

REPORT ON DIRECTORS' REMUNERATION

The board presents its report on directors' remuneration to shareholders. This report complies with the Directors' Remuneration Report Regulations 2002.

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 21 April 2006 inviting them to consider and approve this report.

The personnel committee

During 2005, Reuben Mark chaired the personnel committee; Terry Burns and Rana Talwar were the other members. All three members of the committee were independent non-executive directors. Reuben Mark is standing down as a director of the company at the annual general meeting. The board is considering who will serve as chairman of the committee thereafter.

Dennis Stevenson, chairman until 1 October 2005, 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 present when his or her own position was being considered.

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, but has no other involvement with the company.

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

Compliance

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

Items subject to audit

The items subject to audit in this report comprise the sections on directors' remuneration, directors' pensions and movements in directors' interests in restricted shares and share options set out in tables 1, 2, 4 and 5 together with the accompanying notes set out below each table.

Remuneration policy

This report sets out the company's policy on directors' remuneration. This policy will continue to apply to each director for 2006 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 2006. Shareholders should consider all statements in this report about remuneration policy for years after 2006 in this context.

Pearson seeks to generate a performance culture by operating incentive programmes that support its business goals and reward their achievement. 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.

The company's policy is that base compensation should provide the appropriate rate of remuneration for the job, taking into account relevant recruitment markets and business sectors and geographic regions. Benefit programmes should ensure that Pearson retains a competitive recruiting advantage.

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.

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.

All outstanding long-term incentive awards for each of the executive directors are set out in tables 4 and 5 on pages 32 to 37 of this report.

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.

For 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 for prior years used for the purposes of the company's short- or long-term incentive plans have been rebased on IFRS.

Performance

Below we set out Pearson's total shareholder return on three bases. 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 2000 to 2005. 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



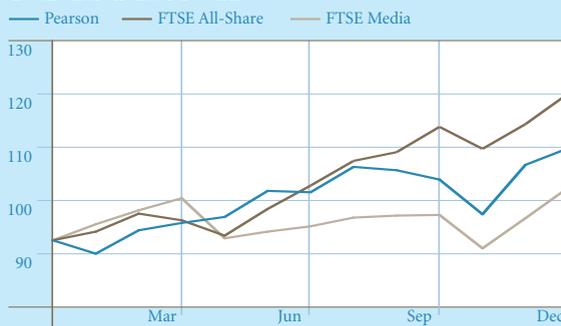
Secondly, we show Pearson's total shareholder return relative to the FTSE Media index on an annual basis over the same five-year period.

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 2005, the period to which this report relates.

Total shareholder return



Pearson is a constituent of all the indices shown above.

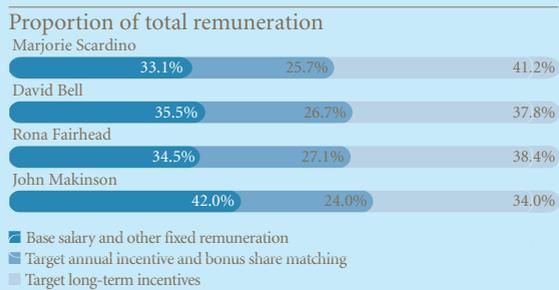
Main elements of remuneration

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

Base salary and other fixed remuneration (such as benefits and pension) reflect competitive market level, role and individual contribution. Annual incentives motivate achievement of annual strategic goals.

Long-term incentives drive long-term earnings and share price growth, improvement in returns and value creation and align with shareholders' interests through ownership and retention of shares.

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, our policy is that the relative importance of fixed and performance-related remuneration for each of the directors should be as follows:



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. In addition, 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 policy is to review salaries annually, considering levels of pay and pay increases throughout the company.

The committee has reviewed executive directors' base salaries for 2006 consistent with this policy. Full details will be set out in the report on directors' remuneration for 2006.

Other emoluments

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 incentive

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.

For 2006, 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.

There have been 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 a maximum of 75% of salary and the maximum is twice target.

The committee may award individual discretionary payments.

Details of actual payouts for 2005 are set out in table 1 and the notes on page 29 of this report.

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.

Bonus share matching

The company encourages executive directors and other senior executives to acquire and hold Pearson shares.

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 to be made in 2006 and thereafter, 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 four 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. For the 2001 award, the full one-for-one match vested as set out in the notes to table 4 on page 33 of this report.

Long-term incentives

We are asking shareholders by separate resolution to approve the renewal of the long-term incentive plan first introduced in 2001.

The committee has reviewed the operation of this plan in the light of the company's strategic goals and concluded that it is operating satisfactorily and achieving its objectives. We are therefore seeking approval of its renewal on broadly its original terms.

Subject to shareholders' approval, executive directors, senior executives and other managers will be eligible to participate in the plan which can deliver restricted stock and/or stock options. The aim as before 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.

Restricted stock granted to executive directors will vest only when stretching corporate performance targets over a specified period have been met. Awards will vest on a sliding scale based on performance over the period. There will be no retesting. The committee will determine the performance measures and targets governing an award of restricted stock prior to grant.

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

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, which is defined as operating profit net of 15% cash tax divided by net operating assets plus gross goodwill (pre-amortisation), 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 will vest at the end of the three-year period. The remaining 25% of the award will only vest 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.

It is not the committee's intention to grant stock options in 2006. Should the committee decide to grant them in future, options granted to executive directors would come with a minimum three-year vesting period and would vest on a sliding scale based on stretching performance over the three-year period with no retesting.

The committee's independent advisers calculate the expected value of both restricted stock and stock options 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.

Taking into account these values and assessments by the committee's independent advisers of market practice for comparable companies, the committee establishes guidelines each year for the maximum expected value of individual awards. Since 2001, we have adopted this market-based approach which established maximum award levels of 300% of salary expected value for the CEO and 200% of salary expected value for the other executive directors. In practice, since 2002, actual awards have always been below these maximum levels. The expected value of awards for the executive directors in 2006 as a percentage of base salary will be in line with the value of awards granted in 2004 and 2005. As the 2006 award will not be made until later in the year, full details will be set out in the report on directors' remuneration for 2006.

In establishing these guidelines for the maximum 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 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.

Details of the actual awards, performance periods, measures and targets for the 2005 restricted stock awards are set out in table 4 and the notes on pages 32 to 34 of this report.

At 31 December 2005, stock awards granted in the last 10 years under this and all other employee share plans, to be satisfied by new-issue equity, amounted to 3.6% of the company's issued share capital and under this and other executive or discretionary plans amounted to 2.5%.

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.

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 continuing executive directors based on the middle market value of Pearson shares of 705.5p on 24 February 2006 against the base salary set out in this report is as follows:

	Number of shares	Value (% of base salary)
Marjorie Scardino	184,889	184%
David Bell	103,158	184%
Rona Fairhead	43,209	73%
John Makinson	149,466	222%

Service agreements

As set out in the annual report for 2004, Peter Jovanovich stood down as a director of the company for health reasons on 31 January 2005, but remained entitled to contractual short- and long-term disability and other benefits. These arrangements are set out in an agreement dated 28 January 2005.

Dennis Stevenson retired as chairman and director on 1 October 2005. Glen Moreno was appointed chairman and director on 1 October 2005.

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 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 2005 (or in the case of Peter Jovanovich and Dennis Stevenson that applied to 31 January 2005 and 1 October 2005 respectively) and that continue to apply for 2006 as follows:

Name	Date of agreement	Notice periods	Compensation on termination by the company without notice or cause
Dennis Stevenson	13 May 1997 (for service to 1 October 2005)	Six months from the director; 12 months from the company	100% of salary at the date of termination
Glen Moreno	29 July 2005 (for service from 1 October 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
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
Peter Jovanovich	9 October 2000 (for service to 31 January 2005)	Employment may be terminated by either party at any time, subject to three months' notice from the director in the case of voluntary resignation	200% of annual salary and target annual incentive
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 30 of this report.

Executive directors participate in the approved pension arrangements set up for Pearson employees. Marjorie Scardino, John Makinson, Rona Fairhead and Peter Jovanovich 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 the Final Pay 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.

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 will be offered a cash supplement as an alternative to further accrual of pension benefits on a basis that is broadly cost neutral to the company. Further details will be set out in the report on directors' remuneration for 2006.

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 earnings cap introduced by the Finance Act 1989. The company also contributes 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.

Peter Jovanovich

Peter Jovanovich 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. He ceased to build up further benefits in the SERP at 31 December 2002. Additional defined contribution benefits are provided through a funded, unapproved 401(k) excess plan and an unfunded, unapproved arrangement. In the event of death while in receipt of disability benefits, the account balances in the defined contribution arrangements will be used to provide benefits for dependants. The SERP arrangement provides a spouse's pension on death while in receipt of disability benefits and the option of a death in retirement pension by reducing the member's pension.

John Makinson

John Makinson is a member of the Pearson Group Pension Plan under which his pensionable salary is restricted to the 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 pensions 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 Index of Retail Prices. 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.

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.

The committee's view is that, taking into account the remuneration of chairmen in comparable positions, the appropriate total pay level is £425,000 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.

For 2005, the chairman and the executive directors of the board reviewed the level and structure of non-executive directors' fees, which had not been changed since January 2000. After reviewing external benchmarks, they agreed an increase in the basic fee to £45,000, an increase in the fee for the committee chairmen to £10,000, the introduction of separate fees of £5,000 for committee membership and of £10,000 for the senior independent director and the replacement of the fee for non-UK based directors with a fee of £2,500 for overseas meetings.

	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.

In the case of Patrick Cescau, his fee was paid over to his employer.

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.

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	2005 Salaries/Fees	2005 Annual Incentive ¹	2005 Other ²	2005 Total	2004 Total
Chairman					
Dennis Stevenson (retired 1 October 2005)	281	–	–	281	325
Glen Moreno (appointed 1 October 2005)	106	–	–	106	–
Executive directors					
Marjorie Scardino	710	1,038	62	1,810	1,538
David Bell	395	560	17	972	874
Rona Fairhead	420	608	16	1,044	907
Peter Jovanovich (stepped down 31 January 2005)	41	–	373	414	1,052
John Makinson	475	564	211	1,250	791
Non-executive directors					
Terry Burns	71	–	–	71	35
Patrick Cescau	55	–	–	55	35
Susan Fuhrman	55	–	–	55	18
Reuben Mark	70	–	–	70	47
Vernon Sankey	60	–	–	60	40
Rana Talwar	55	–	–	55	35
Total	2,794	2,770	679	6,243	5,697
Total 2004	2,878	2,507	312	–	5,697

Note 1 For Marjorie Scardino, David Bell and Rona Fairhead, annual incentives were based on the financial performance of Pearson plc. In the case of John Makinson, 70% of his annual incentive was based on the performance of Penguin Group and 20% on the financial performance of Pearson plc. In the case of David Bell, Rona Fairhead and John Makinson, 10% of their annual incentives was based on performance against personal objectives.

For Pearson plc, the performance measures were earnings per share growth, operating cash flow, sales and average working capital as a ratio to sales. Actual underlying growth in adjusted earnings per share at constant exchange rates consistent with the reported adjusted earnings per share (pre-intangibles) of 34.1p, operating cash flow of £570m and average working capital as a ratio to sales were each better than the level of performance required for maximum payout. Actual sales at £4,096m were above target but below maximum.

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

Note 2 Other emoluments include company car and healthcare benefits. In the case of Marjorie Scardino, these include £39,245 in respect of housing costs and a cash US payroll supplement of £8,372. 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. He received £186,279 in cash for 2005. Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur. In accordance with the agreement dated 28 January 2005 referred to on page 26 of this report, Peter Jovanovich received short- and long-term disability payments in cash for the period 1 February 2005 to 31 December 2005.

Note 3 No amounts as compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

Note 4 The following executive directors served non-executive directorships elsewhere and received fees as follows: Marjorie Scardino (Nokia Corporation – €110,000, MacArthur Foundation (from 1 December 2005) – \$3,667); David Bell (VITEC Group plc – £28,542); Rona Fairhead (HSBC Holdings plc – £70,000); John Makinson (George Weston Limited – C\$89,000).

Table 2: Directors' pensions

Directors' pensions	Age at 31 Dec 05	Increase in accrued pension over the period £000	Accrued pension at 31 Dec 05 £000 ⁽¹⁾	Transfer value at 31 Dec 04 £000 ⁽²⁾	Transfer value at 31 Dec 05 £000	Increase in transfer value* £000	Increase in accrued pension† during the period £000 pa	Transfer value of the increase in accrued pension at 31 Dec 05*† £000	Other pension costs to the company over the period £000 ⁽³⁾	Other pension related benefit costs £000 ⁽⁴⁾
Marjorie Scardino	58	0.4	4.2	29.5	34.6	5.1	0.3	2.5	514.3	26.5
David Bell	59	21.3	254.6	3,311.9	4,085.0	753.4	14.9	219.7	–	–
Rona Fairhead	44	3.8	14.5	69.1	100.9	26.7	3.4	18.9	109.2	–
Peter Jovanovich	56	6.8	64.2	404.5	497.5	93.0	5.3	41.1	246.9	0.8
John Makinson	51	19.6	169.5	1,438.3	1,762.1	318.7	15.6	157.1	–	4.2

*Less directors' contributions.

†Net of inflation.

Note 1 The accrued pension at 31 December 2005 is that which would become payable from normal retirement age if the member left service at 31 December 2005. For Marjorie Scardino it relates only to the pension from the US Plan. For David Bell and Rona Fairhead it relates to the pension payable from the UK Plan. For Peter Jovanovich it relates to the pension from the US Plan and the US SERP. 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 2005 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 contributions to FURBS. 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 life cover and long-term disability insurance not covered by the retirement plans.

Table 3: Interests of directors

	Ordinary shares at 1 Jan 05	Ordinary shares at 31 Dec 05
Dennis Stevenson	167,043	174,517
Glen Moreno	–	100,000
Marjorie Scardino	127,761	184,889
David Bell	77,305	103,158
Terry Burns	4,089	5,439
Patrick Cescau	–	–
Rona Fairhead	12,710	43,209
Susan Fuhrman	551	2,318
Peter Jovanovich	86,461	86,461
John Makinson	115,898	149,466
Reuben Mark	14,798	16,546
Vernon Sankey	3,943	5,285
Rana Talwar	8,152	13,103

Note 1 Ordinary shares includes 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 In the case of Peter Jovanovich and Dennis Stevenson, the closing balance represents the number of shares held on 31 January 2005 and 1 October 2005 respectively.

Note 3 Executive directors of the company, as possible beneficiaries, are also deemed to be interested in the Pearson Employee Share Ownership Trust, the trustees of which held 5,249,407 Pearson ordinary shares of 25p each at 31 December 2005 and 5,248,615 at 26 February 2006.

Note 4 At 31 December 2005, John Makinson held 1,000 shares in Interactive Data Corporation.

Note 5 From 2004, Marjorie Scardino is also deemed to be interested in a further number of shares under her unfunded pension arrangement described on page 27 of 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 6 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 2005 was 687.5p per share and the range during the year was 608.0p to 694.5p.

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 2005 have vested and are held pending release.

Date of award	1 Jan 05	Awarded	Released	Lapsed	31 Dec 05	Market value at date of award	Earliest vesting date	Date of release	Market value at date of release
Dennis Stevenson									
b 5/5/04	30,000				30,000	673.5p	5/5/07		
Total	30,000	–	–	–	30,000				
Marjorie Scardino									
a* 11/5/01	14,181				14,181	1438.5p	11/5/06		
b* 9/5/01	39,057		29,293		9,764	1421.0p	9/5/04	1/3/05	641.5p
b 16/12/02	362,040		60,340		301,700	638.5p	28/6/05	26/7/05	676.0p
b 26/9/03	144,240				144,240	582.0p	26/9/06		
b 21/12/04	416,130				416,130	613.0p	21/12/07		
b 23/09/05	–	450,000			450,000	655.0p	23/9/08		
Total	975,648	450,000	89,633	–	1,336,015				
David Bell									
a* 11/5/01	6,371				6,371	1438.5p	11/5/06		
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	4,503				4,503	652.0p	16/4/07		
b* 9/5/01	15,369		11,527		3,842	1421.0p	9/5/04	1/3/05	641.5p
b 16/12/02	159,678		26,613		133,065	638.5p	28/6/05	26/7/05	676.0p
b 26/9/03	98,880				98,880	582.0p	26/9/06		
b 21/12/04	165,063				165,063	613.0p	21/12/07		
b 23/09/05	–	170,000			170,000	655.0p	23/9/08		
Total	455,969	170,000	38,140	–	587,829				
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	5,146				5,146	652.0p	16/4/07		
a 15/4/05	–	19,746			19,746	631.0p	15/4/08		
b 8/4/02	5,000		5,000		–	843.0p	8/10/04	1/3/05	641.5p
b 16/12/02	159,678		26,613		133,065	638.5p	28/6/05	26/7/05	676.0p
b 26/9/03	98,880				98,880	582.0p	26/9/06		
b 21/12/04	165,063				165,063	613.0p	21/12/07		
b 23/09/05	–	200,000			200,000	655.0p	23/9/08		
Total	449,803	219,746	31,613	–	637,936				

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 2005 have vested and are held pending release.

Date of award	1 Jan 05	Awarded	Released	Lapsed	31 Dec 05	Market value at date of award	Earliest vesting date	Date of release	Market value at date of release	
Peter Jovanovich										
b*	9/5/01	29,300		21,975		7,325	1421.0p	9/5/04	1/3/05	641.5p
b	16/12/02	198,396		33,066		165,330	638.5p	28/6/05	28/6/05	649.5p
b	26/9/03	98,880				98,880	582.0p	26/9/06		
b	21/12/04	165,063				165,063	613.0p	21/12/07		
Total		491,639	–	55,041	–	436,598				
John Makinson										
a*	11/5/01	9,553				9,553	1438.5p	11/5/06		
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	18,598		13,948		4,650	1421.0p	9/5/04	1/3/05	641.5p
b	16/12/02	206,880		34,480		172,400	638.5p	28/6/05	26/7/05	676.0p
b	26/9/03	98,880				98,880	582.0p	26/9/06		
b	21/12/04	165,063				165,063	613.0p	21/12/07		
b	23/09/05	–	180,000			180,000	655.0p	23/9/08		
Total		511,184	180,000	48,428	–	642,756				
Total		2,914,243	1,019,746	262,855	–	3,671,134				

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 Each plan is described below in relation to its status during the year i.e. whether awards have been released or lapsed, have vested and are held, are outstanding or were granted.

>Awards released The long-term incentive plan shares awarded to Rona Fairhead on 8 April 2002 in accordance with the terms agreed with her when she joined the company vested in 2004 on the third anniversary of her date of her appointment and were released on 1 March 2005. No consideration was payable for these shares. Details of this award are set out in table 4 and itemised as b on page 32 of this report.

The first tranche of long-term incentive plan shares granted on 16 December 2002 vested and were released on 28 June 2005 with the exception of the awards for Marjorie Scardino, David Bell, Rona Fairhead and John Makinson which were released on 26 July 2005. The shares were released in accordance with the original terms of the award disclosed in detail in the report on directors' remuneration for 2002. No consideration was payable by participants for these shares. Marjorie Scardino, David Bell, Rona Fairhead, Peter Jovanovich and John Makinson held awards under this plan. Details of these awards are set out in table 4 and itemised as b on pages 32 and 33 of this report.

>Awards vested and held The restricted stock awards 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 on 1 March 2005. 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 these shares. The remaining one-quarter of the vested shares may be called within six months of 9 May 2006, being the fifth anniversary of the original grant date, but only if the participant has not disposed of any shares in the first three-quarters, other than those that may be released in order to satisfy personal tax liabilities. Marjorie Scardino, David Bell, Peter Jovanovich and John Makinson hold shares under this plan. Details of these awards are set out in table 4 and itemised as b* on pages 32 and 33 of this report.

The target for the increase in adjusted earnings per share from 2000 to 2005 for the annual bonus share matching plan awards made on 11 May 2001 was 27.7% i.e. inflation of 12.7% plus 15% (3% per annum for five years). The increase in adjusted earnings per share over the period has been 28.2% which means that the target, which was consistent with policy when the award was made, has been met. The awards will vest and be released on 11 May 2006. 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* on pages 32 and 33 of this report.

The target for the increase in adjusted earnings per share from 2002 to 2005 for the annual bonus share matching award made on 17 April 2003 was 17.7% i.e. inflation of 8.7% plus 9% (3% per annum for three years). The increase in adjusted earnings per share over the period has been 34.8% which means that the target, which was consistent with policy when the award was made, has been met. Participants are 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 2002 to 2007, will be released on 17 April 2008. If participants elect to call for the first half of the matching shares on 17 April 2006, their entitlement to the second half of the matching shares lapses. David Bell, Rona Fairhead and John Makinson hold awards under this plan. Details are set out in table 4 and itemised as a* on pages 32 and 33 of this report.

> **Awards outstanding** Outstanding awards under the annual bonus share matching plan and the long-term incentive plan for Dennis Stevenson, Marjorie Scardino, David Bell, Rona Fairhead, Peter Jovanovich and John Makinson are set out in table 4 and itemised as a and b respectively on pages 32 and 33 of this report.

The performance and other conditions that apply to these awards and that have yet to be met were set out in the reports on directors' remuneration for the years in which they were granted.

> **Awards granted** The annual bonus share matching plan shares awarded on 15 April 2005 will vest in full on 15 April 2010 if the increase in the company's adjusted earnings per share exceeds inflation by at least 3 percentage points per annum over the period 2004 to 2009. Half this number of shares will vest on 15 April 2008 if the increase in the company's adjusted earnings per share exceeds inflation by at least 3 percentage points per annum over the period 2004 to 2007. The market price of the shares on the date of the award was 631p. The latest vesting date of this award is 15 April 2010. Rona Fairhead holds shares under this plan. Details of this award are set out in table 4 and itemised as a on page 32 of this report.

The shares awarded on 23 September 2005 were based on three performance measures: relative total shareholder return, return on invested capital, and a combination of earnings per share and sales growth. The award is split equally across all three measures.

For relative total shareholder return, the comparator group is all the constituents of the FTSE World Media index. Total shareholder return will be measured over the three-year period 2005 to 2008 based on the period immediately following the 2004 results announcement to the period immediately following the 2007 results announcement. 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 award will vest in full if Pearson's total shareholder return relative to this group of companies is ranked at the upper quartile or better. Two-fifths of the award will vest at the median. No part of the award will vest for performance below median.

For return on invested capital, the award will vest in full if Pearson's 2007 return on invested capital is 9.0% or better. A quarter of the award will vest for return on invested capital of 7.5%. No part of the award will vest for return on invested capital below 7.5%.

For sales and earnings per share growth, the measures work inter-dependently i.e. this element does not pay out at all unless there is growth in both sales and EPS. The threshold for payout, at which 30% of the award vests, is compound annual growth of at least 3% in both sales and EPS. Subject to threshold performance being achieved, this element of the award pays out in full only for significant growth of at least 10% per annum compound in either sales or EPS or good growth in both.

The market price of the shares on the date of the award was 655p. The vesting date of this award is 23 September 2008. A participant may call for three-quarters of the shares that vest within six months of the vesting date. However, the remaining one-quarter of the shares that vest may be called within six months of the second anniversary of the vesting date but only if the participant has not disposed of any shares in the first three-quarters, other than those that may be released in order to satisfy personal tax liabilities.

Marjorie Scardino, David Bell, Rona Fairhead and John Makinson hold shares under this plan. Details of these awards are set out in table 4 and itemised as b on pages 32 and 33 of this report.

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; and d long-term incentive; and * where options are exercisable.

Date of grant	1 Jan 05	Granted	Exercised	Lapsed	31 Dec 05	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Dennis Stevenson											
b	30/4/04	3,556		3,556	–	494.8p	1/8/11	1/2/12			
Total		3,556	–	–	3,556						
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	15/5/98	2,839	2,839		–	686.7p	1/8/05	1/2/06	17/8/05	685.0p	(£48)
b	9/5/03	2,224			2,224	424.8p	1/8/06	1/2/07			
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	1921.6p	8/6/02	8/6/09			
c	3/5/00	36,983		36,983	–	2763.6p	3/5/03	3/5/10			
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		540,194	–	2,839	36,983	500,372					

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; and d long-term incentive; and * where options are exercisable.

Date of grant	1 Jan 05	Granted	Exercised	Lapsed	31 Dec 05	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	973.3p	14/9/01	14/9/08			
b*	16/5/99	184		184	–	913.0p	1/8/04	1/2/05			
b*	9/5/01	202		202	–	957.0p	1/8/04	1/2/05			
b	10/5/02	272			272	696.0p	1/8/05	1/2/06			
b	9/5/03	444			444	424.8p	1/8/06	1/2/07			
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			
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	1921.6p	8/6/02	8/6/09			
c	3/5/00	18,686		18,686	–	2763.6p	3/5/03	3/5/10			
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	181,627	373	–	19,072	162,928						
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	1/11/03	1/11/11			
d*	1/11/01	20,000			20,000	822.0p	1/11/04	1/11/11			
d*	1/11/01	20,000			20,000	822.0p	1/11/05	1/11/11			
Total	61,904	–	–	–	61,904						

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; and d long-term incentive; and * where options are exercisable.

Date of grant	1 Jan 05	Granted	Exercised	Lapsed	31 Dec 05	Option price	Earliest exercise date	Expiry date	Date of exercise	Price on exercise	Gain on exercise
Peter Jovanovich											
a*	12/9/97	8,250			8,250	757.5p	12/9/00	12/9/07			
a*	12/9/97	102,520			102,520	676.4p	12/9/00	12/9/07			
c*	8/6/99	32,406			32,406	1372.4p	8/6/02	8/6/09			
c*	8/6/99	32,406			32,406	1647.5p	8/6/02	8/6/09			
c	8/6/99	32,406			32,406	1921.6p	8/6/02	8/6/09			
c	3/5/00	33,528		33,528	–	2763.6p	3/5/03	3/5/10			
c	3/5/00	33,528			33,528	3224.3p	3/5/03	3/5/10			
d*	9/5/01	31,170			31,170	\$21.00	9/5/02	9/5/11			
d*	9/5/01	31,170			31,170	\$21.00	9/5/03	9/5/11			
d*	9/5/01	31,170			31,170	\$21.00	9/5/04	9/5/11			
d*	9/5/01	31,170			31,170	\$21.00	9/5/05	9/5/11			
d*	1/11/01	20,000			20,000	\$11.97	1/11/03	1/11/11			
d*	1/11/01	20,000			20,000	\$11.97	1/11/04	1/11/11			
d*	1/11/01	20,000			20,000	\$11.97	1/11/05	1/11/11			
Total	459,724	–	–	33,528	426,196						
John Makinson											
a*	20/4/95	20,160	20,160		–	486.7p	20/4/98	20/4/05	13/4/05	642.0p	£31,308
a*	8/8/96	36,736			36,736	584.0p	8/8/99	8/8/06			
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	1921.6p	8/6/02	8/6/09			
c	3/5/00	21,356		21,356	–	2763.6p	3/5/03	3/5/10			
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	351,853	–	20,160	21,356	310,337						
Total	1,598,858	373	22,999	114,495	1,461,737						

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

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, Peter Jovanovich and John Makinson hold options under this plan. Details of these awards are set out in table 5 and itemised as **a** on pages 35 and 36 of this report.

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.

Dennis Stevenson, Marjorie Scardino, David Bell, Rona Fairhead and John Makinson hold options under this plan. Details of these holdings are set out in table 5 and itemised as **b** on pages 35 and 36 of this report.

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 have been granted to the directors since 1999.

The share price targets for the seven-year tranche of PPOs granted in 1999 and all outstanding PPOs granted in 2000 have yet to be met (the real growth in earnings per share target for PPOs to become exercisable having already been met prior to 2005).

All Premium Priced Options (PPOs) that remain outstanding lapse if they remain unexercised at the tenth anniversary of the date of grant.

Marjorie Scardino, David Bell, Peter Jovanovich and John Makinson hold PPOs under this plan. Details of these awards are set out in table 5 and itemised as **c** on pages 35 and 36 of this report.

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, Peter Jovanovich and John Makinson are set out in table 5 itemised as **d** on pages 35 and 36 of this report.

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%.

Terry Burns, *Director*

26 February 2006