

Board governance

Directors

The present members of the board, together with their biographical details, are shown on page 38. 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 50 to 72.

This year, and in future years, 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 of the directors will offer themselves for re-election, or reappointment in the case of directors who were appointed since the last meeting, at the forthcoming AGM on 1 May 2009.

Details of directors' service contracts can be found on page 60.

No director was materially interested in any contract of significance to the company's business.

Corporate governance

Introduction

A detailed account of how we comply with the provisions of the Combined Code on Corporate Governance (the Code) can be found on our website at www.pearson.com/investor/corpgov.htm

The board believes that we are in full compliance with the Code since our personnel committee returned to its full complement of independent non-executive directors with Ken Hydon's appointment on 3 October 2008.

Composition of the board

The board consists of the chairman, Glen Moreno, six executive directors including the chief executive, Marjorie Scardino, and six independent non-executive directors. David Bell, our director for people, will be stepping down at the forthcoming AGM. The board will then consist of a majority of independent non-executive directors.

Senior independent director

Terry Burns was appointed as our 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.

Independence of directors

The assessment of Terry Burns' independence was given particular consideration by the board as he has now served on the board for more than nine years.

The board believes that due to his strength of character, experience and knowledge, Terry continues to be highly effective as a non-executive director. He provides objective and rigorous challenges to, and engages in constructive debate with, the board and the committees on which he sits. Terry also brings a wealth of useful and relevant experience both in his position as a non-executive director and as the senior independent director.

Accordingly, the chairman has asked Terry to remain on the board. The board believes that it is in the shareholders' best interests for Terry Burns to be re-elected as an independent non-executive director.

The board is aware that Patrick Cescau was appointed as a non-executive director of Tesco plc on 1 February 2009 and that Ken Hydon was at the same time, and remains, a non-executive director of Tesco plc. The board believes that these directorships should not affect either Patrick Cescau or Ken Hydon's status as independent non-executive directors of Pearson.

Conflicts of interest

No director has any conflict of interest which has not been disclosed to the board in accordance with the company's Articles of Association.

Board governance continued

Board meetings

The board meets six times a year and at other times as appropriate. The following table sets out the attendance of our directors at the board and committee meetings during 2008:

	Board meetings (maximum 6)	Audit committee meetings (maximum 4)	Personnel committee meetings (maximum 4)	Nomination committee meetings (maximum 3)
Chairman				
Glen Moreno	6/6	–	4/4	3/3
Executive directors				
Marjorie Scardino	6/6	–	–	3/3
David Bell	6/6	–	–	–
Will Ethridge▲	4/4	–	–	–
Rona Fairhead	6/6	–	–	–
Robin Freestone	6/6	–	–	–
John Makinson	6/6	–	–	–
Non-executive directors				
David Arculus	6/6	4/4	4/4	3/3
Terry Burns	6/6	–	4/4	3/3
Patrick Cescau	6/6	4/4	–	3/3
Susan Fuhrman	6/6	4/4	–	3/3
Ken Hydon†	6/6	4/4	1/1	3/3
CK Prahalad▲●	3/4	–	–	1/1

▲ Appointed to the board on 1 May 2008.

† Appointed to the personnel committee on 3 October 2008.

● Appointed to the nomination committee on 3 October 2008.

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.

In addition to these formal roles, we endeavour to give the 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

As signposted last year, in early 2008 the chairman asked each of the directors to complete an evaluation questionnaire on the board and each of its committees.

Following the responses to this questionnaire, the chairman reported his findings to the board at the April board meeting.

In early 2009 the chairman will again ask the directors to complete an evaluation questionnaire which this time will be targeted specifically around issues of strategy and risk management. Responses to this questionnaire and from face-to-face meetings with the chairman will be gathered and communicated to the board at a forthcoming meeting.

Each of the board committees were also asked to complete evaluation questionnaires.

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 the company 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 about the company's operations at board meetings and by encouraging the directors to visit operating companies and local management. Externally run courses are also made available should directors wish to make use of them.

Directors' indemnities

The company grants an indemnity to all of its directors in accordance with section 232 of the Companies Act 2006 in relation to costs incurred by them in defending any civil or criminal proceedings and in connection with an application for relief under section 144(3) or (4) or section 727 of the Companies Act 1985, so long as it is repaid not later than when the outcome becomes final if: (i) they are convicted in the proceedings; (ii) judgement 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 an extensive 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.

i Audit committee

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 our designated financial expert.

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/investor/corpgov.htm

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 audits of the financial statements of the company.

Board governance continued

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 at its February meeting.

The committee met four times during the year with the chief financial officer, head of internal audit and other members of the senior management team, together with the external auditors, in attendance. The committee also met regularly in private with the external auditors and the head of 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.

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

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.

In addition, the committee considered the following matters during the course of the year:

28 February 2008

The annual report and accounts, preliminary announcement and trading update;

The Group accounting policies;

The annual accounts being prepared on a going concern basis;

Assessment of the effectiveness of the company's risk management and internal control systems, including appropriate disclosure requirements;

Reappointment of the external auditors;

Receipt of the external auditor report on the year end audit;

Assessment of the independence of the external auditor; and

Compliance with the Combined Code.

24 April 2008

The Form 20-F and related disclosures including the annual Sarbanes-Oxley Act 404 attestation of financial reporting internal controls;

Receipt of the external auditor report on the Form 20-F;

A review of its own effectiveness and both the internal and external auditors;

Compliance with SEC and NYSE requirements, including Sarbanes-Oxley; and

The AGM trading statement.

23 July 2008

Approval of interim statements, announcements and trading updates;

Approval of the external audit engagement, scope and fees;

Approval of external audit policy; and

Review of the committee's terms of reference.

11 December 2008

Review of company risk returns including Social, Ethical and Environmental (SEE) risks;

The annual internal audit plan including resourcing of the internal audit function; and

Review of treasury policy.

ii Personnel committee

David Arculus Personnel committee chairman

Members

David Arculus, Terry Burns, Ken Hydon and Glen Moreno

The 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 50 to 72.

The committee met four 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/investor/corpgov.htm

iii Nomination committee

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.

During 2008 the committee met to consider the appointment of two new directors to the board: Will Ethridge as an executive director and CK Prahalad as an independent non-executive director. Both directors joined the board on 1 May 2008. The committee also met to consider the appointment of a new member to the personnel committee, resulting in the appointment of Ken Hydon on 3 October 2008.

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.

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/investor/corpgov.htm

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 process

accords with the revised Turnbull guidance and has been in place throughout 2008 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 monthly report 11 times a year for the board on key developments, performance and issues in the business.

Board governance continued

iv Risk management

Operating companies undertake formal, semi-annual risk reviews to identify new or potentially under-managed risks. The results of these reviews are submitted to group internal audit for evaluation and onward reporting to the board, in summary, and in more detail via the audit committee. Throughout the year, risk sessions facilitated by the head of group internal audit are held with operating company management and with the Pearson Management Committee to discuss and review the significant risks facing the business.

v 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/or to mitigate risks 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 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 Business 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 2009 and 2010 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.

The seminars are available to all shareholders via webcast on www.pearson.com

Our AGM – which will be held on 1 May 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 134. The company has a single class of shares which is divided into ordinary shares of 25p each. The ordinary shares are in registered form.

The company's current authorised share capital is £299,500,000 comprising 1,198,000,000 ordinary shares of which 809,276,583 were issued as at 31 December 2008. At the AGM held on 25 April 2008, 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 1 May 2009.

At 27 February 2009, the company had been notified of the following substantial shareholdings in the capital of the company.

	Number of shares	Percentage
Legal & General Group plc	33,336,528	4.12%

Annual general meeting

The notice convening the AGM to be held at 12 noon on Friday, 1 May 2009 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, is contained in a circular to shareholders to be dated 26 March 2009.

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 93.

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. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to 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 those financial statements, the directors are required to:

Select suitable accounting policies and then apply them consistently;

Make judgements and estimates that are reasonable and prudent;

State that the financial statements comply with IFRSs as adopted by the European Union; and

Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

Board governance continued

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements and the report on directors' remuneration comply with the Companies Acts 1985 and 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 page 38, confirm that, to the best of their knowledge:

The Group financial statements, which have been 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

The business review contained on pages 6 to 37 of the directors' report, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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 6 March 2009 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'Philip Hoffman', with a long horizontal flourish extending to the right.

Philip Hoffman Secretary

Additional information for shareholders

Amendment to Articles of Association

Any amendments to the Articles of Association of the company may be made in accordance with the provisions of the Companies Acts 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 in electronic (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 shareholder. 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 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 form or in 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 Companies Act 2006 (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.

The company operates two employee benefit trusts to hold shares, pending employees becoming entitled to them under the company's employee share plans. There were 10,448,458 shares so held as at 31 December 2008. 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.

Board governance continued

The company also operates a nominee shareholding arrangement known as Sharestore which holds shares on behalf of employees. There were 2,414,269 shares so held as at 31 December 2008. 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 Companies Acts) 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 reappointment. 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 their last appointment but, as between persons who became or were last appointed 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 his/her last appointment.

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 Memorandum of Association and the Articles, the Companies Acts 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.
