a briefing on Pearson's investor relations programme. We supplement the existing directors' training programme through continuing presentations at board meetings about the company's operations, by holding board meetings at overseas locations and by encouraging the directors to visit operating companies and local management as and when their schedule allows. Externally run courses are also made available should directors wish to make use of them.

Directors' indemnities

In accordance with section 232 of the Companies Act 2006 (the Act), the company grants an indemnity to all of its directors. The indemnity relates to costs incurred by them in defending any civil or criminal proceedings and in connection with an application for relief under sections 661(3) and (4) or sections 1157(1)-(3) of the Act, so long as it is repaid not later than when the outcome becomes final if: (i) they are convicted in the proceedings; (ii) judgment is given against them; or (iii) the court refuses to grant the relief sought.

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.

Dialogue with institutional shareholders

There is an extensive programme for the chairman, CEO, executive directors and senior managers to meet with institutional shareholders. The non-executive directors meet informally with shareholders both before and after the AGM, and respond to shareholder queries and requests. The chairman and senior independent director make themselves available to meet any significant shareholder as required. Makinson Cowell and the company's investor relations department report to the board on the results of a comprehensive survey on major shareholders' views.

Furthermore, reports on changes in shareholder positions and views are given to the directors at every board meeting.

Board committees

The board has established three committees: the audit committee, the personnel committee and the nomination committee. Chairmen and members of these committees are appointed by the board on the recommendation (where appropriate) of the nomination committee and in consultation with each requisite committee chairman.

Audit committee report

Ken Hydon audit committee chairman

Members **Ken Hydon, David Arculus, Patrick Cescau and Susan Fuhrman**

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 held in other listed or publicly traded companies and/or similar public organisations. Ken Hydon, chairman of the committee, is the company's designated financial expert. He is a fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers. He also serves as audit committee chairman for Tesco plc, Reckitt Benckiser Group plc and Royal Berkshire NHS Foundation Trust.

The qualifications and experience of the other committee members are detailed on pages 44 and 45.

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/investors/shareholder-information/governance**

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 audits of the financial statements of the company.

The committee is responsible for assisting the board's oversight of the quality and integrity of the company's external financial reporting and statements and the company's accounting policies and practices. The Group's internal and external auditors have direct access to the committee to raise any matter of concern and to report on the results of work directed by the committee. The committee reports to the full board on a regular basis but no less frequently than at every board meeting immediately following a committee meeting. It also reviews the independence of the external auditors, including services supplied, and ensures that there is an appropriate audit relationship. Based on management's recommendations, the committee reviews the proposal to reappoint the external auditors. The committee evaluated the performance of the external auditors during the year and remains satisfied with their effectiveness. The committee will continue to review the performance of the external auditors on an annual basis and will consider their independence and objectivity, taking account of all appropriate guidelines. There are no contractual obligations restricting the committee's choice of external auditors. In any event, the external auditors are required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner has been in place for two years.

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

The committee met four times during the year with the chief financial officer, head of Group internal audit, members of the senior management team and the external auditors in attendance. The committee also met regularly in private with the external auditors and the head of Group internal audit. Some members of the committee attended site visits to a number of overseas locations in order to better understand how Group policies are embedded in operations.

At every meeting, the committee considered reports on the activities of the internal audit function, including the results of internal audits, risk reviews, project assurance reviews, and fraud and whistleblowing reports. The committee also monitored the company's financial reporting, internal controls and risk management procedures and considered any significant legal claims and regulatory issues in the context of their impact on financial reporting.

Specifically, the committee considered the following matters during the course of the year:

- The annual report and accounts: preliminary announcement and trading update;
- The Group accounting policies;
- Compliance with the Combined Code;
- The Form 20-F and related disclosures including the annual Sarbanes-Oxley Act 404 attestation of financial reporting internal controls;
- Receipt of external auditor report on Form 20-F and on the year end audit;
- Assessment of the effectiveness of the company's internal control environment;
- Reappointment of external auditor;
- Appointment of new head of Group internal audit function;
- Review of the interim management statement;
- Review of the effectiveness of the audit committee and a review of both the internal and external auditors;
- Annual approval of the internal audit mandate;
- Compliance with SEC & NYSE requirements including Sarbanes Oxley;
- Review of interim financial statements and announcement;
- Approval of external audit engagement, scope and fees;
- Approval of external audit policy;
- Review of committee's terms of reference;
- Review of link between Pearson and IDC's audit committees;
- Annual internal audit plan including resourcing of the internal audit function;
- Review of company risk returns including Social, Ethical and Environmental (SEE) risks; and
- Annual review of treasury policy.

Board governance continued

Personnel committee report

David Arculus personnel committee chairman

Members **David Arculus, Terry Burns, Ken Hydon and Glen Moreno**

The personnel committee has responsibility for determining the remuneration and benefits packages of the executive directors, the chief executives of the principal operating companies and other members of the management committee, as well as recommending the chairman's remuneration to the board for its decision.

The committee takes independent advice from consultants when required. No director takes part in any discussion or decision concerning their own remuneration. The committee reports to the full board and its report on directors' remuneration, which has been considered and adopted by the board, is set out on pages 56 to 78.

The committee met three times during the year, and has written terms of reference which clearly set out its authority and duties. These can be found on the company website at **www.pearson.com/investors/shareholder-information/governance**

On Terry Burns' retirement from the board, Patrick Cescau will join the personnel committee.

Nomination committee report

Glen Moreno nomination committee chairman

Members **Glen Moreno, Marjorie Scardino, David Arculus, Terry Burns, Patrick Cescau, Susan Fuhrman, Ken Hydon and CK Prahalad**

The nomination committee meets as and when required. The committee primarily monitors the composition and balance of the board and its committees, and identifies and recommends to the board the appointment of new directors.

When considering the appointment of a new director the committee reviews the current balance of skills and experience of the board.

Whilst the chairman of the board chairs this committee, he is not permitted to chair meetings when the appointment of his successor is being considered or during a discussion regarding his performance.

During 2009 the committee met to review succession planning for non-executive and executive board positions, as well as board committee assignments.

The committee has written terms of reference which clearly set out its authority and duties. These can be found on the company website at **www.pearson.com/investors/shareholder-information/governance**

Internal control

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

In accordance with the provisions of the Code, the directors confirm that they have reviewed the effectiveness of the Group's internal control system.

They also confirm that there is an ongoing process allowing for the identification, evaluation and management of significant business risks. This ongoing process accords with the revised Turnbull guidance and has been in place throughout 2009 and up to the date of approval of this annual report.

The Group's internal control framework covers financial, operational and compliance risks. Its main features are described below:

i. Board

The board of directors exercises its control through an organisational structure with clearly defined levels of responsibility and authority and appropriate reporting procedures. To maintain effective control over strategic, financial, operational and compliance matters the board meets regularly, and has a formal schedule of matters that is brought to it, or its duly authorised committees, for attention. Responsibility for monitoring financial management and reporting, internal control and risk management has been delegated to the audit committee by the board. At each meeting, the audit committee considers reports from management, internal audit and the external auditors, with the aim of reviewing the effectiveness of the internal financial and operating control environment of the Group.

ii. Operating company controls

The identification and mitigation of major business risks is the responsibility of operating company management. Each operating company, including the corporate centre, maintains internal controls and procedures appropriate to its structure and business environment, whilst complying with Group policies, standards and guidelines. These controls include those over external financial reporting which are documented and tested in accordance with the requirements of section 404 of the Sarbanes-Oxley Act, which is relevant to our US listing.

iii. Financial reporting

There is a comprehensive strategic planning, budgeting and forecasting system with an annual operating plan approved by the board of directors. Monthly financial information, including trading results, balance sheets, cash flow statements and indebtedness, is reported against the corresponding figures for the plan and prior years, with corrective action outlined by operating company executives as appropriate. Group senior management meet, on a quarterly basis, with operating company management to review their business and financial performance against plan and forecast. Major business risks relevant to each operating company as well as performance against the stated strategic objectives are reviewed in these meetings.

In addition, the chief executive prepares a report for the board, 11 times a year, on key developments, performance and issues in the business.

iv. Risk management

Operating companies undertake formal, semi-annual risk reviews to identify new or potentially under-managed risks. Throughout the year, risk sessions facilitated by the head of Group internal audit are held with operating company management to identify key risks, assess the probability and impact of those risks and document the actions being taken to manage those risks. The Pearson Management Committee reviews the output of these sessions, focusing on the significant risks facing the business. Management has the responsibility to consider and execute appropriate action to mitigate these risks whenever possible. The results of these reviews are summarised by Group internal audit for evaluation and onward reporting to the board, in summary, and in more detail via the audit committee.

v. Group internal audit

The Group internal audit function is responsible for providing independent assurance to management on the effectiveness of internal controls. The annual internal audit plan, derived from a risk model, is approved by the audit committee. Recommendations to improve internal controls and to mitigate risks, or both, are agreed with operating company management after each audit. Formal follow-up procedures allow Group internal audit to monitor operating companies' progress in implementing its recommendations and to resolve any control deficiencies. The Group internal audit function also has a remit to monitor significant Group projects, in conjunction with the central project management office, to provide assurance that appropriate project governance and risk management strategies are in place. Regular reports on the work of Group internal audit are provided to executive management and, via the audit committee, to the board.

The head of Group internal audit is jointly responsible with the Group legal counsel for monitoring compliance with our Code of Conduct, and investigating any reported incidents including fraud allegations.

vi. Treasury management

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

vii. Insurance

Insurance is provided through Pearson's insurance subsidiary or externally, depending on the scale of the risk and the availability of cover in the external market, with the objective of achieving the most cost-effective balance between insured and uninsured risks.

Going concern

Having reviewed the Group's liquid resources and borrowing facilities and the Group's 2010 and 2011 cash flow forecasts, the directors believe that the Group has adequate resources to continue as a going concern. For this reason, the financial statements have, as usual, been prepared on that basis.

Shareholder communication

Pearson has an extensive programme of communication with all of its shareholders – large and small, institutional and private. We also make a particular effort to communicate regularly with our employees, a large majority of whom are shareholders in the company. We post all company announcements on our website, ⓘ **www.pearson.com**, as soon as they are released, and major shareholder presentations are made accessible via webcast or conference call. Our website contains a dedicated investor relations section with an extensive archive of past announcements and presentations, historical financial performance, share price data and a calendar of events. It also includes information about all of our businesses, links to their websites and details of our corporate responsibility policies and activities.

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

Board governance continued

Our AGM – which will be held on 30 April this year – is an opportunity to meet the company's managers, hear presentations about Pearson's businesses and the previous year's results as well as to conduct general AGM business.

Share capital

Details of share issues are given in note 27 to the accounts on page 140. 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 2009, 810,799,351 ordinary shares were in issue. At the AGM held on 1 May 2009, the company was authorised, subject to certain conditions, to acquire up to 80 million of its ordinary shares by market purchase. Shareholders will be asked to renew this authority at the AGM on 30 April 2010.

As at 26 February 2010, the company had been notified of the following substantial shareholdings in the capital of the company.

	Number of shares	Percentage
Legal & General Group plc	32,300,784	3.98%

Annual General Meeting (AGM)

The notice convening the AGM to be held at 12 noon on Friday, 30 April 2010 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, is contained in a circular to shareholders to be dated 25 March 2010.

Registered auditors

In accordance with section 489 of the Companies Act 2006 a resolution proposing the reappointment of PricewaterhouseCoopers LLP (PwC) as auditors to the company will be proposed at the AGM, at a level of remuneration to be agreed by the directors.

Auditor independence

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

The audit committee approves all audit and non-audit services provided by PwC. Certain categories of allowable non-audit services have been pre-approved by the audit committee subject to the authorities below:

Pre-approved non-audit services can be authorised by the chief financial officer up to £100,000 per project, subject to a cumulative limit of £500,000 per annum;

Acquisition due diligence services up to £100,000 per transaction;

Tax compliance and related activities up to the greater of £1,000,000 per annum or 50% of the external audit fee; and

For forward-looking tax planning services we use the most appropriate advisor, usually after a tender process. Where we decide to use our independent auditor, authority, up to £100,000 per project subject to a cumulative limit of £500,000 per annum, has been delegated by the audit committee to management.

Services provided by PwC above these limits and all other allowable non-audit services, irrespective of value, must be approved by the audit committee. Where appropriate, services will be tendered prior to awarding work to the auditor.

In 2007, Interactive Data appointed Ernst & Young LLP (Ernst & Young) as its independent auditor. To maintain Ernst & Young's independence we have restricted the services that Ernst & Young can provide to Pearson and its subsidiaries, similar to those restrictions which we place on PwC.

The audit committee receives regular reports summarising the amount of fees paid to the auditor.

A full statement of the fees for audit and services is provided in note 4 to the accounts on page 99.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and accounting estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union or disclose and explain any material departures; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company and/or the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the Group. This enables them to ensure that the financial statements and the report on directors' remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the 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 pages 44 and 45, confirm that to the best of their knowledge and belief:

- The Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and company; and
- The directors' report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and Group, together with a description of the principal risks and uncertainties that they face.

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

a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and

b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the board on 10 March 2010 and signed on its behalf by

Philip Hoffman Secretary

Board governance continued

Additional information for shareholders

Amendment to Articles of Association

Any amendments to the Articles of Association (the Articles) of the company may be made in accordance with the provisions of the Companies Act 2006 (the Act) by way of a special resolution.

Rights attaching to shares

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

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

At this year's AGM voting will be conducted on a poll.

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, provided the distributable profits of the company justify such payment. 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 members or different classes of members. The liquidator can also transfer the whole or any part of the assets to trustees upon any trusts for the benefit of the members.

Voting at general meetings

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

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

Pearson operates two employee benefit trusts to hold shares, pending employees becoming entitled to them under the company's employee share plans. There were 9,664,922 shares so held as at 31 December 2009. Each trust has an independent trustee which has full discretion in relation to the voting of such shares. A dividend waiver operates on the shares held in these trusts.

Pearson also operates a nominee shareholding arrangement known as Sharestore which holds shares on behalf of employees. There were 2,747,925 shares so held as at 31 December 2009. The trustees holding these shares seek voting instructions from the employee as beneficial owner, and voting rights are not exercised if no instructions are given.

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 class; or

(ii) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

Without guidance 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

Directors shall number no less than two. 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.

At every AGM of the company, 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.

However, although not required by the Articles, the board has resolved that for this year, and in future years, all directors offer themselves for re-election annually, in accordance with good corporate governance.

The company may by ordinary resolution remove any director before the expiration of his/her term of office. In addition, the board may terminate an agreement or arrangement with any director for the provision of his/her services to the company.

Powers of the directors

Subject to the company's Articles, the Act and any directions given by special resolution, the business of the company will be managed by the board who may exercise all the powers of the company, including powers relating to the issue and/or buying back of shares by the company, (subject to any statutory restrictions or restrictions imposed by shareholders in general meeting).

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the company:

Under the $1,750,000,000 revolving credit facility agreement dated July 2004 (as amended) of which $92,000,000 matures in May 2011 and the balance of $1,658,000,000 matures in May 2012 between, amongst others, the company, HSBC Bank plc (as facility agent) and the banks and financial institutions named therein as lenders (together, the Credit Facilities), the facility agent must, upon a change of control, cancel the total commitments of the lenders under such Credit Facilities and declare all outstanding advances, together with accrued interest and any other amounts payable in respect of such Credit Facilities, to be immediately due and payable. 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 840 of the Income and Corporation Taxes Act 1988) 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.

Report on directors' remuneration

The board presents its report on directors' remuneration to shareholders. This report complies with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and was approved by the board of directors on 10 March 2010.

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

We will put a resolution to shareholders at the Annual General Meeting (AGM) on 30 April 2010 inviting them to consider and approve this report.

The personnel committee

David Arculus chaired the personnel committee for the year 2009; the other members were Terry Burns, Ken Hydon and Glen Moreno. David Arculus, Terry Burns and Ken Hydon are independent non-executive directors. Glen Moreno, chairman of the board, is a member of the committee as permitted under the Combined Code.

Marjorie Scardino, chief executive, David Bell, director for people, Robin Baliszewski (who replaced David Bell as director for people on 1 September 2009), Robert Head, compensation and benefits director, and Stephen Jones, deputy company secretary, provided material assistance to the committee during the year. They attended meetings of the committee, although no director was involved in any decisions relating to his or her own remuneration.

To ensure that it receives independent advice, the committee has appointed Towers Perrin (now Towers Watson) to supply survey data and to advise on market trends, long-term incentives and other general remuneration matters. Towers Perrin also advised the company on health and welfare benefits in the US and provided consulting advice directly to certain Pearson operating companies.

The committee's principal duty is to determine and regularly review, having regard to the Combined Code and on the advice of the chief executive, the remuneration policy and the remuneration and benefits packages of the executive directors, the chief executives of the principal operating companies and other members of the Pearson Management Committee who report directly to the chief executive. This includes base salary, annual and long-term incentive entitlements and awards, and pension arrangements.

The committee's terms of reference are available on the company's website.

The committee met four times during 2009. The matters discussed and actions taken were as follows:

20 and 27 February 2009
Reviewed and approved 2008 annual incentive plan payouts
Reviewed and approved 2006 long-term incentive plan payouts
Approved vesting of 2004 and 2006 annual bonus share matching awards
Reviewed and approved 2009 Pearson and operating company annual incentive plan targets
Reviewed and approved 2009 individual annual incentive opportunities for Pearson Management Committee
Reviewed and approved 2009 long-term incentive awards and associated performance conditions for Pearson Management Committee
Reviewed and approved 2008 report on directors' remuneration
Reviewed strategy on 2009 long-term incentive awards for executives and managers
Noted company's use of equity for employee share plans
Reviewed and approved treatment of David Bell's outstanding share awards on his retirement from the company on 31 December 2009

23 July 2009
Approved 2009 long-term incentive awards for executives and managers
Reviewed committee's charter and terms of reference

11 December 2009
Reviewed status of outstanding long-term incentive awards
Considered return on invested capital targets for long-term incentive plan
Reviewed 2010 annual incentive plan metrics
Considered Towers Perrin's report on remuneration for Pearson Management Committee for 2010

Summary of policy changes in 2009

There were no changes to remuneration policy that took effect during 2009.

Remuneration policy

This report sets out the company's policy on directors' remuneration that applies to executive directors for 2010 and, so far as practicable, for subsequent years. The committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the company's business environment and in remuneration practice. Future reports, which will continue to be subject to shareholder approval, will describe any changes in this policy.

Pearson's goal remains unchanged: to help people make progress in their lives and thrive in a brain-based economy through learning. The basic strategy to achieve that goal is pursued by all Pearson's businesses in some shape or form and has four fundamental parts: long-term organic growth investment in content; adding services to our content; international expansion; and efficiency.

One of the most important measures of our strategy is, of course, financial performance. Here, our goal is to produce consistent growth in three key financial measures – adjusted earnings per share, cash flow and return on invested capital. We believe those are, in concert, good indicators that we are building the long-term value of Pearson. So those measures (or others that contribute to them, such as operating margins and working capital) form the basis of our annual budgets and plans, and the basis for bonuses and long-term incentives.

The performance conditions that we select for the company's various performance-related annual or long-term incentive plans are therefore linked to the company's strategic objectives set out above and aligned with the interests of shareholders. We determine whether or not targets have been met under the company's various performance-related annual or long-term incentive plans based on relevant internal information and input from external advisers.

In light of the prevailing economic conditions and the impact of these on the company's objectives and strategy, we continue to keep our remuneration policy under review particularly with regard to its approach to annual and long-term incentives.

Our starting point continues to be that total remuneration (base compensation plus annual and long-term incentives) should reward both short- and long-term results, delivering competitive rewards for target performance, but outstanding rewards for exceptional company performance.

Generally speaking, we have concluded that no fundamental changes are required to the performance measures used in the company's annual and long-term incentive plans.

We will however continue to give careful consideration to the selection and weighting of these measures and the targets that apply taking into account the company's short- and longer term strategy and risk and the impact on the sustainability and future development of the company.

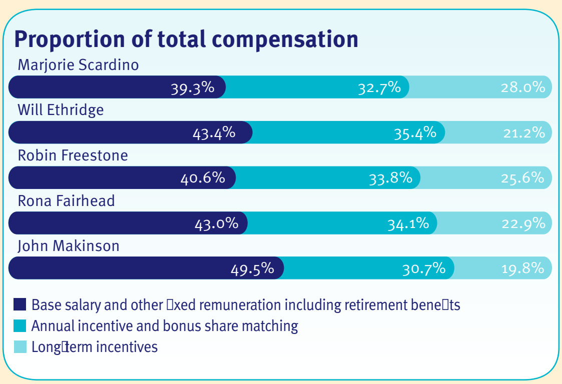
Report on directors' remuneration continued

Main elements of remuneration

Total remuneration is made up of fixed and performance-linked elements, with each element supporting different objectives.

Element	Objective	Performance period	Performance conditions
Base salary (see page 59)	Reflects competitive market level, role and individual contribution	Not applicable	Normally reviewed annually taking into account the remuneration of directors and executives in similar positions in comparable companies, individual performance and the approach to pay across the company as a whole
Annual incentives (see page 59)	Motivates achievement of annual strategic goals	One year	Subject to achievement of targets for sales, earnings per share or profit, working capital and cash
Bonus share matching (see page 61)	Encourages executive directors and other senior executives to acquire and hold Pearson shares. Aligns executives' and shareholders' interests	Three years	Subject to achievement of target for earnings per share growth
Long-term incentives (see page 62)	Drives long-term earnings and share price growth and value creation. Aligns executives' and shareholders' interests	Three years	Subject to achievement of targets for relative total shareholder return, return on invested capital and earnings per share growth

Consistent with its policy, the committee places considerable emphasis on the performance-linked elements i.e. annual incentives, bonus share matching and long-term incentives. Our assessment of the relative importance of fixed and performance-related remuneration for each of the directors based on our policy and the data set out in this report is as follows:



Note The method for valuing the different elements of remuneration is summarised in the table on page 59.

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

Benchmarking

The committee wants our executive directors' remuneration to be competitive with those of directors and executives in similar positions in comparable companies.

The policy is that target total direct compensation (base salary plus annual and long-term incentives) should be set by reference to the UK and US mid-market depending on the relevant market or markets for particular jobs.

We use a range of UK companies in different sectors including the media sector. Some are of a similar size to Pearson, while others are larger, but the method which our independent advisers use to make comparisons on remuneration takes this into account. All have very substantial overseas operations. We also use selected media companies in North America.

We use these companies because they represent the wider executive talent pool from which we might expect to recruit externally and the pay market to which we might be vulnerable if our remuneration was not competitive.

Market assessments against the two groups take account of those factors which Towers Perrin's research shows differentiate remuneration for jobs of a similar nature, such as sales, board membership, reporting relationships and international activities.

For benchmarking purposes, the main elements of remuneration are valued as follows:

Element of remuneration	Valuation
Base salary	Actual base salary
Annual incentive	Target level of annual incentive
Bonus share matching	Expected value of matching award based on 50% of target level of annual incentive
Long-term incentive	Expected value of long-term incentive award
Pension and benefits	Cost to company of providing pension and other benefits
Total remuneration	Sum of all elements of remuneration

Expected value means the net present value of awards taking into account the vesting schedule, risk of forfeiture and the probability that any performance target will be met.

Base salary

The committee's normal policy is to review salaries annually taking into account the remuneration arrangements and the level of increases applicable to employees across the rest of the company as a whole.

For 2010, the company is reviewing salaries for employees taking into account the location and economic conditions of each business. For executive directors, and other members of the Pearson Management Committee, we have reviewed base salaries in line with the general level of increases elsewhere. Full details of the executive directors' remuneration for 2010 will be set out in the report on directors' remuneration for 2010.

The committee reviewed executive directors' base salaries for 2009 at the end of 2008. In light of the then prevailing economic conditions and consistent with the action taken across the company to control costs and minimise job losses, there were no increases in base salary for the executive directors and other members of the Pearson Management Committee for 2009. Full details of the executive directors' 2009 remuneration are set out in table 1 on page 71.

Allowances and benefits

The company's policy is that benefit programmes should be competitive in the context of the local labour market, but as an international company we require executives to operate worldwide and recognise that recruitment also operates worldwide.

Annual incentives

The committee establishes the annual incentive plans for the executive directors and the chief executives of the company's principal operating companies, including performance measures and targets. These plans then become the basis of the annual incentive plans below the level of the principal operating companies, particularly with regard to the performance measures used and the relationship between the incentive plan targets and the relevant business unit operating plans.

We will continue to review the annual incentive plans each year and to revise the performance measures, targets and individual incentive opportunities in light of current conditions. We will continue to disclose details of the operation of the annual incentive plans in the report on directors' remuneration each year.

Annual incentive payments do not form part of pensionable earnings.

Performance measures

The financial performance measures relate to the company's main drivers of business performance at both the corporate, operating company and business unit level. Performance is measured separately for each item. For each performance measure, the committee establishes threshold, target and maximum levels of performance for different levels of payout.

A proportion (which for 2010 may be up to 30%) of the total annual incentive opportunity for the executive directors and other members of the Pearson Management Committee is based on performance against personal objectives as agreed with the chief executive (or, in the case of the chief executive, the chairman). These comprise functional, operational, strategic and non-financial objectives relevant to the executives' specific areas of responsibility and *inter alia* may include objectives relating to environmental, social and governance issues.

For 2010, the principal financial performance measures are: sales; operating profit (for the operating companies) and growth in underlying earnings per share for continuing operations at constant exchange rates (for Pearson plc); average working capital as a ratio to sales; and operating cash flow. The selection and weighting of performance measures takes into account the strategic objectives and the business priorities relevant to each operating company and to Pearson overall each year.

Incentive opportunities

In each year's report on directors' remuneration, we describe any changes to target and maximum incentive opportunities for the chief executive and the other executive directors for the year ahead.

Report on directors' remuneration continued

For 2010, there is no change to the target annual incentive opportunity for the chief executive which remains at 100% of base salary. We reviewed the chief executive's maximum opportunity in light of competitive market data and practice elsewhere in the company and have increased it to 180% of base salary (150% in 2009).

For the other members of the Pearson Management Committee, we have reviewed individual incentive opportunities taking into account their membership of that committee and the contribution of their respective businesses or role to Pearson's overall financial goals. In the case of the executive directors, the target individual incentive opportunity is in a range up to 87.5% of base salary. The maximum opportunity remains at twice target (as in 2009).

The annual incentive plans are discretionary and the committee reserves the right to make adjustments to payouts up or down if it believes exceptional factors warrant doing so. The committee may also award individual discretionary incentive payments although no such payments were awarded in respect of 2009.

For 2009, total annual incentive opportunities were based on Pearson plc and operating company financial performance and performance against personal objectives as follows:

Name	Pearson plc	Operating company/ companies	Personal objectives
Marjorie Scardino	100%	–	–
David Bell	75%	–	25%
Will Ethridge	30%	60%	10%
Rona Fairhead	30%	60%	10%
Robin Freestone	90%	–	10%
John Makinson	30%	60%	10%

2009 performance

Performance in 2009 against the relevant incentive plans was as follows:

		Performance against incentive plan			
Incentive plan	Performance measure	Below threshold	Between threshold and target	Between target and maximum	Above maximum
Pearson plc	Sales			✓	
	Underlying growth in adjusted earnings per share at constant exchange rates			✓	
	Average working capital to sales ratio				✓
	Operating cash flow				✓
Pearson Education North America	Sales			✓	
	Operating profit				✓
	Average working capital to sales ratio				✓
	Operating cash flow				✓
FT Publishing	Sales	✓			
	Operating profit				✓
	Operating cash flow				✓
Pearson VUE	Sales		✓		
	Operating profit			✓	
	Average working capital to sales ratio				✓
	Operating cash flow			✓	
Penguin Group	Sales			✓	
	Operating profit			✓	
	Operating margin			✓	
	Average working capital to sales ratio			✓	
	Operating cash flow				✓

Details of actual payouts for 2009 are set out in table 1 on page 71.

Bonus share matching

In 2008, shareholders approved the renewal of the annual bonus share matching plan first approved by shareholders in 1998.

Invested and matching shares

The plan permits executive directors and senior executives around the company to invest up to 50% of any after-tax annual bonus in Pearson shares.

If the participant's invested shares are held, they are matched subject to earnings per share growth over the three-year performance period on a gross basis i.e. the maximum number of matching shares is equal to the number of shares that could have been acquired with the amount of the pre-tax annual bonus taken in invested shares.

50% of the maximum matching award is released if the company's adjusted earnings per share increase in real terms by 3% per annum compound over the three-year performance period. 100% of the maximum matching award is released if the company's adjusted earnings per share increase in real terms by 5% per annum compound over the same period.

For real growth in adjusted earnings per share of between 3% and 5% per annum compound, the rate at which the matching award is released is calculated according to a straight-line sliding scale.

Real earnings per share growth per annum	Proportion of maximum matching award released
Less than 3%	0%
3%	50%
Between 3% and 5%	Sliding scale between 50% and 100%
5% or more	100%

Performance condition

Earnings per share growth is calculated using the point-to-point method. This method compares the adjusted earnings per share in the company's accounts for the financial year ended prior to the grant date with the adjusted earnings per share for the financial year ending three years later and calculates the implicit compound annual growth rate over the period.

Real growth is calculated by reference to the UK Government's Retail Prices Index (All Items). We choose to test our earnings per share growth against UK inflation over three years to measure the company's financial progress over the period to which the entitlement to matching shares relates.

Dividend shares

Where matching shares vest in accordance with the plan, a participant also receives 'dividend' shares representing the gross value of dividends that would have been paid on the matching shares during the holding period and reinvested.

Report on directors' remuneration continued

Outstanding awards

Details of awards made, outstanding, held or released under the annual bonus share matching plan are as follows (subject to audit):

Date of award	Share price on date of award	Vesting	Status of award
16 April 2009	670.0p	16 April 2012	Outstanding subject to 2008 to 2011 performance
4 June 2008	670.7p	4 June 2011	Outstanding subject to 2007 to 2010 performance
22 May 2007	899.9p	50% on 22 May 2010	Performance condition met. Real compound annual growth in earnings per share for 2006 to 2009 of 12.2% against target of 3.0%
		100% on 22 May 2012	Outstanding subject to participants not electing to call for 50% of shares that vest on 22 May 2010 and subject to 2006 to 2011 performance
12 April 2006	776.2p	50% on 12 April 2009	Target met as reported in report on directors' remuneration for 2008. Shares held pending release on 12 April 2011
		100% on 12 April 2011	Outstanding subject to 2005 to 2010 performance
15 April 2005	631.0p	100% on 2 March 2010	Performance condition met. Increase in adjusted earnings per share for 2004 to 2009 of 137.8% against target of 29.8%. Shares held pending release on 2 March 2010
16 April 2004	652.0p	100% on 16 April 2009	Target met as reported in report on directors' remuneration for 2008. Shares released on 16 April 2009

Note For awards made prior to 2008, the annual bonus share matching plan operated on the basis of a 50% match after three years and 100% match after five years, subject to the earnings per share growth targets being met over the relevant performance periods.

All of the executive directors hold or held awards under this plan in 2009. Details are set out in table 4 on pages 74 to 76 and itemised as a or a*.

Long-term incentives

At the Annual General Meeting in April 2006, shareholders approved the renewal of the long-term incentive plan first introduced in 2001.

Executive directors, senior executives and other managers can participate in this plan which can deliver restricted stock and/or stock options. Approximately 6% of the company's employees currently hold awards under this plan.

The aim is to give the committee a range of tools with which to link corporate performance to management's long-term reward in a flexible way. It is not the committee's intention to grant stock options in 2010.

Restricted stock granted to executive directors vests only when stretching corporate performance targets over a specified period have been met. Awards vest on a sliding scale based on performance over the period. There is no retesting.

Performance measures

The committee determines the performance measures and targets governing an award of restricted stock prior to grant.

The performance measures that have applied since 2006 and that will apply for 2010 and subsequent awards for the executive directors are focused on delivering and improving returns to shareholders. These are relative total shareholder return (TSR), return on invested capital (ROIC) and earnings per share (EPS) growth.

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

Share price is averaged over 20 days at the start and end of the performance period, commencing on the date of Pearson's results announcement in the year of grant and the year of vesting. Dividends are treated as reinvested on the ex-dividend date, in line with the Datastream methodology.

The vesting of shares based on relative TSR is subject to the committee satisfying itself that the recorded TSR is a genuine reflection of the underlying financial performance of the business.

The committee chose TSR relative to the constituents of the FTSE World Media Index because, in line with many of our shareholders, it felt that part of executive directors' rewards should be linked to performance relative to the company's peers.

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

We chose ROIC because, over the past few years, the transformation of Pearson has significantly increased the capital invested in the business (mostly in the form of goodwill associated with acquisitions) and required substantial cash investment to integrate those acquisitions.

Earnings per share is calculated by dividing the profit attributable to equity shareholders of the company by the weighted average number of ordinary shares in issue during the year, excluding any ordinary shares purchased by the company and held as treasury shares (note 8 of the financial statements).

For 2008 and subsequent awards, EPS growth is calculated using the point-to-point method. This method compares the adjusted EPS in the company's accounts for the financial year ended prior to the grant date with the adjusted EPS for the financial year ending three years later and calculates the implicit compound annual growth rate over the period.

We chose EPS growth because strong bottom-line growth is imperative if we are to improve our TSR and our ROIC.

Pearson's reported financial results for the relevant periods are used to measure performance.

The committee has discretion to make adjustments taking into account exceptional factors that distort underlying business performance. In exercising such discretion, the committee is guided by the principle of aligning shareholder and management interests.

Restricted stock may be granted without performance conditions to satisfy recruitment and retention objectives. Restricted stock awards that are not subject to performance conditions will not be granted to any of the current executive directors.

Performance targets
We will set stretching targets for the 2010 awards that are consistent with the company's strategic objectives over the period to 2012. Full details of the targets and individual awards will be set out in the report on directors' remuneration for 2010.

Value of awards
Our independent advisers verify each year the expected value of awards i.e. their net present value after taking into account the vesting schedule, risk of forfeiture and the probability that any performance targets will be met.

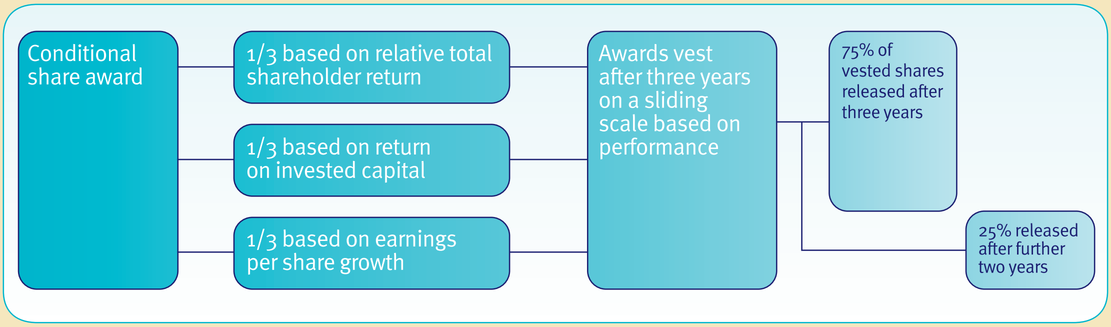
The level of individual awards takes into account three factors: their expected values; the assessments by our independent advisers of market practice for comparable companies and of directors' total remuneration relative to the market; and the face value of individual awards and their potential value should the performance targets be met in full.

Dividends
Where shares vest, participants receive additional shares representing the gross value of dividends that would have been paid on these shares during the performance period and reinvested. The expected value of awards made on this basis takes this into account.

Retention period
We encourage executives and managers to build up a long-term holding of shares so as to demonstrate their commitment to the company.

To achieve this, for awards of restricted stock that are subject to performance conditions over a three-year period, 75% of the award vests at the end of the three-year period. The remaining 25% of the award only vests if the participant retains the after-tax number of shares that vest at year three for a further two years.

Report on directors' remuneration continued



Outstanding awards

Details of awards made, outstanding, vested and held or released under the long-term incentive plan are as follows (subject to audit):

Date of award	Share price on date of award	Vesting date	Performance measures (award split equally across three measures)	Performance period	Payout at threshold	Payout at maximum	Actual performance	% of award vested	Status of award
03/03/09	654.0p	03/03/12	Relative TSR	2009 to 2012	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2011	25% for ROIC of 8.5%	100% for ROIC of 10.5%	–	–	Outstanding
			EPS growth	2011 compared to 2008	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	–	–	Outstanding
04/03/08	649.5p	04/03/11	Relative TSR	2008 to 2011	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2010	25% for ROIC of 8.5%	100% for ROIC of 10.5%	–	–	Outstanding
			EPS growth	2010 compared to 2007	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	–	–	Outstanding
30/07/07	778.0p	02/03/10	Relative TSR	2007 to 2010	30% at median	100% at upper quartile	94th percentile (6th out of 85 companies)	100%	Vested and remain held pending release
			ROIC	2009	25% for ROIC of 8.5%	100% for ROIC of 10.5%	8.9%	40%	Vested and remain held pending release
			EPS growth	2007 to 2009 compared to 2006 (see note 2)	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	14.3%	100%	Vested and remain held pending release

Date of award	Share price on date of award	Vesting date	Performance measures (award split equally across three measures)	Performance period	Payout at threshold	Payout at maximum	Actual performance	% of award vested	Status of award
13/10/06	767.5p	13/10/09	Relative TSR	2006 to 2009	30% at median	100% at upper quartile	90th percentile (10th out of 95 companies)	100%	83.3% of shares vested. Three-quarters released on 13 October 2009. If after tax number of shares are retained for a further two years, the remaining quarter will be released on 13 October 2011
			ROIC	2008	25% for ROIC of 8.0%	100% for ROIC of 10.0%	9.2%	50% (see note 1)	
			EPS growth	2006 to 2008 compared to 2005 (see note 2)	30% for EPS growth of 5.0%	100% for EPS growth of 12.0%	18.3%	100%	

Note 1 In relation to the award made on 13 October 2006, the committee noted the change in the calculation of return in invested capital and the resulting figure of 9.2% for 2008. The committee agreed with the rationale for the change but considered that, given that the new basis of calculation differed from that used at the time the award was made, it would not be appropriate simply to use this basis for the purposes of determining payout on this element. The payout of 50% of shares originally awarded reflects the committee's judgement on this point.

Note 2 For awards prior to 2008, EPS growth is calculated using the aggregate method that sums the results for each year and calculates the compound aggregate average annual growth assuming a constant increase on the base year throughout the period.

All of the executive directors hold awards under the long-term incentive plan. Details are set out in table 4 on pages 74 to 76 and itemised as b or b*.

All-employee share plans

Executive directors can participate in the company's all-employee share plans on the same terms as other employees.

These plans comprise savings-related share acquisition programmes in the UK and the US.

These plans operate within specific tax legislation (including a requirement to finance acquisition of shares using the proceeds of a monthly savings contract) and the acquisition of shares under these plans is not subject to the satisfaction of a performance target.

Dilution and use of equity

We can use existing shares bought in the market, treasury shares or newly-issued shares to satisfy awards under the company's various stock plans.

For restricted stock awards under the long-term incentive plan and matching share awards under the annual bonus share matching plan, we would normally expect to use existing shares.

There are limits on the amount of new-issue equity we can use. In any rolling ten-year period, no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson's share plans, and no more than 5% of Pearson equity will be issued, or be capable of being issued, under executive or discretionary plans.

At 31 December 2009, stock awards to be satisfied by new-issue equity granted in the last ten years under all employee share plans amounted to 3.6% of the company's issued share capital and under executive or discretionary plans amounted to 2.0%.

In addition, for existing shares no more than 5% of Pearson equity may be held in trust at any time. Against this limit, shares held in trust at 31 December 2009 amounted to 1.7% of the company's issued share capital.

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

Headroom	2009	2008	2007
All employee plans	6.4%	6.2%	6.0%
Executive or discretionary plans	3.0%	2.8%	2.3%
Shares held in trust	3.3%	3.3%	3.4%

Report on directors' remuneration continued

Shareholding of executive directors

The committee expects executive directors to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee ownership and describes separately here both the number of shares that the executive directors hold and the value expressed as a percentage of base salary.

The current value of the executive directors' own shares based on the middle market value of Pearson shares of 912.0p on 26 February 2010 (which is the latest practicable date before the results announcement) against annual base salaries in 2009 is as follows:

Own shares	Number of shares	Value (% of base salary)
Marjorie Scardino	824,124	791%
Will Ethridge	262,988	375%
Rona Fairhead	270,982	488%
Robin Freestone	118,996	241%
John Makinson	474,581	824%

In addition, the executive directors have prospective holdings as a result of restricted shares that have vested and are held pending release. The current value of these shares before any withholdings is as follows:

Restricted shares	Number of shares	Value (% of base salary)
Marjorie Scardino	640,590	615%
Will Ethridge	183,938	263%
Rona Fairhead	233,298	420%
Robin Freestone	130,113	264%
John Makinson	181,169	315%

The size of these holdings, the volatility of the stock market and the share retention features that already exist in our long-term incentive plans means that we do not prescribe a particular relationship of shareholding to salary.

No executive director sold shares during the year other than to satisfy income tax liability on the release of restricted shares.

Service agreements

In accordance with long established policy, all continuing executive directors have rolling service agreements under which, other than by termination in accordance with the terms of these agreements, employment continues until retirement.

The committee reviewed the policy on executive employment agreements in 2008 and again in 2010. Our policy is that for future executive directors service agreements should provide that the company may terminate these agreements by giving no more than 12 months' notice. As an alternative, the company may at its discretion pay in lieu of that notice. Payment in lieu of notice may be made in instalments and may be subject to mitigation.

We will keep the application of the policy on executive employment agreements, including provisions for payment in lieu of notice, under review, particularly with regard to the arrangements for any new executive directors.

In the case of the longer serving directors with legacy employment agreements, the compensation payable in circumstances where the company terminates the agreements without notice or cause takes the form of liquidated damages.

There are no special provisions for notice, pay in lieu of notice or liquidated damages in the event of termination of employment in the event of a change of control of Pearson.

On termination of employment, executive directors' entitlements to any vested or unvested awards under Pearson's discretionary share plans are treated in accordance with the terms of the relevant plan.

We summarise the service agreements that applied during 2009 and that continue to apply for 2010 as follows:

Name	Date of agreement	Notice periods	Compensation on termination by the company without notice or cause
Glen Moreno	29 July 2005	12 months from the director; 12 months from the company	100% of annual fees at the date of termination
Marjorie Scardino	27 February 2004	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive
David Bell (stepped down on 1 May 2009) (see note)	15 March 1996	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive
Will Ethridge	26 February 2009	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and target annual incentive
Rona Fairhead	24 January 2003	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive
Robin Freestone	5 June 2006	Six months from the director; 12 months from the company	No contractual provisions
John Makinson	24 January 2003	Six months from the director; 12 months from the company	100% of annual salary at the date of termination, the annual cost of pension and all other benefits and 50% of potential annual incentive

Note No compensation was paid to David Bell when he retired from the company on 31 December 2009.

Retirement benefits

We describe the retirement benefits for each of the executive directors. Details of directors' pension arrangements are set out in table 2 on page 72 of this report.

Executive directors participate in the pension arrangements set up for Pearson employees.

Marjorie Scardino, Will Ethridge, John Makinson, Rona Fairhead and Robin Freestone will also have other retirement arrangements because of the cap on the amount of benefits that can be provided from the pension arrangements in the US and the UK.

The differences in the arrangements for the current executive directors reflect the different arrangements in the UK and the US and the changes in pension arrangements generally over the periods of their employment.

The pension arrangements for all the executive directors include life insurance cover while in employment, and entitlement to a pension in the event of ill-health or disability. A pension for their spouse and/or dependants is also available on death.

In the US, the defined benefit arrangement is the Pearson Inc. Pension Plan. This plan provides a lump sum convertible to a pension on retirement. The lump sum accrued at 6% of capped compensation until 31 December 2001 when further benefit accruals ceased for most employees. Employees who satisfied criteria of age and service at that time continued to accrue benefits under the plan. Will Ethridge is included in this group and continues to accrue benefits under this plan. Marjorie Scardino is not and her benefit accruals under this plan ceased at the end of 2001.

Report on directors' remuneration continued

The defined contribution arrangement in the US is a 401(k) plan. At retirement, the account balances will be used to provide benefits. In the event of death before retirement, the account balances will be used to provide benefits for dependants.

In the UK, the pension plan is the Pearson Group Pension Plan and executive directors participate in either the Final Pay or the Money Purchase 2003 section. Normal retirement age is 62, but, subject to company consent, retirement is currently possible after age 50 (age 55 from April 2010). In the Final Pay section, the accrued pension is reduced on retirement prior to age 60. Pensions in payment are guaranteed to increase each year at 5% or the increase in the Index of Retail Prices, if lower. Pensions for a member's spouse, dependant children and/or nominated financial dependant are payable in the event of death. In the Money Purchase 2003 section the account balances are used to provide benefits at retirement. In the event of death before retirement pensions for a member's spouse, dependant children and/or nominated financial dependant are payable.

Members of the Pearson Group Pension Plan who joined after May 1989 are subject to an upper limit of earnings that can be used for pension purposes, known as the earnings cap. This limit, £108,600 as at 6 April 2006, was abolished by the Finance Act 2004. However the Pearson Group Pension Plan has retained its own 'cap', which will increase annually in line with the UK Government's Index of Retail Prices (All Items). The cap was £123,600 as at 6 April 2009.

As a result of the UK Government's A-Day changes effective from April 2006, UK executive directors and other members of the Pearson Group Pension Plan who are, or become, affected by the lifetime allowance are provided with a cash supplement as an alternative to further accrual of pension benefits on a basis that is broadly cost neutral to the company. In 2009, the only executive director to whom this was applicable was David Bell. He was offered the allowance alternative but declined and continued as an active member of the plan. With his retirement there are no executive directors who received the offer of an allowance alternative.

Marjorie Scardino

Marjorie Scardino participates in the Pearson Inc. Pension Plan and the approved 401(k) plan.

Additional pension benefits are provided through an unfunded unapproved defined contribution plan. Notional annual contributions to this plan are based on a percentage of salary and a fixed cash amount index-linked to inflation and the notional cash balance of this plan increases annually by a specified notional interest rate. The unfunded plan also provides the opportunity to convert a proportion of this notional cash account into a notional share account reflecting the value of a number of Pearson ordinary shares. The number of shares in the notional share account is determined by reference to the market value of Pearson shares at the date of conversion. Part of the unfunded plan is replaced by a funded defined contribution plan approved by HM Revenue and Customs as a corresponding plan.

David Bell

David Bell is drawing his pension from the Pearson Group Pension Plan. He began to receive his pension effective 30 September 2008 on attainment of Normal Retirement Age.

Will Ethridge

Will Ethridge is a member of the Pearson Inc. Pension Plan and the approved 401(k) plan. He also participates in an unfunded, unapproved Supplemental Executive Retirement Plan (SERP) that provides an annual accrual of 2% of final average earnings, less benefits accrued in the Pearson Inc. Pension Plan and US Social Security. Additional defined contribution benefits are provided through a funded, unapproved 401(k) excess plan.

Rona Fairhead

Rona Fairhead is a member of the Pearson Group Pension Plan. Her 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 her behalf. Since April 2006, she has received a taxable and non-pensionable cash supplement in replacement of the FURBS.

Robin Freestone

Robin Freestone is a member of the Money Purchase 2003 section of the Pearson Group Pension Plan. Company contributions are 16% 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.

John Makinson
John Makinson is a member of the Pearson Group Pension Plan under which his pensionable salary is restricted to the plan earnings cap. The company ceased contributions on 31 December 2001 to his FURBS arrangement. During 2002 it set up an Unfunded Unapproved Retirement Benefits Scheme (UURBS) for him. The UURBS tops up the pension payable from the Pearson Group Pension Plan and the closed FURBS to target a pension of two-thirds of a revalued base salary on retirement at age 62. The revalued base salary is defined as £450,000 effective at 1 June 2002, increased at 1 January each year by reference to the increase in the UK Government's Index of Retail Prices (All Items). In the event of his death a pension from the Pearson Group Pension Plan, the FURBS and the UURBS will be paid to his spouse or nominated financial dependant. Early retirement is possible from age 50 (age 55 from April 2010), with company consent.

The pension is reduced to reflect the shorter service, and before age 60, further reduced for early payment.

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.

The following executive directors served as non-executive directors elsewhere and received fees or other benefits for the period covered by this report as follows:

	Company	Fees/benefits
Marjorie Scardino	Nokia Corporation	€150,000
	MacArthur Foundation	$24,000
Rona Fairhead	HSBC Holdings plc	£135,000
	Spencer Stuart Advisory Board	£10,000

Other executive directors served as non-executive directors elsewhere but did not receive fees.

Chairman's remuneration

The committee's policy is that the chairman's pay should be set at a level that is competitive with those of chairmen in similar positions in comparable companies. He is not entitled to any annual or long-term incentive, retirement or other benefits.

There were no changes in the chairman's remuneration in 2009. With effect from 1 January 2007, his remuneration was £450,000 per year.

Non-executive directors

Fees for non-executive directors are determined by the full board having regard to market practice and within the restrictions contained in the company's Articles of Association. Non-executive directors receive no other pay or benefits (other than reimbursement for expenses incurred in connection with their directorship of the company) and do not participate in the company's equity-based incentive plans.

There were no changes in the structure and level of non-executive directors' fees in 2009. With effect from 1 July 2007, these were as follows:

	Fees payable from 1 July 2007
Non-executive director	£60,000
Chairmanship of audit committee	£20,000
Chairmanship of personnel committee	£15,000
Membership of audit committee	£10,000
Membership of personnel committee	£5,000
Senior independent director	£15,000

A minimum of 25% of the basic fee is paid in Pearson shares that the non-executive directors have committed to retain for the period of their directorships.

Terry Burns also receives a fee in respect of his non-executive directorship of Edexcel which is included in the figure shown in table 1 on page 71.

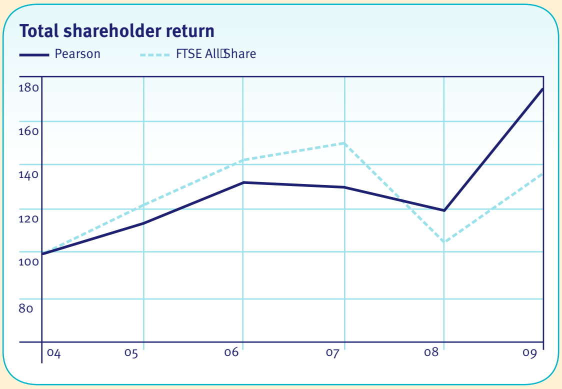
Non-executive directors serve Pearson under letters of appointment and do not have service contracts. There is no entitlement to compensation on the termination of their directorships.

Report on directors' remuneration continued

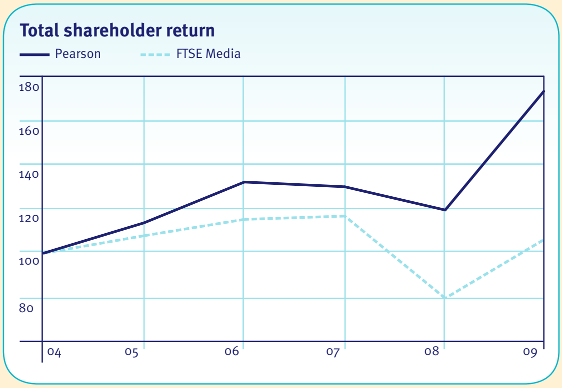
Total shareholder return performance

Below we set out Pearson's total shareholder return on three bases. Pearson is a constituent of all the indices shown.

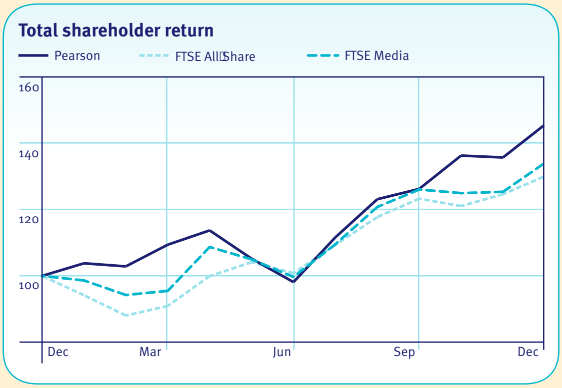
First, we set out Pearson's total shareholder return performance relative to the FTSE All-Share index on an annual basis over the five-year period 2004 to 2009. We have chosen this index, and used it consistently in each report on directors' remuneration since 2002, on the basis that it is a recognisable reference point and an appropriate comparator for the majority of our investors.



Secondly, to illustrate performance against our sector, we show Pearson's total shareholder return relative to the FTSE Media index over the same five-year period.



And thirdly, we show Pearson's total shareholder return relative to the FTSE All-Share and Media indices on a monthly basis over 2009, the period to which this report relates.



Items subject to audit

The following tables form the auditable part of the remuneration report.

Table 1: Remuneration of the directors

Excluding contributions to pension funds and related benefits set out in table 2, directors' remuneration was as follows:

					2009	2008
All figures in £000s	Salaries/fees	Annual incentive	Allowances	Benefits	Total	Total
Chairman						
Glen Moreno	450	–	–	–	450	450
Executive directors						
Marjorie Scardino	950	1,301	56	21	2,328	2,057
David Bell (stepped down 1 May 2009)	154	207	–	6	367	983
Will Ethridge	639	874	–	–	1,513	1,171
Rona Fairhead	506	570	–	28	1,104	1,036
Robin Freestone	450	639	–	13	1,102	957
John Makinson	525	655	216	29	1,425	1,240
Non-executive directors						
David Arculus	85	–	–	–	85	85
Terry Burns	83	–	–	–	83	83
Patrick Cescau	70	–	–	–	70	70
Susan Fuhrman	70	–	–	–	70	70
Ken Hydon	85	–	–	–	85	81
CK Prahalad	60	–	–	–	60	40
Total	4,127	4,246	272	97	8,742	8,323

Note 1 Allowances for Marjorie Scardino include £44,870 in respect of housing costs and a US payroll supplement of £10,961. John Makinson is entitled to a location and market premium in relation to the management of the business of the Penguin Group in the US and received £215,594 for 2009.

Note 2 Benefits include company car, car allowance and UK health care premiums. US health and welfare benefits for Marjorie Scardino and Will Ethridge are self-insured and the company cost, after employee contributions, is tax free to employees. For Marjorie Scardino, benefits include £5,317 for pension planning and financial advice. Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur.

Note 3 There were no increases in base salary for the executive directors for 2009.

Note 4 No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Note 5 David Bell stepped down from the board on 1 May 2009. He continued to be entitled to the same base salary and other benefits in accordance with his service agreement with the company until his retirement from the company on 31 December 2009.

Report on directors' remuneration continued

Table 2: Directors' pensions and other pension-related items

Directors' pensions	Age at 31 Dec 09	Accrued pension at 31 Dec 09 £000[1]	Increase in accrued pension over the period £000[2]	Transfer value at 31 Dec 08 £000[3]	Transfer value at 31 Dec 09 £000[4]	Increase in transfer value* over the period £000	Increase/ (decrease) in accrued pension† over the period £000	Transfer value* of the increase/ (decrease) in accrued pension† at 31 Dec 09 £000	Other pension costs to the company over the period £000[5]	Other allowances in lieu of pension £000[6]	Other pension related benefit costs £000[7]
Marjorie Scardino	62	4.5	(0.5)	47.5	44.1	(3.4)	(0.5)	(4.9)	623.7	–	54.5
David Bell (stepped down 1 May 2009)	63	236.0	(76.7)	6,045.5	5456.4	(589.1)	(76.7)	(1,773.3)	–	–	–
Will Ethridge	57	127.0	(1.2)	853.7	1037.2	183.5	(1.2)	(9.8)	44.4	–	2.1
Rona Fairhead	48	32.3	5.0	294.6	466.0	165.5	5.0	66.2	–	128.2	3.4
Robin Freestone	51	–	–	–	–	–	–	–	18.8	112.1	4.9
John Makinson	55	254.8	18.4	3,532.2	4,897.6	1,359.4	18.4	347.8	–	–	12.4

* Less directors' contributions.

† Net of inflation. An inflation rate of 0% has been used.

Note 1 The accrued pension at 31 December 2009 is that which would become payable from normal retirement age if the member left service at 31 December 2009. For Marjorie Scardino it relates only to the pension from the US Plan. For David Bell this is the pension in payment as at 31 December 2009. For Will Ethridge it relates to his pension from the US Plan and US SERP. For Rona Fairhead it relates to the pension payable from the UK Plan. For John Makinson it relates to the pension from the UK Plan, the FURBS and the UURBS in aggregate.

Note 2 For Marjorie Scardino and Will Ethridge, the increase in accrued pension figure is negative due to movements in exchange rates over the year.

Note 3 For David Bell, this is the value of his pre-commutation pension at his Normal Retirement Date based on market conditions at 31 December 2008.

Note 4 The UK transfer values at 31 December 2009 are calculated using the assumptions for cash equivalents payable from the UK Plan and are based on the accrued pension at that date. For David Bell the transfer value has been calculated as the value of the pension in payment at 31 December 2009. For the US SERP, transfer values are calculated using a discount rate equivalent to current US long-term bond yields. The US Plan is a lump sum plan and the accrued balance is shown.

Note 5 For UK benefits, this column comprises employer contributions to the Money Purchase 2003 section of the Pearson Group Pension Plan. For US benefits, it includes company contributions to funded defined contribution plans and notional contributions to unfunded defined contribution plans.

Note 6 This column comprises cash allowances paid in lieu of pension benefits above the plan earnings cap.

Note 7 This column comprises life cover and long-term disability insurance not covered by the retirement plans.

Note 8 David Bell did not receive any cash in lieu of pension benefits in 2009.

Table 3: Interests of directors

	Ordinary shares at 1 Jan 09	Ordinary shares at 31 Dec 09
Glen Moreno	210,000	210,000
Marjorie Scardino	632,755	824,124
David Arculus	11,740	13,044
David Bell (stepped down 1 May 2009)	250,348	253,050
Terry Burns	10,290	12,008
Patrick Cescau	4,144	5,356
Will Ethridge	128,758	262,988
Rona Fairhead	209,259	270,982
Robin Freestone	44,379	118,996
Susan Fuhrman	7,365	9,384
Ken Hydon	8,559	9,774
John Makinson	397,733	474,581
CK Prahalad	969	2,197

Note 1 Ordinary shares include both ordinary shares listed on the London Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. The figures include both shares and ADRs acquired by individuals investing part of their own after-tax annual bonus in Pearson shares under the annual bonus share matching plan.

Note 2 No director sold shares during the year other than to satisfy income tax liability on the release of restricted shares.

Note 3 At 31 December 2009, John Makinson held 1,000 shares in Interactive Data Corporation.

Note 4 From 2004, Marjorie Scardino is also deemed to be interested in a further number of shares under her unfunded pension arrangement described in this report, which provides the opportunity to convert a proportion of her notional cash account into a notional share account reflecting the value of a number of Pearson shares.

Note 5 The register of directors' interests (which is open to inspection during normal office hours) contains full details of directors' shareholdings and options to subscribe for shares. The market price on 31 December 2009 was 891.0p per share and the range during the year was 578.0p to 892.5p.

Note 6 At 31 December 2009, Patrick Cescau held 168,000 Pearson bonds.

Note 7 There were no movements in ordinary shares between 1 January 2010 and a month prior to the sign-off of this report.

Report on directors' remuneration continued

Table 4: Movements in directors' interests in restricted shares

Restricted shares designated as: a annual bonus share matching plan; b long-term incentive plan; * where shares at 31 December 2009 have vested and are held pending release; and ** where dividend-equivalent shares were added to the released shares.

Date of award		1 Jan 09	Awarded	Released	Lapsed	31 Dec 09	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Marjorie Scardino										
a*	22/5/07	30,143				30,143	899.9p	22/5/10		
a	22/5/07	30,144				30,144	899.9p	22/5/12		
a	4/6/08	99,977				99,977	670.7p	4/6/11		
b	16/12/02	301,700			301,700	0	638.5p	28/6/05		
b	26/9/03	120,200				120,200	582.0p	29/9/06		
b*	21/12/04	83,197				83,197	613.0p	21/12/09		
b*	23/9/05	97,500				97,500	655.0p	2/3/10		
b*	13/10/06	225,000		168,750		56,250	767.5p	13/10/09	13/10/09	791.5p
b*	13/10/06	150,000		112,500		37,500	767.5p	13/10/09	13/10/09	791.5p
b**	13/10/09	0	37,688	37,688		0	791.5p	13/10/09	13/10/09	791.5p
b*	30/7/07	420,000			84,000	336,000	778.0p	2/3/10		
b	4/3/08	400,000				400,000	649.5p	4/3/11		
b	3/3/09	0	450,000			450,000	654.0p	3/3/12		
Total		1,957,861	487,688	318,938	385,700	1,740,911				
David Bell										
a*	16/4/04	4,503		4,503		0	652.0p	16/4/09	16/4/09	670.0p
b	16/12/02	133,065			133,065	0	638.5p	28/6/05		
b	26/9/03	82,400				82,400	582.0p	29/9/06		
b*	21/12/04	33,002				33,002	613.0p	21/12/09		
b*	23/9/05	36,833				36,833	655.0p	2/3/10		
b*	13/10/06	62,500		46,875		15,625	767.5p	13/10/09	13/10/09	791.5p
b*	13/10/06	41,667		31,250		10,417	767.5p	13/10/09	13/10/09	791.5p
b**	13/10/09	0	10,469	10,469		0	791.5p	13/10/09	13/10/09	791.5p
b*	30/7/07	100,000			20,000	80,000	778.0p	2/3/10		
b	4/3/08	100,000				100,000	649.5p	4/3/11		
Total		593,970	10,469	93,097	153,065	358,277				

Table 4: Movements in directors' interests in restricted shares continued

Restricted shares designated as: a annual bonus share matching plan; b long-term incentive plan; * where shares at 31 December 2009 have vested and are held pending release; and ** where dividend-equivalent shares were added to the released shares.

Date of award	1 Jan 09	Awarded	Released	Lapsed	31 Dec 09	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Will Ethridge									
a* 22/5/07	1,254				1,254	899.9p	22/5/10		
a 22/5/07	1,254				1,254	899.9p	22/5/12		
a 16/4/09	0	112,515			112,515	670.0p	16/4/12		
b* 23/9/05	21,017				21,017	655.0p	23/9/08		
b* 13/10/06	100,000		75,000		25,000	767.5p	13/10/09	13/10/09	791.5p
b* 13/10/06	66,667		50,000		16,667	767.5p	13/10/09	13/10/09	791.5p
b** 13/10/09	0	16,750	16,750		0	791.5p	13/10/09	13/10/09	791.5p
b* 30/7/07	150,000			30,000	120,000	778.0p	2/3/10		
b 4/3/08	150,000				150,000	649.5p	4/3/11		
b 3/3/09	0	175,000			175,000	654.0p	3/3/12		
Total	490,192	304,265	141,750	30,000	622,707				
Rona Fairhead									
a* 16/4/04	5,146		5,146		0	652.0p	16/4/09	16/4/09	670.0p
a* 15/4/05	19,746				19,746	631.0p	2/3/10		
a* 12/4/06	8,050				8,050	776.2p	12/4/11		
a 12/4/06	8,051				8,051	776.2p	12/4/11		
b 16/12/02	133,065			133,065	0	638.5p	28/6/05		
b 26/9/03	82,400				82,400	582.0p	26/9/06		
b* 21/12/04	33,002				33,002	613.0p	21/12/09		
b* 23/9/05	43,333				43,333	655.0p	2/3/10		
b* 13/10/06	70,000		52,500		17,500	767.5p	13/10/09	13/10/09	791.5p
b* 13/10/06	46,667		35,000		11,667	767.5p	13/10/09	13/10/09	791.5p
b** 13/10/09	0	11,725	11,725		0	791.5p	13/10/09	13/10/09	791.5p
b* 30/7/07	125,000			25,000	100,000	778.0p	2/3/10		
b 4/3/08	125,000				125,000	649.5p	4/3/11		
b 3/3/09	0	150,000			150,000	654.0p	3/3/12		
Total	699,460	161,725	104,371	158,065	598,749				

Report on directors' remuneration continued

Table 4: Movements in directors' interests in restricted shares continued

Restricted shares designated as: a annual bonus share matching plan; b long-term incentive plan; * where shares at 31 December 2009 have vested and are held pending release; and ** where dividend-equivalent shares were added to the released shares.

Date of award	1 Jan 09	Awarded	Released	Lapsed	31 Dec 09	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Robin Freestone									
a* 12/4/06	1,717				1,717	776.2p	12/4/11		
a 12/4/06	1,718				1,718	776.2p	12/4/11		
a* 22/5/07	2,354				2,354	899.9p	22/5/10		
a 22/5/07	2,354				2,354	899.9p	22/5/12		
a 4/6/08	37,906				37,906	670.7p	4/6/11		
a 16/4/09	0	35,446			35,446	670.0p	16/4/12		
b* 13/10/06	62,500		46,875		15,625	767.5p	13/10/09	13/10/09	791.5p
b* 13/10/06	41,667		31,250		10,417	767.5p	13/10/09	13/10/09	791.5p
b** 13/10/09	0	10,469	10,469		0	791.5p	13/10/09	13/10/09	791.5p
b* 30/7/07	125,000			25,000	100,000	778.0p	2/3/10		
b 4/3/08	125,000				125,000	649.5p	4/3/11		
B 3/3/09	0	150,000			150,000	654.0p	3/3/12		
Total	400,216	195,915	88,594	25,000	482,537				
John Makinson									
b 16/12/02	172,400			172,400	0	638.5p	28/6/05		
b 26/9/03	82,400				82,400	582.0p	26/9/06		
b* 21/12/04	33,002				33,002	613.0p	21/12/09		
b* 23/9/05	39,000				39,000	655.0p	2/3/10		
b* 13/10/06	70,000		52,500		17,500	767.5p	13/10/09	13/10/09	791.5p
b* 13/10/06	46,667		35,000		11,667	767.5p	13/10/09	13/10/09	791.5p
b** 13/10/09	0	11,725	11,725		0	791.5p	13/10/09	13/10/09	791.5p
b* 30/7/07	100,000			20,000	80,000	778.0p	2/3/10		
b 4/3/08	125,000				125,000	649.5p	4/3/11		
b 3/3/09	0	150,000			150,000	654.0p	3/3/12		
Total	668,469	161,725	99,225	192,400	538,569				
Total	4,810,168	1,321,787	845,975	944,230	4,341,750				

Note 1 The number of shares shown represents the maximum number of shares that may vest, subject to any performance conditions being met.

Note 2 No variations to the terms and conditions of plan interests were made during the year.

Note 3 The performance and other conditions that apply to outstanding awards under the annual bonus share matching plan and the long-term incentive plan and that have yet to be met were set out in the reports on directors' remuneration for the years in which they were granted.

Note 4 In the case of the long-term incentive plan awards made on 13 October 2006, we detail separately the part of the award based on ROIC and EPS growth (two-thirds of total award) and that part based on relative TSR (one-third of total award), because vesting of that part of the awards based on TSR was not known at the date of the 2008 report.

Note 5 For long-term incentive awards made prior to 2004 the performance condition was the Pearson share price. The award made on 16 December 2002 lapsed as the Pearson share price failed to meet the required hurdle prior to 28 June 2009.

Table 5: Movements in directors' interests in share options

Shares under option are designated as: a executive; b worldwide save for shares; c premium priced; d long-term incentive; and * where options are exercisable.

Date of grant	1 Jan 09	Granted	Exercised	Lapsed	31 Dec 09	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Marjorie Scardino											
c 8/6/99	37,583			37,583	0	1372.4p	8/6/02	8/6/09			
c 8/6/99	37,583			37,583	0	1647.5p	8/6/02	8/6/09			
d* 9/5/01	41,550				41,550	1421.0p	9/5/02	9/5/11			
d* 9/5/01	41,550				41,550	1421.0p	9/5/03	9/5/11			
d* 9/5/01	41,550				41,550	1421.0p	9/5/04	9/5/11			
d* 9/5/01	41,550				41,550	1421.0p	9/5/05	9/5/11			
Total	241,366	0	0	75,166	166,200						£0
David Bell											
b 5/5/06	297			297	0	629.6p	1/8/09	1/2/10	5/8/09	704.0p	£221
b 4/5/07	821				821	690.4p	1/8/10	1/2/11			
c 8/6/99	18,705			18,705	0	1372.4p	8/6/02	8/6/09			
c 8/6/99	18,705			18,705	0	1647.5p	8/6/02	8/6/09			
d* 9/5/01	16,350				16,350	1421.0p	9/5/02	9/5/11			
d* 9/5/01	16,350				16,350	1421.0p	9/5/03	9/5/11			
d* 9/5/01	16,350				16,350	1421.0p	9/5/04	9/5/11			
d* 9/5/01	16,350				16,350	1421.0p	9/5/05	9/5/11			
Total	103,928	0	0	37,707	66,221						£221
Will Ethridge											
c 8/6/99	10,802			10,802	0	1372.4p	8/6/02	8/6/09			
c 8/6/99	10,802			10,802	0	1647.5p	8/6/02	8/6/09			
d* 9/5/01	11,010				11,010	$21.00	9/5/02	9/5/11			
d* 9/5/01	11,010				11,010	$21.00	9/5/03	9/5/11			
d* 9/5/01	11,010				11,010	$21.00	9/5/04	9/5/11			
d* 9/5/01	11,010				11,010	$21.00	9/5/05	9/5/11			
d* 1/11/01	14,680				14,680	$11.97	1/11/02	1/11/11			
d* 1/11/01	14,680				14,680	$11.97	1/11/03	1/11/11			
d* 1/11/01	14,680				14,680	$11.97	1/11/04	1/11/11			
Total	109,684	0	0	21,604	88,080						£0
Rona Fairhead											
b 4/5/07	2,371				2,371	690.4p	1/8/12	1/2/13			
d* 1/11/01	20,000				20,000	822.0p	1/11/02	1/11/11			
d* 1/11/01	20,000				20,000	822.0p	1/11/03	1/11/11			
d* 1/11/01	20,000				20,000	822.0p	1/11/04	1/11/11			
Total	62,371	0	0	0	62,371						£0

Report on directors’ remuneration continued

Table 5: Movements in directors’ interests in share options continued

Shares under option are designated as: a executive; b worldwide save for shares; c premium priced; d long-term incentive; and * where options are exercisable.

Date of grant	1 Jan 09	Granted	Exercised	Lapsed	31 Dec 09	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Robin Freestone											
b 9/5/08	1,757				1,757	534.8p	1/8/11	1/2/12			
Total	1,757				1,757						£0
John Makinson											
b 9/5/03	4,178				4,178	424.8p	1/8/10	1/2/11			
c 8/6/99	21,477			21,477	0	1372.4p	8/6/02	8/6/09			
c 8/6/99	21,477			21,477	0	1647.5p	8/6/02	8/6/09			
d* 9/5/01	19,785				19,785	1421.0p	9/5/02	9/5/11			
d* 9/5/01	19,785				19,785	1421.0p	9/5/03	9/5/11			
d* 9/5/01	19,785				19,785	1421.0p	9/5/04	9/5/11			
d* 9/5/01	19,785				19,785	1421.0p	9/5/05	9/5/11			
Total	126,272	0	0	42,954	83,318						£0
Total	645,378	0	0	177,431	467,947						£221

Note 1 No variations to the terms and conditions of share options were made during the year.

Note 2 Each plan is described below.

a Executive – The plans under which these options were granted were replaced with the introduction of the long-term incentive plan in 2001. No executive options have been granted to the directors since 1998.

All options have now lapsed, having been unexercised at the tenth anniversary of the date of grant.

b Worldwide save for shares – The acquisition of shares under the worldwide save for shares plan is not subject to the satisfaction of a performance target.

David Bell, Rona Fairhead, Robin Freestone and John Makinson hold options under this plan. Details of these holdings are itemised as b.

c Premium priced – The plan under which these options were granted was replaced with the introduction of the long-term incentive plan in 2001. No Premium Priced Options (PPOs) have been granted to the directors since 1999.

The share price targets for the three-year and five-year tranches of PPOs granted in 1999 have already been met prior to 2009. The share price target for the seven-year tranche of PPOs granted in 2000 was not met in 2009 and the options lapsed. The secondary real growth in earnings per share target for any PPOs to become exercisable has already been met prior to 2009.

All PPOs that remain outstanding lapse if they remain unexercised at the tenth anniversary of the date of grant.

Marjorie Scardino, David Bell, Will Ethridge and John Makinson hold PPOs under this plan. Details of these awards are itemised as c.

d Long-term incentive – All options that remain outstanding are exercisable and lapse if they remain unexercised at the tenth anniversary of the date of grant.

Details of the option grants under this plan for Marjorie Scardino, David Bell, Will Ethridge, Rona Fairhead and John Makinson are itemised as d.

Note 3 In addition, Marjorie Scardino contributes US$1,000 per month (the maximum allowed) to the US employee stock purchase plan. The terms of this plan allow participants to make monthly contributions for one year and to acquire shares at the end of that period at a price that is the lower of the market price at the beginning or the end of the period, both less 15%.

Note 4 The market price on 31 December 2009 was 891.0p per share and the range during the year was 578.0p to 892.5p.

Approved by the board and signed on its behalf by

David Arculus Director
10 March 2010