Report on directors' remuneration

The board presents its report on directors' remuneration to shareholders. This report complies with the Directors' Remuneration Report Regulations 2002 and was approved by the board of directors on 6 March 2009.

The committee believes that the company has complied with the provisions regarding remuneration matters contained within the UK Combined Code since the committee returned to its full complement of independent non-executive directors with Ken Hydon's appointment on 3 October 2008.

We will put a resolution to shareholders at the annual general meeting (AGM) on 1 May 2009 inviting them to consider and approve this report.

The personnel committee

David Arculus chaired the personnel committee during 2008; 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, 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 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 2008. The matters discussed and actions taken were as follows:

25 and 29 February 2008
Reviewed and approved 2007 annual incentive plan payouts
Reviewed and approved 2005 long-term incentive plan payouts
Approved vesting of 2003 and 2005 annual bonus share matching awards
Reviewed and approved proposals for the renewal of the annual bonus share matching plan and operation of plan for 2008
Reviewed and approved increases in executive base salaries for 2008
Reviewed and approved 2008 Pearson and operating company annual incentive plan targets
Reviewed and approved 2008 individual annual incentive opportunities for Pearson Management Committee
Reviewed and approved 2008 long-term incentive awards and associated performance conditions for Pearson Management Committee
Reviewed strategy on 2008 long-term incentive awards for executives and managers
Reviewed and approved 2007 report on directors' remuneration
Noted company's use of equity for employee share plans

24 July 2008
Approved 2008 long-term incentive awards for executives and managers
Reviewed policy on executive employment agreements
Reviewed committee's charter and terms of reference

10 December 2008
Considered Towers Perrin's report on remuneration for Pearson Management Committee for 2009
Reviewed base salaries for the executive directors and other members of the Pearson Management Committee and decided there would be no increases for 2009
Considered approach to 2009 annual and long-term incentives

Summary of policy changes in 2008

The following changes to remuneration policy took effect during 2008:

Element of remuneration	Change in 2008
Annual incentive	Individual annual incentive opportunities expressed as absolute cash amounts rather than percentages of salary for all executive directors other than the chief executive
Bonus share matching	Shareholders approved renewal of plan with three-year performance period and vesting of matching award on sliding scale based on real growth in earnings per share
Employment agreements	Confirmed policy of 12 months' notice from the company, or pay in lieu, on termination of employment without cause

Remuneration policy

This report sets out the company's policy on directors' remuneration that applies to executive directors for 2009 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.

We want a performance culture that supports our strategy and goals and incentive programmes that directly reward their achievement. Our strategy is primarily centred on organic growth, and we try and produce that by investing consistently in four areas: content, technology and services, international markets and efficiency. One of the most important measures of our strategy is, of course, financial performance. Here, our goal is to produce hardy, 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 committee selects performance conditions for the company's various performance-related annual or long-term incentive plans that are linked to the company's strategic objectives set out above and aligned with the interests of shareholders. The committee determines 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 the light of the prevailing economic conditions and the impact of these on the company's objectives and strategy, the committee reviewed the policy in 2008 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.

The committee concluded that no fundamental changes were required to the performance measures used in the company's annual and long-term incentive plans. The committee would however continue to give careful consideration to the weighting of these measures and the targets that applied taking into account the company's short- and longer-term strategy.

Report on directors' remuneration continued

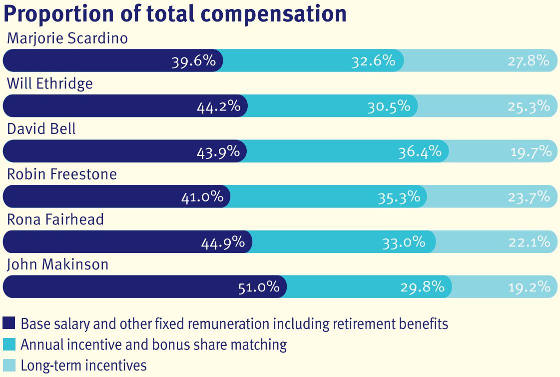
Main elements of remuneration

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 53)	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 53)	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 55)	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 56)	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. The relative importance of fixed and performance-related remuneration for each of the directors is as follows:

Proportion of total compensation



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

Benchmarking

We want 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 the committee's 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

Our normal policy is to review salaries annually consistent with the way we benchmark pay and taking into account the approach to pay across the company as a whole.

The committee has reviewed executive directors' base salaries for 2009. In the light of the prevailing economic conditions and consistent with the action taken across the company to control costs and minimise job losses, there will be 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 will be set out in the report on directors' remuneration for 2009.

For 2008, there was a normal review of base salaries. The increases in base salary with effect from 1 January 2008 for the executive directors are set out in table 1 on page 65. In the case of the chief financial officer, the committee concluded that the increase was justified to bring his salary up to competitive market levels following his appointment in 2006.

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.

The committee 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. The committee 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.

With the exception of the chief executive, normally 10% 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. These comprise functional, operational and strategic objectives relevant to the executives' specific areas of responsibility and *inter alia* objectives relating to corporate social responsibility.

For 2009, 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

Since 2008, the individual annual incentive opportunities for the executive directors, other than the chief executive, have been expressed as absolute cash amounts. The committee, with the advice of the chief executive, determines the aggregate level of annual

Report on directors' remuneration continued

incentives and individual incentive opportunities taking into account all relevant factors. These factors may include the profitability of the company, individual roles and responsibilities, market annual incentive levels, and the level of stretch in the performance targets.

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

For 2009, there is no change to the annual incentive opportunity for the chief executive which remains at 100% of base salary at target and 150% at maximum.

There is also no change to the average target individual incentive opportunity for the other executive directors which is £396,000 (the same as in 2008 on a like-for-like basis at constant exchange rates). The maximum opportunity remains at twice target (as in 2008).

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 and did so in 2008 for Will Ethridge in recognition of his contributions in such areas as his leadership efforts on the Google settlement and his oversight of Pearson's global content management programme (see table 1 on page 65).

For 2008, 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	90%	–	10%
Will Ethridge	45%	35%	20%
Rona Fairhead	30%	60%	10%
Robin Freestone	90%	–	10%
John Makinson	30%	60%	10%

2008 performance

Performance in 2008 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				✓
Higher Education and Professional	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 margin		✓		
	Average working capital to sales ratio				✓
	Operating cash flow				✓

Details of actual payouts for 2008 are set out in table 1 on page 65.

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 up to a maximum of one matching share for every one held i.e. the 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.

One matching share for every two invested shares held i.e. 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. One matching share for every one invested share held i.e. 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 participant's invested shares is matched 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
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	Outstanding subject to 2006 to 2009 performance
		100% on 22 May 2012	Outstanding subject to 2006 to 2011 performance
12 April 2006	776.2p	50% on 12 April 2009	Performance condition met. Real compound annual growth in earnings per share for 2005 to 2008 of 15.5% against target of 3.0%
		100% on 12 April 2011	Outstanding subject to participants not electing to call for 50% of shares that vest on 12 April 2009 and subject to 2005 to 2010 performance
15 April 2005	631.0p	50% on 15 April 2008	Target met as reported in report on directors' remuneration for 2007. Shares held pending release on 15 April 2010
		100% on 15 April 2010	Outstanding subject to 2004 to 2009 performance
16 April 2004	652.0p	100% on 16 April 2009	Performance condition met. Increase in adjusted earnings per share for 2003 to 2008 of 109.1% against target of 31.0%. Shares held pending release on 16 April 2009
17 April 2003	541.0p	100% on 17 April 2008	Target met as reported in report on directors' remuneration for 2007. Shares released on 17 April 2008

All of the executive directors hold or held awards under this plan in 2008. Details are set out in table 4 on pages 68 to 70 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 5% 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 2009.

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 2009 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 total shareholder return is subject to the committee satisfying itself that the recorded total shareholder return is a genuine reflection of the underlying financial performance of the business.

The committee chose total shareholder return 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 return on invested capital 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, 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.

We chose earnings per share growth because strong bottom-line growth is imperative if we are to improve our total shareholder return and our return on invested capital.

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
The committee will set stretching targets for the 2009 awards that are consistent with the company's strategic objectives over the period to 2011. It is the committee's intention that these targets will be no less demanding than the targets for the 2008 awards. Full details of the targets and individual awards will be set out in the report on directors' remuneration for 2009.

Value of awards
The committee's 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 the committee's 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
Pearson wishes to 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.

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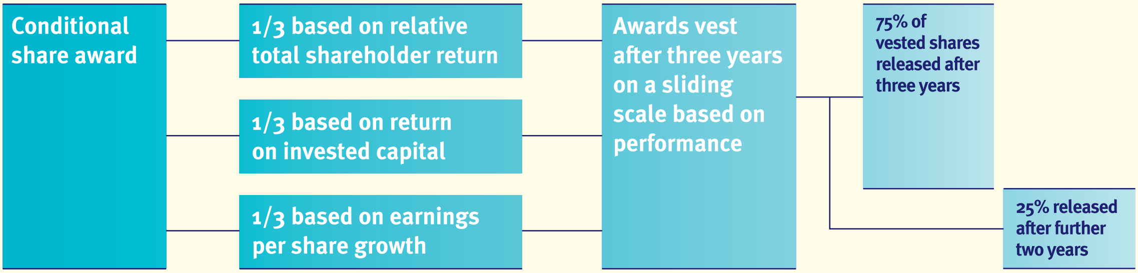

Outstanding awards

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
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	30/07/10	Relative TSR	2007 to 2010	30% at median	100% at upper quartile	–	–	Outstanding
			ROIC	2009	25% for ROIC of 8.5%	100% for ROIC of 10.5%	–	–	Outstanding
			EPS growth	2007 to 2009 compared to 2006	30% for EPS growth of 6.0%	100% for EPS growth of 12.0%	–	–	Outstanding
13/10/06	767.5p	13/10/09	Relative TSR	2006 to 2009	30% at median	100% at upper quartile	–	–	Remain held because the performance period ends after the date of this report
			ROIC	2008	25% for ROIC of 8.0%	100% for ROIC of 10.0%	9.2%	50% (see note)	Vested and remain held pending release
			EPS growth	2006 to 2008 compared to 2005	30% for EPS growth of 5.0%	100% for EPS growth of 12.0%	18.3%	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
23/09/05	655.0p	23/09/08	Relative TSR	2005 to 2008	40% at median	100% at upper quartile	76th percentile (26 out of 103 companies)	100%	86.7% of shares vested. Three-quarters released on 23 September 2008. If after tax number of shares are retained for a further two years, the remaining quarter will be released on 23 September 2010
			ROIC	2007	25% for ROIC of 7.5%	100% for ROIC of 9.0%	8.2%	60%	
			EPS and sales growth	2005 to 2007 compared to 2004	30% for real growth in both sales and EPS	100% for 10% growth in either sales or EPS	EPS growth 20.4% Sales growth 5.0%	100%	

Note 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.

All of the executive directors hold awards under the long-term incentive plan. Details are set out in table 4 on pages 68 to 70 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 2008, stock awards to be satisfied by new-issue equity granted in the last ten years under all employee share plans amounted to 3.8% of the company's issued share capital and under executive or discretionary plans amounted to 2.2%.

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 2008 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:

	2008	2007	2006
Headroom for all employee plans	6.2%	6.0%	6.6%
Headroom for executive or discretionary plans	2.8%	2.3%	2.7%
Headroom for shares held in trust	3.3%	3.4%	3.5%

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Shareholding of executive directors

We encourage executive directors to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee ownership.

We do not think it is necessary to specify a particular relationship of shareholding to salary because of the volatility of the stock market and the share retention features that already exist in the annual bonus share matching and long-term incentive plans. However, we describe separately here both the number of shares that the executive directors hold and the value expressed as a percentage of base salary.

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

The current value of the executive directors' own shares based on the middle market value of Pearson shares of 659.5p on 27 February 2009 (which is the latest practicable date before the results announcement) against annual base salaries in 2008 is as follows:

Own shares	Number of shares	Value (% of base salary)
Marjorie Scardino	632,755	439%
David Bell	250,348	352%
Will Ethridge	128,758	163%
Rona Fairhead	209,259	273%
Robin Freestone	44,379	65%
John Makinson	397,733	500%

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	405,697	282%
David Bell	136,838	192%
Will Ethridge	121,017	153%
Rona Fairhead	169,404	221%
Robin Freestone	64,217	94%
John Makinson	142,002	178%

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. 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 to giving notice, the company may pay salary, target annual incentive and the cost of pension and other benefits in lieu, subject to mitigation. 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 2008 and that continue to apply for 2009 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	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

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 66 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. Normal retirement age is 65 although early retirement is possible subject to a reduction for early payment. No increases are guaranteed for pensions in payment. There is a spouse's pension on death in service and the option to provide a death in retirement pension by reducing the member's pension.

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

Report on Directors' Remuneration continued

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 £117,600 as at 6 April 2008.

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.

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 a member of the Pearson Group Pension Plan. He was eligible for a pension of two-thirds of his final base salary at age 62 due to his long service.

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

Our 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	£126,666
Robin Freestone	eChem	£3,762

Chairman's remuneration

Our 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 2008. 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 2008. 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.

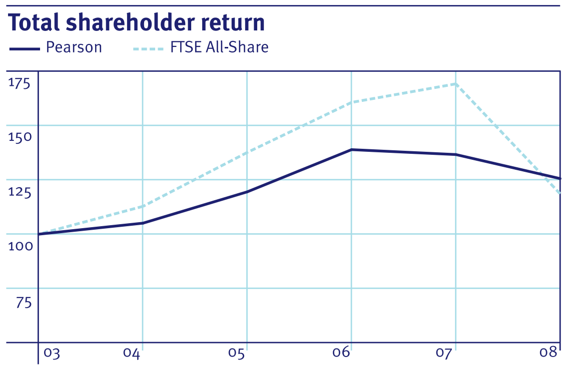
Non-executive directors serve Pearson under letters of appointment and do not have service contracts. There is no entitlement to compensation on the termination of their directorships.

Report on Directors' Remuneration continued

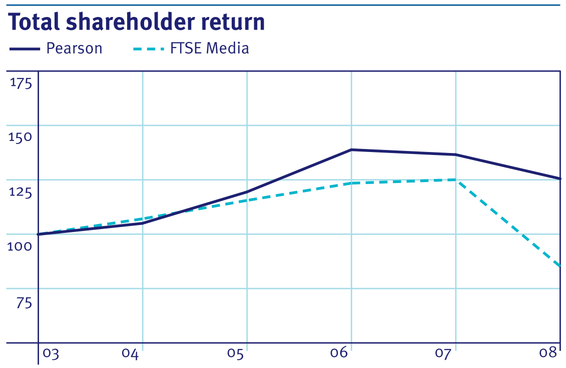
Total shareholder return performance

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

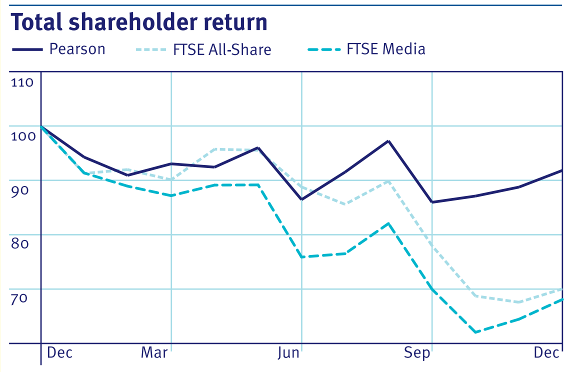
First, we set out Pearson's total shareholder return performance relative to the FTSE All-Share index on an annual basis over the five-year period 2003 to 2008. We have chosen this index, and used it consistently in each report on directors' remuneration since 2002, on the basis that it is a recognisable 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 2008, 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:

All figures in £000s	2008 Salaries/fees	2008 Annual incentive	2008 Allowances	2008 Benefits	2008 Total	2007 Total
Chairman						
Glen Moreno	450	–	–	–	450	450
Executive directors						
Marjorie Scardino	950	1,017	55	35	2,057	2,332
David Bell	469	493	–	21	983	1,111
Will Ethridge (appointed 1 May 2008)	361	810	–	–	1,171	–
Rona Fairhead	506	494	–	36	1,036	1,207
Robin Freestone	450	491	–	16	957	1,017
John Makinson	525	500	183	32	1,240	1,448
Non-executive directors						
David Arculus	85	–	–	–	85	76
Terry Burns	83	–	–	–	83	76
Patrick Cescau	70	–	–	–	70	64
Susan Fuhrman	70	–	–	–	70	64
Ken Hydon	81	–	–	–	81	71
CK Prahalad (appointed 1 May 2008)	40	–	–	–	40	–
Total	4,140	3,805	238	140	8,323	7,916
Total 2007 (including former directors)	3,561	4,024	221	129	–	7,935

Note 1 Will Ethridge's annual incentive includes a special payment in recognition of his contributions in such areas as his leadership efforts on the Google settlement and his oversight of Pearson's global content management programme. The after-tax amount will be invested in Pearson shares, which will be acquired and held under the annual bonus share matching plan in 2009.

Note 2 Allowances for Marjorie Scardino include £43,560 in respect of housing costs and a US payroll supplement of £11,804. 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 £182,824 for 2008.

Note 3 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 £20,233 for pension planning and financial advice. Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur.

Note 4 There will be no increases in base salary for the executive directors for 2009.

Note 5 No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Report on Directors' Remuneration continued

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

Directors' pensions	Age at 31 Dec 08	Accrued pension at 31 Dec 08 £000[1]	Increase in accrued pension over the period £000[2]	Transfer value at 31 Dec 07 £000[3]	Transfer value at 31 Dec 08 £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 08 £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	61	5.0	1.4	32.7	47.5	14.8	1.2	11.4	611.0	–	49.3
David Bell	62	312.7	8.2	5,623.7	6,045.5	421.8	(3.2)	(62.2)	–	–	–
Will Ethridge (appointed 1 May 2008)	56	128.2	51.1	493.6	853.7	360.1	48.6	323.6	15.2	–	1.2
Rona Fairhead	47	27.3	4.6	214.8	294.6	74.2	3.5	32.2	–	128.6	3.0
Robin Freestone	50	–	–	–	–	–	–	–	18.0	112.5	4.5
John Makinson	54	236.4	24.6	2,799.6	3,532.2	727.0	14.0	203.6	–	–	4.2

*Less directors' contributions.

†Net of inflation. The inflation figure has been pro-rated in the case of David Bell to reflect the fact that he reached his normal retirement age in 2008 and for Will Ethridge to reflect his date of appointment on 1 May 2008.

Note 1 The accrued pension at 31 December 2008 is that which would become payable from normal retirement age if the member left service at 31 December 2008. For Marjorie Scardino it relates only to the pension from the US Plan and there is an increase because of exchange rate changes over the year. For Will Ethridge it relates to his pension from the US Plan and US SERP from his date of appointment on 1 May 2008 and there is an increase partly because of exchange rate changes over the year. For David Bell and Rona Fairhead it relates to the pension payable from the UK Plan. David Bell reached his normal retirement age on 30 September 2008, at which point he took a cash sum of £1,336,969 and deferred receipt of his residual pension of £224,094 per annum. The pension figure shown here is the pension at normal retirement age before reduction for commutation. For John Makinson it relates to the pension from the UK Plan, the FURBS and the UURBS in aggregate.

Note 2 For David Bell the increase in pension relates to the period from 31 December 2007 to 30 September 2008. For Will Ethridge it relates to the period from 1 May 2008 to 31 December 2008.

Note 3 For Will Ethridge the transfer value has been calculated at 1 May 2008.

Note 4 The UK transfer values at 31 December 2008 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 his pre-commutation pension at his normal retirement date using market conditions applicable at 31 December 2008. 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.

Table 3: Interests of directors

	Ordinary shares at 1 Jan 08 (or date of appointment if later)	Ordinary shares at 31 Dec 08
Glen Moreno	170,000	210,000
Marjorie Scardino	400,886	632,755
David Arculus	2,223	11,740
David Bell	172,896	250,348
Terry Burns	8,471	10,290
Patrick Cescau	2,758	4,144
Will Ethridge (appointed 1 May 2008)	60,059	128,758
Rona Fairhead	121,556	209,259
Robin Freestone	7,930	44,379
Susan Fuhrman	5,301	7,365
Ken Hydon	7,172	8,559
John Makinson	306,592	397,733
CK Prahalad (appointed 1 May 2008)	0	969

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 2008, 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 2008 was 641.0p per share and the range during the year was 519.5p to 733.0p.

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; and * where shares at 31 December 2008 have vested and are held pending release.

Date of award	1 Jan 08	Awarded	Released	Lapsed	31 Dec 08	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Marjorie Scardino									
a 22/5/07	60,287				60,287	899.9p	22/5/10		
a 4/6/08	0	99,977			99,977	670.7p	4/6/11		
b 16/12/02	301,700				301,700	638.5p	28/6/05		
b 26/9/03	120,200				120,200	582.0p	26/9/06		
b* 21/12/04	83,197				83,197	613.0p	21/12/07		
b* 23/9/05	240,000		180,000		60,000	655.0p	23/9/08	23/9/08	593.0p
b* 23/9/05	150,000		112,500		37,500	655.0p	23/9/08	23/9/08	593.0p
b* 13/10/06	300,000			75,000	225,000	767.5p	13/10/09		
b 13/10/06	150,000				150,000	767.5p	13/10/09		
b 30/7/07	420,000				420,000	778.0p	30/7/10		
b 4/3/08	0	400,000			400,000	649.5p	4/3/11		
Total	1,825,384	499,977	292,500	75,000	1,957,861				
David Bell									
a 17/4/03	6,105		6,105		0	541.0p	17/4/08	17/4/08	652.5p
a* 16/4/04	2,251				2,251	652.0p	16/4/07		
a* 16/4/04	2,252				2,252	652.0p	16/4/09		
b 16/12/02	133,065				133,065	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	21/12/07		
b* 23/9/05	90,666		68,000		22,666	655.0p	23/9/08	23/9/08	593.0p
b* 23/9/05	56,667		42,500		14,167	655.0p	23/9/08	23/9/08	593.0p
b* 13/10/06	83,333			20,833	62,500	767.5p	13/10/09		
b 13/10/06	41,667				41,667	767.5p	13/10/09		
b 30/7/07	100,000				100,000	778.0p	30/7/10		
b 4/3/08	0	100,000			100,000	649.5p	4/3/11		
Total	631,408	100,000	116,605	20,833	593,970				

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; and * where shares at 31 December 2008 have vested and are held pending release.

Date of award	1 Jan 08	Awarded	Released	Lapsed	31 Dec 08	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Will Ethridge									
a 17/4/03	4,733		4,733		0	541.0p	17/4/08	17/4/08	652.5p
a 22/5/07	2,508				2,508	899.9p	22/5/10		
b 25/7/05	65,000		65,000		0	680.0p	25/7/08	28/7/08	595.5p
b* 23/9/05	51,734		38,800		12,934	655.0p	23/9/08	23/9/08	593.0p
b* 23/9/05	32,333		24,250		8,083	655.0p	23/9/08	23/9/08	593.0p
b* 13/10/06	133,333			33,333	100,000	767.5p	13/10/09		
b 13/10/06	66,667				66,667	767.5p	13/10/09		
b 30/7/07	150,000				150,000	778.0p	30/7/10		
b 4/3/08	0	150,000			150,000	649.5p	4/3/11		
Total	506,308	150,000	132,783	33,333	490,192				
Rona Fairhead									
a 17/4/03	15,103		15,103		0	541.0p	17/4/08	17/4/08	652.5p
a* 16/4/04	2,573				2,573	652.0p	16/4/07		
a* 16/4/04	2,573				2,573	652.0p	16/4/09		
a* 15/4/05	9,873				9,873	631.0p	15/4/08		
a 15/4/05	9,873				9,873	631.0p	15/4/10		
a* 12/4/06	8,050				8,050	776.2p	12/4/09		
a 12/4/06	8,051				8,051	776.2p	12/4/11		
b 16/12/02	133,065				133,065	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	21/12/07		
b* 23/9/05	106,666		80,000		26,666	655.0p	23/9/08	23/9/08	593.0p
b* 23/9/05	66,667		50,000		16,667	655.0p	23/9/08	23/9/08	593.0p
b* 13/10/06	93,333			23,333	70,000	767.5p	13/10/09		
b 13/10/06	46,667				46,667	767.5p	13/10/09		
b 30/7/07	125,000				125,000	778.0p	30/7/10		
b 4/3/08	0	125,000			125,000	649.5p	4/3/11		
Total	742,896	125,000	145,103	23,333	699,460				
Robin Freestone									
a* 12/4/06	1,717				1,717	776.2p	12/4/09		
a 12/4/06	1,718				1,718	776.2p	12/4/11		
a 22/5/07	4,708				4,708	899.9p	22/5/10		
a 4/6/08	0	37,906			37,906	670.7p	4/6/11		
b 23/9/05	20,000		20,000		0	655.0p	23/9/08	23/9/08	593.0p
b* 13/10/06	83,333			20,833	62,500	767.5p	13/10/09		
b 13/10/06	41,667				41,667	767.5p	13/10/09		
b 30/7/07	125,000				125,000	778.0p	30/7/10		
b 4/3/08	0	125,000			125,000	649.5p	4/3/11		
Total	278,143	162,906	20,000	20,833	400,216				

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; and * where shares at 31 December 2008 have vested and are held pending release.

Date of award	1 Jan 08	Awarded	Released	Lapsed	31 Dec 08	Market value at date of award	Earliest release date	Date of release	Market value at date of release
John Makinson									
a 17/4/03	12,210		12,210		0	541.0p	17/4/08	17/4/08	652.5p
b 16/12/02	172,400				172,400	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	21/12/07		
b* 23/9/05	96,000		72,000		24,000	655.0p	23/9/08	23/9/08	593.0p
b* 23/9/05	60,000		45,000		15,000	655.0p	23/9/08	23/9/08	593.0p
b* 13/10/06	93,333			23,333	70,000	767.5p	13/10/09		
b 13/10/06	46,667				46,667	767.5p	13/10/09		
b 30/7/07	100,000				100,000	778.0p	30/7/10		
b 4/3/08	0	125,000			125,000	649.5p	4/3/11		
Total	696,012	125,000	129,210	23,333	668,469				
Total	4,680,151	1,162,883	836,201	196,665	4,810,168				

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 23 September 2005 and 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 2007 and 2008 reports.

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 08	Granted	Exercised	Lapsed	31 Dec 08	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Marjorie Scardino											
a 14/9/98	176,556			176,556	0	973.3p	14/9/01	14/9/08			
a 14/9/98	5,660			5,660	0	1090.0p	14/9/01	14/9/08			
c* 8/6/99	37,583				37,583	1372.4p	8/6/02	8/6/09			
c* 8/6/99	37,583				37,583	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	423,582	0	0	182,216	241,366						£0

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 08	Granted	Exercised	Lapsed	31 Dec 08	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
David Bell											
a 14/9/98	20,496			20,496	0	973.3p	14/9/01	14/9/08			
b 6/5/05	373		373		0	507.6p	1/8/08	1/2/09	3/9/08	689.0p	£677
b 5/5/06	297				297	629.6p	1/8/09	1/2/10			
b 4/5/07	821				821	690.4p	1/8/10	1/2/11			
c* 8/6/99	18,705				18,705	1372.4p	8/6/02	8/6/09			
c* 8/6/99	18,705				18,705	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	124,797	0	373	20,496	103,928						£677
Will Ethridge											
a 2/12/98	27,213			27,213	0	947.4p	2/12/01	2/12/08			
a 2/12/98	5,702			5,702	0	1061.0p	2/12/01	2/12/08			
c* 8/6/99	10,802				10,802	1372.4p	8/6/02	8/6/09			
c* 8/6/99	10,802				10,802	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	142,599	0	0	32,915	109,684						£0
Rona Fairhead											
b 30/4/04	1,904		1,904		0	494.8p	1/8/07	1/2/08	23/1/08	646.0p	£2,879
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	64,275	0	1,904	0	62,371						£2,879
Robin Freestone											
b 6/5/05	1,866		1,866		0	507.6p	1/8/08	1/2/09	1/8/08	655.5p	£2,760
b 9/5/08	0	1,757			1,757	534.8p	1/8/11	1/2/12			
Total	1,866	1,757	1,866	0	1,757						£2,760

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 08	Granted	Exercised	Lapsed	31 Dec 08	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
John Makinson											
a 14/9/98	30,576			30,576	0	973.3p	14/9/01	14/9/08			
b 9/5/03	4,178				4,178	424.8p	1/8/10	1/2/11			
c* 8/6/99	21,477				21,477	1372.4p	8/6/02	8/6/09			
c* 8/6/99	21,477				21,477	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	156,848	0	0	30,576	126,272						£0
Total	913,967	1,757	4,143	266,203	645,378						£6,316

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 2008. The share price target for the seven-year tranche of PPOs granted in 2000 was not met in 2008 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 2008.

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.

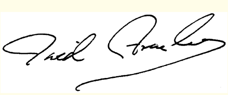
d Long-term incentive – All options that remain outstanding are exercisable and lapse if they remain unexercised at the tenth anniversary of the date of grant.

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 2008 was 641.0p per share and the range during the year was 519.5p to 733.0p.

Approved by the board and signed on its behalf by



David Arculus Director
6 March 2009