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 at the board meeting on 23 February 2007.

This report also demonstrates how the principles of the Combined Code relating to directors' remuneration are applied.

A resolution will be put to shareholders at the annual general meeting on 27 April 2007 inviting them to consider and approve this report.

Compliance

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

The personnel committee

Reuben Mark stood down as chairman of the personnel committee at the annual general meeting in April 2006. He was replaced by David Arculus. Terry Burns and Rana Talwar were the other members during 2006. All members of the committee were independent non-executive directors.

Glen Moreno, chairman of the board, was not a member of the committee during 2006. He joined the committee in 2007 when this became permissible under the UK Combined Code on 1 November 2006 for accounting periods starting on or after 1 January 2007.

Glen Moreno, Marjorie Scardino, chief executive, David Bell, director for people, and Robert Head, compensation and benefits director, provided material assistance to the committee during the year. They attended meetings of the committee, although no director was involved in any decisions as 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 terms of reference are set out on the company's website. The committee met four times during 2006. The matters discussed and actions taken were as follows:

24 February 2006

Ratified increase in CEO's base salary for 2006

Approved 2005 annual incentive plan payouts for Pearson Management Committee

Reviewed 2006 annual incentive plan structure and targets

Agreed renewal of long-term incentive plan

Approved vesting of 2001 and 2003 annual bonus share matching awards

Approved 2005 report on directors' remuneration

Agreed policy in response to UK pensions simplification and 'A-Day'

Noted company's use of equity for employee share plans

28 July 2006

Reviewed strategy on long-term incentive awards for 2006

Approved remuneration package for CFO

Reviewed and amended committee's charter and terms of reference

13 October 2006

Reviewed and approved 2006 long-term incentive awards and associated conditions for Pearson Management Committee and other executives and managers

14 December 2006

Considered Towers Perrin's report on remuneration for Pearson Management Committee for 2007

Reviewed 2007 annual incentive plan metrics

Approved changes to rules of Pearson share plans in response to age discrimination legislation

Remuneration policy

This report sets out the company's policy on directors' remuneration. This policy will continue to apply to each director for 2007 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 policy for years after 2007. Shareholders should consider all statements in this report about remuneration policy for years after 2007 in this context.

Pearson seeks to generate a performance culture by operating incentive programmes that support its business goals and reward their achievement. 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 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 the relevant information and input from advisers. Since 2005, the Group's financial results have been reported under IFRS. In order to reflect the performance of the business on a consistent basis, earnings per share and any other accounting measures used for the purposes of the company's short- or long-term incentive plans are adjusted for IFRS.

Share ownership is encouraged throughout the company. Equity-based reward programmes align the interests of directors, and employees in general, with those of shareholders by linking rewards directly to Pearson's financial performance. All outstanding long-term incentive awards for each of the executive directors are set out in tables 4 and 5 on pages 47 to 51 of this report.

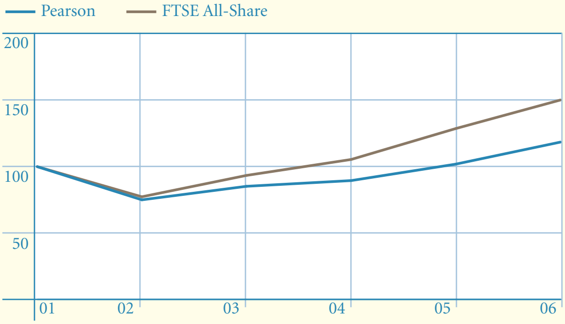
It is the company's policy that total remuneration (base compensation plus short- and long-term incentives) should reward both short- and long-term results, delivering competitive rewards for target performance, but outstanding rewards for exceptional company performance.

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.

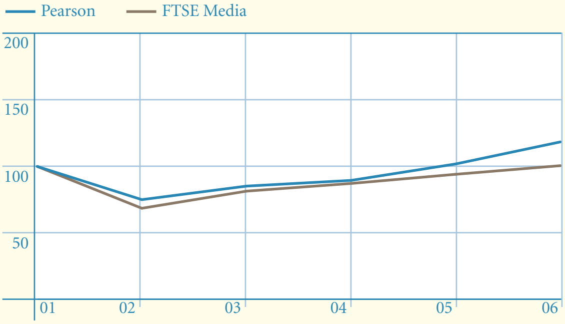
First, we set out Pearson's total shareholder return performance relative to the FTSE All-Share index on an annual basis over the five-year period 2001 to 2006. We have chosen this index, and used it consistently in each report on directors' remuneration since 2002, on the basis that it is a recognisable reference point and an appropriate comparator for the majority of our investors.

Total shareholder return



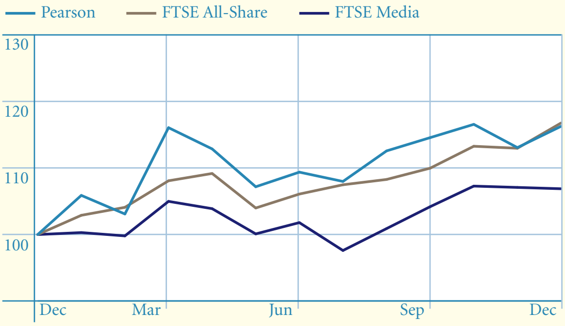
Secondly, to illustrate performance against our sector we show Pearson's total shareholder return relative to the FTSE Media index over the same five-year period.

Total shareholder return



And thirdly, we show Pearson's total shareholder return relative to the FTSE All-Share and Media indices on a monthly basis over 2006, the period to which this report relates.

Total shareholder return



Report on Directors' Remuneration *Continued*

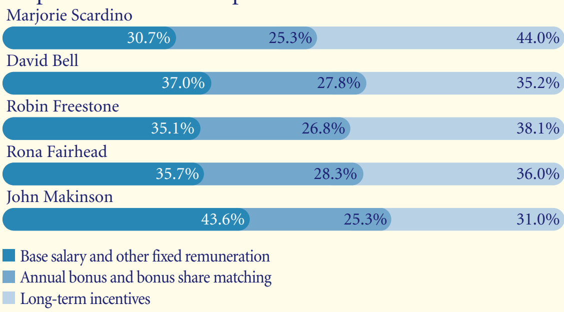
Main elements of remuneration

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 34)	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 levels of pay and pay increases throughout the company
Annual incentives (see page 35)	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 36)	Encourages executive directors and other senior executives to acquire and hold Pearson shares and aligns executives and shareholders' interests	Three and five years	Subject to achievement of targets for earnings per share growth
Long-term incentives (see page 36)	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 incentive, bonus share matching and long-term incentives. Based on the details set out in this report, the relative importance of fixed and performance-related remuneration for each of the directors should be 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.

Our policy is that the remuneration of the executive directors should be competitive with those of directors and executives in similar positions in comparable companies. 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.

Base salary

Our normal policy is to review salaries annually. The committee has reviewed executive directors' base salaries for 2007 consistent with this policy. Full details will be set out in the report on directors' remuneration for 2007.

Allowances and benefits

It is the company's policy that its 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.

The committee also establishes the target and maximum levels of individual incentive opportunity based on an assessment by the committee's independent advisers of market practice for comparable companies and jobs.

The performance measures relate to the company's main drivers of business performance at both the corporate and operating company level. Performance is measured separately for each item. For each performance measure, the committee establishes thresholds, targets and maxima for different levels of payout. With the exception of the CEO, 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 CEO.

For 2007, the financial performance measures for Pearson plc are sales, growth in underlying adjusted earnings per share for continuing operations at constant exchange rates, average working capital as a ratio to sales and operating cash flow. For subsequent years, the measures will be set at the time.

For 2007, there are no changes to the executive directors' individual incentive opportunities. For the CEO, the target annual incentive opportunity is 100% of base salary and the maximum is 150%. For the other executive directors and other members of the Pearson Management Committee, the target is up to 75% of salary and the maximum is twice target.

The incentive plans are discretionary and the committee reserves the right to make adjustments up or down taking into account exceptional factors.

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.

Annual incentive payments do not form part of pensionable earnings.

For 2006, 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	Personal objectives
Marjorie Scardino	100%	–	–
David Bell	90%	–	10%
Rona Fairhead	90%	–	10%
Robin Freestone	90%	–	10%
John Makinson	20%	70% (Penguin Group)	10%

For Pearson plc, the performance measures were earnings per share growth, operating cash flow, sales and average working capital as a ratio to sales. Underlying growth in adjusted earnings per share at constant exchange rates consistent with reported adjusted earnings per share of 40.2p was better than target but below the level of performance required for maximum payout. Average working capital as a ratio to sales and operating cash flow of £575m were at and above maximum respectively. Sales at £4,423m were below target but above threshold.

For Penguin Group, the performance measures were sales, operating profit, operating cash flow and average working capital as a ratio to sales. For working capital as a ratio to sales and operating cash flow, performance was better than that required for maximum payout. Sales and operating profit were both above target but below maximum.

None of the executive directors was directly covered by the plans for the other operating companies where the same performance measures applied.

Details of actual payouts for 2006 are set out in table 1.

Bonus share matching

The annual bonus share matching plan permits executive directors and senior executives around the company to invest up to 50% of any after-tax annual bonus in Pearson shares. For awards made since 2006, if these shares are held and the company's adjusted earnings per share increase in real terms by at least 3% per annum compound over a five-year period, the company will match them on a gross basis of one share for every one held. Half the matching shares will vest if the company's adjusted earnings per share increase in real terms by at least 3% per annum compound over the first three years.

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

Since its introduction, there have been five full five-year cycles of this plan. For the 1998 award, the first one-for-two match vested, but not the full one-for-one. For both the 1999 and 2000 award, both matches lapsed. And for the 2001 and 2002 awards, the full one-for-one match vested.

Awards made

The award made on 12 April 2006 will vest in full on 12 April 2011 if the company's adjusted earnings per share increase in real terms by at least 3% per annum compound over the period 2005 to 2010. Half this number of shares will vest on 12 April 2009 if the company's adjusted earnings per share increase in real terms by at least 3% per annum compound over the period 2005 to 2008. The market price of the shares on the date of the award was 776.2p. The latest vesting date of this award is 12 April 2011. Rona Fairhead and Robin Freestone hold shares under this plan. Details of this award are set out in table 4 and itemised as a.

Awards vested and held

For the award made on 16 April 2004, the target for the increase in adjusted earnings per share from 2003 to 2006 was 19.5%. The increase in adjusted earnings per share over the period has been 45.7%. Participants are therefore entitled to receive half of their matching shares. These shares, together with the remaining half of the matching shares which are subject to the performance target being met over the period 2003 to 2008, will be released on 16 April 2009. If participants elect to call for the first half of the matching shares on 16 April 2007, their entitlement to the second half of the matching shares lapses. David Bell and Rona Fairhead hold awards under this plan. Details are set out in table 4 and itemised as a*.

Half the award made on 17 April 2003 will be released on 17 April 2008. The original terms of the award and the company's performance against the relevant targets were disclosed in detail in the report on directors' remuneration for 2005. The remaining half will vest on 17 April 2008 subject to earnings per share growth performance over the period 2002 to 2007. David Bell, Rona Fairhead and John Makinson hold awards under this plan. Details are set out in table 4 and itemised as a* and a.

For the award made on 19 April 2002, the target for the increase in adjusted earnings per share from 2001 to 2006 was 31.9%. The increase in adjusted earnings per share over the period has been 120.9%. These shares will be released on 19 April 2007. Rona Fairhead holds awards under this plan. Details are set out in table 4 and itemised as a*.

Awards released

The award made on 11 May 2001 vested and was released on 11 May 2006. The original terms of the award and the company's performance against the relevant targets were disclosed in detail in the report on directors' remuneration for 2005. No consideration was payable for the shares. Marjorie Scardino, David Bell and John Makinson held awards under this plan. Details of these awards are set out in table 4 and itemised as 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 are eligible to participate in the plan which can deliver restricted stock and/or stock options. 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 2007.

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

The performance measures that applied for 2006 and that will apply for the 2007 awards and subsequently for the executive directors are focused on delivering and improving returns to shareholders. These are relative total shareholder return, return on invested capital and earnings per share growth.

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.

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 related to performance relative to the company's peers.

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 growth was chosen because strong bottom-line growth is imperative if we are to improve our total shareholder return and our return on invested capital.

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.

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.

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 take this into account.

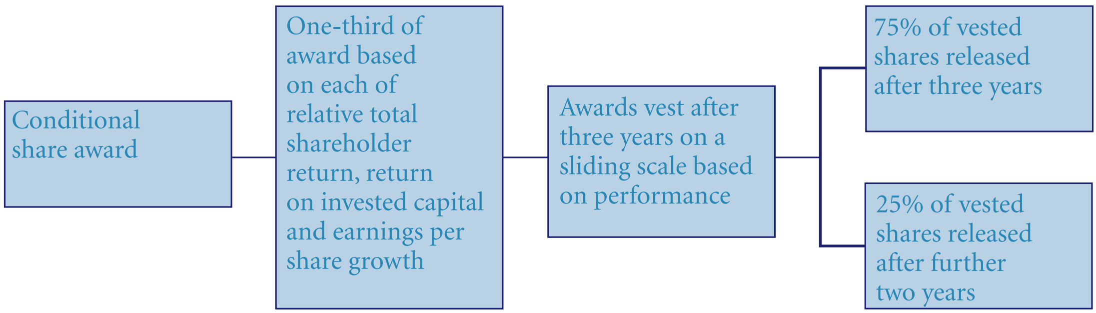
The committee's independent advisers calculate the expected value of awards i.e. their net present value after taking into account all the conditions and, in particular, the probability that any performance conditions will be met.

The committee establishes each year the expected value of individual awards taking into account these values and assessments by the committee's independent advisers of market practice for comparable companies and of directors' total remuneration relative to the market.

In establishing the expected value of individual awards, the committee also has regard to the face value of the awards and their potential value should the performance targets be met in full.

The targets for the 2007 awards will be consistent with the company's strategic objectives and no less demanding than those that applied to the 2006 awards. Full details of the targets and individual awards will be set out in the report on directors' remuneration for 2007.

Long-term incentive plan: summary of awards, conditions and vesting



Awards made

The award made on 13 October 2006 was based on three performance measures: relative total shareholder return, return on invested capital, and earnings per share growth. The award is split equally across all three measures.

Pearson's reported financial results for 2005 to 2008 will be 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 will be guided by the principle of aligning shareholder and management interests.

The market price of the shares on the date of the award was 767.5p. The vesting date of this award is 13 October 2009.

Marjorie Scardino, David Bell, Rona Fairhead, Robin Freestone and John Makinson hold shares under this plan. Details of these awards are set out in table 4 and itemised as b.

2006 long-term incentive award

Performance measure	Total shareholder return relative to the constituents of the FTSE World Media Index	Return on invested capital	Earnings per share growth
Performance period	2006 to 2009 based on the periods immediately following the 2005 and 2008 results' announcements	2008	2006, 2007 and 2008 compared to the 2005 base year
Performance for threshold payout	Pearson ranked at median	8.0%	Compound annual growth of 5%
Payout at threshold	30%	25%	30%
Performance for maximum payout	Pearson ranked at upper quartile or better	10.0%	Compound annual growth of 12% or better
Payout at maximum	100%	100%	100%

Awards vested and held

The award made on 21 December 2004 was based on three performance measures: relative total shareholder return, return on invested capital, and an earnings per share and sales growth matrix. The award is split equally across all three measures. The vesting date of this award is 21 December 2007.

Marjorie Scardino, David Bell, Rona Fairhead, and John Makinson hold awards under this plan. Details of these awards are set out in table 4.

The part of the award based on relative total shareholder return which remained held at 31 December 2006 because the performance period ends after the date of this report is itemised as b. The parts of the award based on return on invested capital and on earnings per share and sales growth which vested (or lapsed) based on performance and remained held at 31 December 2006 pending release are itemised as b*.

2004 long-term incentive award

Performance measure	Total shareholder return relative to the constituents of the FTSE World Media Index	Return on invested capital	Sales and earnings per share growth
Performance period	2004 to 2007 based on the periods immediately following the 2003 and 2006 results' announcements	2006	2004, 2005 and 2006 compared to the 2003 base year
Performance for threshold payout	Pearson ranked at median	6.5%	Real compound annual growth in both sales and earnings per share
Payout at threshold	40%	25%	30%
Performance for maximum payout	Pearson ranked at upper quartile or better	8.0%	Subject to threshold performance being achieved, 10% compound annual growth in either sales or earnings per share or between real and 10% compound annual growth in both
Payout at maximum	100%	100%	100%
Actual performance	See note below	8.0%	Compound annual sales growth: 1.5% Compound annual earnings per share growth: 10.7%
Proportion of award vested	See note below	100%	50% See note below
Notes	Details of the company's relative total shareholder return performance and the proportion of shares that vest will be set out in the report on directors' remuneration for 2007 because the performance period ends after the date of this report		The committee noted the strong growth in earnings per share over the period and that threshold performance on both measures had been achieved on an underlying basis excluding the distorting effect on reported growth rates of the US dollar exchange rate over these three years. Taking these factors into account, the committee exercised its discretion that half of the shares awarded under this element should vest

Awards released

The award made on 9 May 2001 vested with a payout of 70.5% of the shares originally awarded and three-quarters of the vested shares were released in 2005. The remaining one-quarter of the vested shares were released on 10 May 2006. The original terms of the award and the company's performance against the relevant targets were disclosed in detail in the report on directors' remuneration for 2004. No consideration was payable for the shares. Marjorie Scardino, David Bell, and John Makinson held shares under this plan. Details of these awards are set out in table 4 and itemised as b.

The first tranche of long-term incentive plan shares granted on 26 September 2003 vested and were released on 26 September 2006 in accordance with the original terms of the award disclosed in detail in the report on directors' remuneration for 2003. No consideration was payable for the shares. Marjorie Scardino, David Bell, Rona Fairhead, and John Makinson held awards under this plan. Details of these awards are set out in table 4 and itemised as b.

Awards outstanding

Awards of restricted shares made on 16 December 2002, 26 September 2003 and 21 December 2004 remain outstanding. The original terms of the awards were disclosed in detail in the reports on directors' remuneration for the years in which the awards were made. We will disclose at the relevant time performance against targets and the extent to which these awards vest or lapse.

Marjorie Scardino, David Bell, Rona Fairhead, and John Makinson hold awards under all these plans and Robin Freestone holds an award under the 2004 plan. Details of these awards are set out in table 4 and itemised as b.

All-employee share plans

Executive directors are eligible to participate in the company's all-employee share plans on the same terms as other employees. These plans comprise share acquisition savings 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

In any rolling 10-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 2006, stock awards to be satisfied by new-issue equity granted in the last 10 years under all employee share plans amounted to 3.4% of the company's issued share capital and under executive or discretionary plans amounted to 2.3%.

The headroom available for all employee plans and executive or discretionary plans is as follows:

	2006	2005
Headroom for all employee plans	6.6%	6.4%
Headroom for executive or discretionary plans	2.7%	2.5%

In addition, no more than 5% of Pearson equity may be held in trust at any time. Against this limit, shares held in trust amount to 1.5% of the company's issued share capital and the available headroom is 3.5%.

Shareholding policy

As previously noted, in line with the policy of encouraging widespread employee ownership, the company encourages executive directors to build up a substantial shareholding in the company.

Given the share retention features of the annual bonus share matching and long-term incentive plans and the volatility of the stock market, we do not think it is appropriate to specify a particular relationship of shareholding to salary. 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.

The current value of holdings of the executive directors based on the middle market value of Pearson shares of 832.5p on 23 February 2007 against the annual base salary set out in this report is as follows:

	Number of shares	Value (% of base salary)
Marjorie Scardino	216,777	217%
David Bell	122,962	241%
Rona Fairhead	62,593	111%
Robin Freestone	2,089	6%
John Makinson	172,872	294%

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. These service agreements provide that the company may terminate these agreements by giving 12 months' notice, and in some instances they specify the compensation payable by way of liquidated damages in circumstances where the company terminates the agreements without notice or cause. We feel that these notice periods and provisions for liquidated damages are adequate compensation for loss of office and in line with the market.

We summarise the service agreements that applied during 2006 and that continue to apply for 2007 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 bonus
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 bonus
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 bonus
Robin Freestone	5 June 2006 (for service from 12 June 2006)	Six months from the director; 12 months from the company	Not applicable
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 bonus

Retirement benefits

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

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

Marjorie Scardino, John Makinson, Rona Fairhead and Robin Freestone will also receive benefits under unapproved arrangements because of the cap on the amount of benefits that can be provided from the approved arrangements in the US and the UK.

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 approved 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 is age 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 approved 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 approved 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 possible after age 50. The accrued pension is reduced on retirement prior to age 60. Pensions in payment are guaranteed to increase each year at 5% or the increase in the Index of Retail Prices, if lower. Pensions for a member's spouse, dependent children and/or nominated financial dependant are payable in the event of death.

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).

In response to the UK Government's plans for pensions simplification and so-called 'A-Day' 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 were offered 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 will be provided through an unfunded unapproved defined contribution plan and a funded defined contribution plan approved by HM Revenue and Customs as a corresponding plan to replace part of the unfunded plan. The account balance of the unfunded unapproved defined contribution plan is determined by reference to the value of a notional cash account that increases annually by a specified notional interest rate. This plan 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.

David Bell
David Bell is a member of the Pearson Group Pension Plan. He is eligible for a pension of two-thirds of his final base salary at age 62 due to his long service but early retirement with a reduced pension before that date is possible, subject to company consent.

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. In the event of death before retirement, the proceeds of the FURBS account will be used to provide benefits for her dependants. 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. In the event of death before retirement, the proceeds of the FURBS account will be used to provide benefits for his dependants. 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, 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 MacArthur Foundation	€110,000 $20,000
David Bell	VITEC Group plc	£28,750
Rona Fairhead	HSBC Holdings plc	£85,000
Robin Freestone	eChem	£1,938
John Makinson	George Weston Limited	C$85,000

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.

In accordance with the terms of his appointment, the committee intends to review the chairman's remuneration in 2007. Any change to current remuneration is subject to the approval of the full board and will be set out in the report on directors' remuneration for 2007.

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.

The level and structure of non-executive directors' fees effective from January 2005 is as follows:

	Fees payable from 1 January 2005
Basic non-executive director fee	£45,000
Chairmanship of audit and personnel committees	£10,000
Membership of audit and personnel committees	£5,000
Senior independent director's fee	£10,000
Overseas meetings (per meeting)	£2,500

One-third of the basic fee, or the entire fee in the case of Rana Talwar, is paid in Pearson shares that the non-executive directors have committed to retain for the period of their directorships.

Patrick Cescau's fee is paid over to his employer.

The board intends to review the level and structure of non-executive directors' fees in 2007. Any changes to existing arrangements will be set out in the report on directors' remuneration for 2007.

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*

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	2006 Salaries/fees	2006 Annual incentive	2006 Allowances	2006 Benefits	2006 Total	2005 Total
Chairman						
Glen Moreno	425	–	–	–	425	106
Executive directors						
Marjorie Scardino	830	1,067	50	15	1,962	1,810
David Bell	425	512	0	17	954	972
Rona Fairhead	470	573	0	19	1,062	1,044
Robin Freestone (appointed 12 June 2006)	209	243	0	8	460	0
John Makinson	490	627	183	26	1,326	1,250
Non-executive directors						
David Arculus (appointed 28 February 2006)	51	–	–	–	51	0
Terry Burns	67	–	–	–	67	71
Patrick Cescau	53	–	–	–	53	55
Susan Fuhrman	61	–	–	–	61	55
Ken Hydon (appointed 28 February 2006)	48	–	–	–	48	0
Reuben Mark (resigned 21 April 2006)	20	–	–	–	20	70
Vernon Sankey (resigned 21 April 2006)	17	–	–	–	17	60
Rana Talwar	53	–	–	–	53	55
Total	3,219	3,022	233	85	6,559	5,548
Total 2005 (including former directors)	2,794	2,770	602	77	–	6,243

Note 1 For the full year, Robin Freestone's remuneration was: salary/fees – £315,170; annual incentive – £329,438; benefits – £13,980; total – £658,588.

Note 2 Allowances for Marjorie Scardino include £40,190 in respect of housing costs and a US payroll supplement of £9,646. 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 £183,125 for 2006.

Note 3 Benefits include company car, car allowance and health care. Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur.

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

Note 5 The company provided benefits to Dennis Stevenson and Reuben Mark after they stepped down from the board to the value of £22,800 and £17,298 respectively.

Note 6 Patrick Cescau's fee is paid over to his employer.

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

Directors' pensions	Age at 31 Dec 06	Increase/ (decrease) in accrued pension over the period £000	Accrued pension at 31 Dec 06 £000[1]	Transfer value at 31 Dec 05 £000[2]	Transfer value at 31 Dec 06 £000[3]	Increase/ (decrease) in transfer value* £000	Increase/ (decrease) in accrued pension† during the period £000 pa	Transfer value of the increase/ (decrease) in accrued pension*† at 31 Dec 06 £000	Other pension costs to the company over the period £000[3]	Other allowances in lieu of pension £000[4]	Other pension related benefit costs £000[5]
Marjorie Scardino	59	(0.5)	3.7	34.6	31.7	(2.9)	(0.7)	(6.0)	552.4	–	33.1
David Bell	60	28.7	283.3	4,085.0	5,022.6	916.3	19.6	326.4	–	–	–
Rona Fairhead	45	4.0	18.5	100.9	138.6	32.4	3.5	21.0	30.6	91.7	–
Robin Freestone	48	–	–	–	–	–	–	–	32.5	66.3	–
John Makinson	52	18.5	188.0	1,762.1	2,095.3	327.9	12.4	132.8	–	–	4.2

*Less directors' contributions.

†Net of inflation.

Note 1 The accrued pension at 31 December 2006 is that which would become payable from normal retirement age if the member left service at 31 December 2006. For Marjorie Scardino it relates only to the pension from the US Plan and there is a decrease because of exchange rate changes over the year. For David Bell and Rona Fairhead it relates to the pension payable from the UK Plan. For John Makinson it relates to the pension from the UK Plan, the FURBS and the UURBS in aggregate.

Note 2 The UK transfer values at 31 December 2006 are calculated using the assumptions for cash equivalents payable from the UK Plan and are based on the accrued pension at that date. For the US SERP, transfer values are calculated using a discount rate equivalent to current US government long-term bond yields. The US Plan is a lump sum plan and the accrued balance is shown.

Note 3 For UK benefits, this column comprises employer contributions to the Money Purchase 2003 section of the Pearson Group Pension Plan in the case of Robin Freestone and to FURBS to 5 April 2006 in the case of Rona Fairhead and Robin Freestone. For US benefits, it includes company contributions to funded defined contribution plans and notional contributions to unfunded defined contribution plans.

Note 4 This column comprises cash allowance paid in lieu of pension benefits above the plan earnings cap from April 2006.

Note 5 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 06 (or date of appointment if later)	Ordinary shares at 31 Dec 06 (or date of leaving if earlier)
Glen Moreno	100,000	110,000
Marjorie Scardino	184,889	216,777
David Arculus (appointed 28 February 2006)	–	1,065
David Bell	103,158	122,962
Terry Burns	5,739	7,097
Patrick Cescau	–	2,758
Rona Fairhead	43,209	62,593
Robin Freestone (appointed 12 June 2006)	2,061	2,089
Susan Fuhrman	2,318	3,830
Ken Hydon (appointed 28 February 2006)	5,000	6,065
John Makinson	149,466	172,872
Reuben Mark (resigned 21 April 2006)	16,546	16,908
Vernon Sankey (resigned 21 April 2006)	5,285	5,563
Rana Talwar	13,103	17,728

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 At 31 December 2006, 8,761,458 Pearson ordinary shares of 25p each (and 8,753,437 at 23 February 2007) were held in the Pearson Employee Share Ownership Trust. Of these, the executive directors of the company, as possible beneficiaries, are deemed to be interested in 3,520,843 at 31 December 2006 and 23 February 2007.

Note 3 At 31 December 2006, 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 2006 was 771.5p per share and the range during the year was 670.5p to 810.5p.

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 2006 have vested and are held pending release.

	Date of award	1 Jan 06	Awarded	Released	Lapsed	31 Dec 06	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Marjorie Scardino										
a	11/5/01	14,181		14,181		0	1438.5p	11/5/06	11/5/06	765.0p
b	9/5/01	9,764		9,764		0	1421.0p	9/5/04	10/5/06	764.0p
b	16/12/02	301,700				301,700	638.5p	28/6/05		
b	26/9/03	144,240		24,040		120,200	582.0p	26/9/06	26/9/06	755.0p
b*	21/12/04	277,420			69,355	208,065	613.0p	21/12/07		
b	21/12/04	138,710				138,710	613.0p	21/12/07		
b	23/09/05	450,000				450,000	655.0p	23/9/08		
b	13/10/06	0	450,000			450,000	767.5p	13/10/09		
Total		1,336,015	450,000	47,985	69,355	1,668,675				
David Bell										
a	11/5/01	6,371		6,371		0	1438.5p	11/5/06	11/5/06	765.0p
a*	17/4/03	3,052				3,052	541.0p	17/4/06		
a	17/4/03	3,053				3,053	541.0p	17/4/08		
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	9/5/01	3,842		3,842		0	1421.0p	9/5/04	10/5/06	764.0p
b	16/12/02	133,065				133,065	638.5p	28/6/05		
b	26/9/03	98,880		16,480		82,400	582.0p	26/9/06	26/9/06	755.0p
b*	21/12/04	110,042			27,511	82,531	613.0p	21/12/07		
b	21/12/04	55,021				55,021	613.0p	21/12/07		
b	23/09/05	170,000				170,000	655.0p	23/9/08		
b	13/10/06	0	125,000			125,000	767.5p	13/10/09		
Total		587,829	125,000	26,693	27,511	658,625				

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 2006 have vested and are held pending release.

	Date of award	1 Jan 06	Awarded	Released	Lapsed	31 Dec 06	Market value at date of award	Earliest release date	Date of release	Market value at date of release
Rona Fairhead										
a*	19/4/02	466				466	892.0p	19/4/05		
a*	19/4/02	467				467	892.0p	19/4/07		
a*	17/4/03	7,551				7,551	541.0p	17/4/06		
a	17/4/03	7,552				7,552	541.0p	17/4/08		
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	19,746				19,746	631.0p	15/4/08		
a	12/4/06	0	16,101			16,101	776.2p	12/4/09		
b	16/12/02	133,065				133,065	638.5p	28/6/05		
b	26/9/03	98,880		16,480		82,400	582.0p	26/9/06	26/9/06	755.0p
b*	21/12/04	110,042			27,511	82,531	613.0p	21/12/07		
b	21/12/04	55,021				55,021	613.0p	21/12/07		
b	23/09/05	200,000				200,000	655.0p	23/9/08		
b	13/10/06	0	140,000			140,000	767.5p	13/10/09		
Total		637,936	156,101	16,480	27,511	750,046				
Robin Freestone										
a	12/4/06	0	3,435			3,435	776.2p	12/4/09		
b	24/9/04	5,000				5,000	609.0p	24/9/07		
b	23/9/05	20,000				20,000	655.0p	23/9/08		
b	13/10/06	0	125,000			125,000	767.5p	13/10/09		
Total		25,000	128,435	0	0	153,435				

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

	Date of award	1 Jan 06	Awarded	Released	Lapsed	31 Dec 06	Market value at date of award	Earliest release date	Date of release	Market value at date of release
John Makinson										
a	11/5/01	9,553		9,553		0	1438.5p	11/5/06	11/5/06	765.0p
a*	17/4/03	6,105				6,105	541.0p	17/4/06		
a	17/4/03	6,105				6,105	541.0p	17/4/08		
b	9/5/01	4,650		4,650		0	1421.0p	9/5/04	10/5/06	764.0p
b	16/12/02	172,400				172,400	638.5p	28/6/05		
b	26/9/03	98,880		16,480		82,400	582.0p	26/9/06	26/9/06	755.0p
b*	21/12/04	110,042			27,511	82,531	613.0p	21/12/07		
b	21/12/04	55,021				55,021	613.0p	21/12/07		
b	23/09/05	180,000				180,000	655.0p	23/9/08		
b	13/10/06	0	140,000			140,000	767.5p	13/10/09		
Total		642,756	140,000	30,683	27,511	724,562				
Total		3,229,536	999,536	121,841	151,888	3,955,343				

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.

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 06	Granted	Exercised	Lapsed	31 Dec 06	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	973.3p	14/9/01	14/9/08			
a* 14/9/98	5,660				5,660	1090.0p	14/9/01	14/9/08			
b 9/5/03	2,224		2,224		0	424.8p	1/8/06	1/2/07	18/10/06	774.0p	£7,766
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			
c 8/6/99	37,583			37,583	0	1921.6p	8/6/02	8/6/09			
c 3/5/00	36,983				36,983	3224.3p	3/5/03	3/5/10			
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	500,372	0	2,224	37,583	460,565						£7,766
David Bell											
a* 14/9/98	20,496				20,496	973.3p	14/9/01	14/9/08			
b 10/5/02	272			272	0	696.0p	1/8/05	1/2/06			
b 9/5/03	444		444		0	424.8p	1/8/06	1/2/07	1/8/06	723.5p	£1,326
b 30/4/04	1,142				1,142	494.8p	1/8/07	1/2/08			
b 6/5/05	373				373	507.6p	1/8/08	1/2/09			
b 5/5/06	297				297	629.6p	1/8/09	1/2/10			
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			
c 8/6/99	18,705			18,705	0	1921.6p	8/6/02	8/6/09			
c 3/5/00	18,686				18,686	3224.3p	3/5/03	3/5/10			
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	163,225	0	444	18,977	143,804						£1,326

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 06	Granted	Exercised	Lapsed	31 Dec 06	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Rona Fairhead											
b 30/4/04	1,904				1,904	494.8p	1/8/07	1/2/08			
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	61,904	0	0	0	61,904						£0
Robin Freestone											
b 6/5/05	1,866				1,866	507.6p	1/8/08	1/2/09			
Total	1,866	0	0	0	1,866						£0
John Makinson											
a* 8/8/96	36,736		36,736		0	584.0p	8/8/99	8/8/06	2/8/06	733.0p	£54,737
a* 12/9/97	73,920				73,920	676.4p	12/9/00	12/9/07			
a* 14/9/98	30,576				30,576	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			
c 8/6/99	21,477			21,477	0	1921.6p	8/6/02	8/6/09			
c 3/5/00	21,356				21,356	3224.3p	3/5/03	3/5/10			
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	310,337	0	36,736	21,477	252,124						£54,737
Total	1,037,704	0	39,404	78,037	920,263						£63,829

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 that remain outstanding are exercisable (all performance conditions having already been met prior to 2005) and lapse if they remain unexercised at the tenth anniversary of the date of grant.

Marjorie Scardino, David Bell, and John Makinson hold options under this plan. Details of these awards are set out in table 5 and itemised as a.

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 set out in table 5 and 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 2006. The share price target for the seven-year tranche of PPOs granted in 1999 was not met in 2006 and the options lapsed. The share price target for the outstanding PPOs granted in 2000 has yet to be met. The secondary real growth in earnings per share target for any PPOs to become exercisable has already been met prior to 2006.

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

Marjorie Scardino, David Bell, and John Makinson hold PPOs under this plan. Details of these awards are set out in table 5 and 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, Rona Fairhead, and John Makinson are set out in table 5 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 2006 was 771.5p per share and the range during the year was 670.5p to 810.5p.

David Arculus, *Director, 9 March 2007*