Board of Directors

CHAIRMAN

Dennis Stevenson ‣ chairman, aged 57, has been a non-executive director of Pearson since 1986 and became chairman in 1997. He is also chairman of HBOS plc and a non-executive director of Manpower Inc. in the US.

EXECUTIVE DIRECTORS

Marjorie Scardino ‣ chief executive, aged 56, joined the Pearson board in January 1997. She trained and practised as a lawyer, and published a weekly newspaper in the US. In 1985 she joined The Economist Group as president of its North American operations and was its chief executive from 1993 until joining Pearson. She is also a non-executive director of Nokia Corporation.

David Bell ‣ director for people, aged 56, became a director of Pearson in March 1996. He is chairman of the Financial Times Group, having been chief executive of the Financial Times from 1993 to 1998. In July 1998 he was appointed Pearson's director for people with responsibility for the recruitment, motivation, development and reward of employees across the Pearson Group. He is also a non-executive director of VITEC Group plc and chairman of the International Youth Foundation.

John Makinson ‣ chairman and chief executive officer of the Penguin Group, aged 48, joined the Pearson board in March 1996 and was finance director until June 2002. From 1994 to 1996 he was managing director of the Financial Times, and prior to that he founded and managed the investor relations firm Makinson Cowell. He was appointed chairman of The Penguin Group in May 2001. He is also a non-executive director of George Weston Limited in Canada.

Rona Fairhead ‣ chief financial officer, aged 41, joined the Pearson board and became chief financial officer in June 2002. Prior to this she served as deputy finance director from October 2001. From 1996 until 2001, she worked at ICI, where she served as executive vice president, group control and strategy. Prior to that, she worked for Bombardier Inc. in finance, strategy and operational roles.

Peter Jovanovich ‣ chief executive of Pearson Education, aged 54, joined the Pearson board in June 2002. He became chief executive of Pearson Education in 1998. Prior to this he was chairman and chief executive of Addison Wesley Longman. He also serves on the boards of the Association of American Publishers and the Alfred Harcourt Foundation.

NON-EXECUTIVE DIRECTORS

Terry Burns*† ‣ aged 58, was the government's chief economic adviser from 1980 until 1991 and Permanent Secretary of HM Treasury from 1991 until 1998. He is non-executive chairman of Abbey National plc and Glas Cymru Limited, and a non-executive director of The British Land Company PLC. He was appointed a non-executive director of Pearson in May 1999.

Reuben Mark*† ‣ aged 64, is chairman and chief executive of the Colgate-Palmolive Company and a director of AOL Time Warner Inc. He became a non-executive director of Pearson in 1988.

Vernon Sankey* ‣ aged 53, was previously chief executive of Reckitt & Colman plc and is deputy chairman of Photo-Me International plc and Beltpacker plc. He is also a non-executive director of Zurich Financial Services AG and a board member of the UK's Food Standards Agency. He became a non-executive director of Pearson in 1993.

Rana Talwar† ‣ aged 54, was previously group chief executive of Standard Chartered plc. He became a non-executive director of Pearson in March 2000.

Patrick Cescau ‣ aged 54, is a director of Unilever plc and Unilever NV. He became a non-executive director of Pearson in April 2002.

* a member of the audit committee.
† a member of the personnel committee.

Directors' Report

The directors are pleased to present their report to shareholders, together with the financial statements for the year ended 31 December 2002 on pages 61 to 64 and 67 to 102. Details of the businesses, the development of the Group and its subsidiaries and likely future developments are given on pages 9 to 12 and 23 to 28 of this annual report. Sales and profits of the different sectors and geographical markets are given on pages 69 and 70.

Results and dividend ‣ The loss for the financial year ended 31 December 2002 was £111m (2001: £423m loss). The loss retained for the year was £298m (2001: £600m loss) and has been transferred to reserves. A final dividend of 14.3p per share is recommended for the year ended 31 December 2002. This, together with the interim dividend already paid, makes a total for the year of 23.4p (2001: 22.3p). The final dividend will be paid on 9 May 2003 to shareholders on the register at the close of business on 14 March 2003, the record date.

Significant acquisitions and disposals ‣ Details of these transactions can be found in notes 25 and 26 to the accounts on pages 96 to 97.

Transactions with related parties ‣ Details of transactions with related parties, which are reportable under FRS 8, are given in note 30 to the accounts on page 100.

Capital expenditure ‣ The analysis of capital expenditure and details of capital commitments are shown in note 12 to the accounts on page 83.

Directors ‣ The present members of the board, together with their biographical details, are shown on page 35. Patrick Cescau was appointed a non-executive director on 1 April 2002, and both Rona Fairhead and Peter Jovanovich were appointed directors on 1 June 2002. Details of directors' remuneration and interests in ordinary shares and options of the company are contained in the report on directors' remuneration on pages 46 to 60. Three directors, David Bell, Terry Burns and Rana Talwar will retire by rotation at the forthcoming Annual General Meeting (AGM) on 25 April 2003. All three, being eligible, will offer themselves for re-election. Rona Fairhead and Peter Jovanovich who were appointed to the board after the last AGM, retire from office in accordance with the company's articles of association and, being eligible, will offer themselves for reappointment. Details of directors' service contracts can be found on pages 49 and 50. No director was materially interested in any contract of significance to the company's business.

Corporate governance ‣ We have carried out a comprehensive internal review of the implications of the Sarbanes-Oxley Act and the Higgs recommendations on corporate governance. The review was conducted with the help of our external advisers and the board has discussed the matter in full. Most of their recommendations – whether they are mandatory, optional, or considered to be best practice – are already part of our governance and audit procedures.

The key issues the board has been discussing are:

1. Pearson supports the principles of good governance and code of best practice expressed in the Combined Code published in June 1998. We have complied with the Combined Code with only two main exceptions. The first is that we have not had a separate Nominations Committee, but instead used the entire board as the Nominations Committee. This has been because we have a small board and have seen a contradiction between on the one hand asking executive directors to be legally responsible under the Companies Act yet on the other hand effectively disenfranchising them from decisions on the addition of non-executives to the board. The Higgs report deals with this concern by firmly establishing that the Nominations Committee should have a majority of non-executive directors (rather than consist entirely of them). We welcome this approach and will now set up a Nominations Committee.

2. Our second non-compliance with the Combined Code is that we have not named a senior independent director (SID). To date we have been satisfied with the practice that if any shareholder raises a concern or makes a complaint to the chairman, he is obliged to share it with the other directors. Pearson has also for some time been happy for non-executives to meet shareholders. However, recognising the appetite to formalise these processes, we do now intend to appoint a SID.

3. Until recently the board has had a majority of non-executive directors. In 2002 we added two more executive directors to the board and as a result we now have the same number of executive and non-executive directors. (This excludes the chairman who, under the definition set out in the Higgs report is not an executive director – as his is a part time role – but, as chairman, is not considered “independent”.) We determined some time ago to seek to appoint up to two additional independent directors. When one is appointed, non-executive directors will be in the majority and we will comply – albeit for good business reasons – with this general principle.

4. Under some definitions, however, not all of these non-executive directors are “independent”. The Higgs report recommends that, non-executive directors should not serve on the board for more than ten years. However, Higgs acknowledges that boards must be free to make their own judgements on this issue. Two of our non-executive directors have been on the board for more than ten years and both would not wish to continue to serve as directors unless they are regarded as “independent”. The unanimous view of their colleagues on the board is that, by virtue of their personalities, their experience and their knowledge of the business, they are robustly independent. There are many examples of board debates and decisions that support this view. Therefore, we believe it would be in the interests of shareholders to consider them as fully “independent”, and we intend to do so.

5. Higgs has said no-one should hold more than one chairmanship of a FTSE100 company. Although Higgs has made it clear that this principle should be applied to future appointments rather than current incumbents, we felt it right to consider it. Our chairman, Dennis Stevenson, is also chairman of HBOS plc and has been chairman of both companies for nearly five years. Dennis’ chairmanship will be routinely considered as part of high level succession planning by the Nominations Committee. However, all the other members of the board have made it clear to Dennis that they do not wish him to step down from the chairmanship. Before Dennis became chairman of Halifax plc (now HBOS plc), the Pearson board was consulted and agreed to his taking on this additional chairmanship. Since then, there has never been the slightest conflict of time or interest.

6. We welcome the Higgs recommendations that boards should evaluate themselves and their work annually. We will report on what we have done and what the outcomes are in our next annual report.

7. The board has not yet formally considered the detailed audit-related recommendations of both the Sarbanes-Oxley Act and the Smith report on audit committees. The audit committee has of course been studying these and it will report shortly to the board.

The board ‣ The board currently comprises the chairman, who is part-time, five executive directors and five non-executive directors. All of the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The board schedules six meetings each year and arranges to meet at other times as appropriate. There is a formal schedule of matters specifically reserved to the board for decision and approval, and the board is supplied in a timely manner with the necessary information to discharge its duties. A procedure exists for directors to seek independent professional advice in the furtherance of their duties, and all directors have access to the advice and services of the company secretary.

Board committees ‣ The board of directors has established the following committees all of which have written terms of reference setting out their authority and duties:

i Audit committee ‣ This committee is chaired by Vernon Sankey and its other members are Terry Burns and Reuben Mark. All are non-executive directors. The committee provides the board with the means to appraise Pearson’s financial management and reporting, and to assess the integrity of the Group’s accounting procedures and financial controls. The Group’s internal and external auditors have direct access to the committee to raise any matter of concern and to report the results of work directed by the committee. The committee reports to the full board of Pearson.

ii Personnel committee ▸ This committee is chaired by Reuben Mark and its other member during 2002 was Terry Burns. Rana Talwar joined the committee in 2003. All three are non-executive directors. The committee meets regularly to decide the remuneration and benefits packages of the executive directors and the chief executives of the main operating companies, as well as recommending the chairman's remuneration to the board for its decision. It also reviews the Group's management development and succession plans. The committee reports to the full board and its report on directors' remuneration, which has been considered and adopted by the board, is set out on pages 46 to 60.

iii Treasury committee ▸ This committee comprises Dennis Stevenson, Rona Fairhead, Vernon Sankey and Rana Talwar. The committee sets the policies for the company's treasury department and reviews its procedures on a regular basis.

Internal control ▸ The directors have reviewed the effectiveness of the Group's internal control process in accordance with provision D.2.1 of the Combined Code.

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. They consider that the system of internal control is appropriately designed to manage the risk environment facing the Group and to provide reasonable, but not absolute, assurance against material misstatement or loss.

They confirm that there is an ongoing process, embedded within the Group's integrated internal control system which allows for the identification, evaluation and management of significant business risks, together with a reporting process to the board. The directors require operating companies to undertake at least annual reviews to identify new or potentially under-managed risks. The results of these reviews are reported annually to the board via the audit committee. This process has been in place throughout 2002 and up to the date of the approval of this annual report and accords with the Turnbull guidance.

The main elements of the Group's internal control system including risk identification are as follows:

i Board ▸ The board of directors, which has overall responsibility for the Group's system of internal control, exercises control through an organisational structure with clearly defined levels of responsibility, authority and appropriate reporting procedures. The board meets regularly and has a regular schedule of matters that are brought to it or its duly authorised committees for decision, aimed at maintaining effective control over strategic, financial, operational and compliance issues. This structure includes the audit committee, which with the chief financial officer, reviews the effectiveness of the internal financial and operating control environment of the Group. The audit committee meets regularly, at least three times per annum, and considers, inter alia, reports from internal and external auditors covering such matters.

ii Operating company controls ▸ The identification and mitigation of major business risks is the responsibility of operating management. Each operating company maintains controls and procedures appropriate to its own business environment whilst conforming to Group standards and guidelines, including procedures to identify and then mitigate all types of risk. To this end operating companies are required to undertake at least annual risk reviews to identify new or potentially under-managed risks, the results of which are reported to the board.

iii Financial reporting ▸ There is a comprehensive budgeting and forecasting system with an annual budget approved by the board of directors. Monthly financial information, including balance sheets, cash flow statements, trading results and indebtedness, are reported against the corresponding figures for the budget and the previous year, with corrective action being taken by the directors as appropriate. Quarterly, group senior management meet with operating company management to review their business and financial performance against budget and forecast. Major business risks relevant to each operating company are reviewed in these meetings.

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

v Group control ‣ The group control department has the central responsibility for risk control and internal audit, which it exercises through teams located both in the UK and the US. The department reviews business risks, processes and procedures in all the main operating companies, agrees with operating companies their plans to eliminate or mitigate risks where possible, and to improve controls and processes. It monitors operating companies' progress and reports the results of its work regularly to executive management and, via the audit committee, to the board. Annually, via the audit committee, the group control department specifically reports on business risk to executive management and the board.

vi Insurance ‣ Insurance cover is provided either through Pearson's captive insurance subsidiary or externally, depending on the scale of the risk in question and the availability of cover in the external market. The insurance market remains difficult and the Group continues to review its insurance coverage to ensure that it has the most cost effective balance between insured and uninsured risks.

Going concern ‣ Having reviewed the Group's liquid resources and borrowing facilities, and the 2003 and 2004 cash flow forecasts contained in the Group budget for 2003, the directors believe that the Group and the company have adequate resources to continue as a going concern for the foreseeable future. For this reason, the financial statements have, as usual, been prepared on a going concern basis.

ABI guidelines on socially responsible investment ‣ The board has taken steps during the year to implement procedures to facilitate the company's compliance with the ABI guidelines on socially responsible investment. We are now reporting for the first time on our level of compliance with the guidelines.

During February of this year, the monitoring of social, environmental and ethical (SEE) risk was carried out by the group control department, in addition to their work on the Turnbull risk management process. A report from the group control department on SEE risk management is now tabled at each meeting of the audit committee and of the board. This enables the board to take regular account of the significance of SEE matters to the business of the company.

Pearson is proud to have been a founding signatory to the UN 'Global Compact'. As part of our compliance process in support of this, we have reviewed our risks relating to labour standards, human rights and the environment. No significant issues arose out of these reviews. Our progress in reviewing our risks is described in the sections to follow on labour standards, human rights and the environment. During 2003, we will work with more of our key suppliers to optimise compliance with the principles of the 'Global Compact'.

In February 2003, operating companies were asked to report specifically on SEE risks for the first time and no significant risks to shareholder value were identified. It is anticipated that more information about actual and potential SEE risks will be gathered over time as the monitoring process continues and that this will enable action to be taken to manage such risks as appropriate.

Shareholder communication ‣ Pearson has an extensive programme of communication with all our shareholders – large and small, institutional and private. We also make a particular effort to communicate regularly with Pearson's employees, a large majority of whom are shareholders in the company.

During the year, we completed a major revamp of our website, www.pearson.com. We post all company announcements on the website as soon as they are released, and major shareholder presentations are made accessible via webcast or conference call. It contains a dedicated investor relations section with an extensive archive of past announcements and presentations, historical financial performance, share price data and a calendar of events. It also includes background information about all of our businesses, links to their websites, and details of our corporate responsibility policies and activities.

Each year our AGM – which will be held on 25 April this year – includes information about Pearson's businesses and the previous year's results as well as general AGM business.

People ‣ Pearson wants to be the best employer in the world. We know this is an ambitious goal and that we need continually to review the way we hire and promote people and how we train, develop and reward them.

There are approximately 30,000 people in Pearson spread throughout 60 countries. We have two main aims: to make sure that we are 'best in class' wherever we operate and to be consistent in the way we treat our people in every part of the world. Each business has detailed employment policies for recruitment, remuneration, employee relations, health and safety, and terms and conditions designed for the different sectors and countries in which they operate.

Pearson has a number of specific and discrete responsibilities across all its operating companies. These include overseeing the compensation, benefits, staffing, succession planning, development and training of our most senior executives. We also work hard to identify individuals with the potential to be future leaders in the business and to make sure they get development opportunities which match their aspirations with the needs of our businesses.

i Employment ▸ We are committed to equal opportunity for all, regardless of gender, race or other status. This philosophy applies equally to recruitment and to the promotion, development and training of people who are already part of Pearson. The company takes seriously its statutory obligations to the disabled and seeks not to discriminate against current or prospective employees because of any disability. We are always willing to make reasonable adjustments to premises or employment arrangements if these substantially disadvantage a disabled employee or prospective employee.

Last autumn we launched a new initiative to make sure that the company properly reflects the communities and markets in which we operate. We are developing a number of programmes to ensure that we hire, promote and develop our people in a way which is consistent with our commitment to diversity.

Pearson's core values are simple: we want to be a company which is brave, imaginative and decent in everything we do. This means that we treat our people as we wish to be treated. This is also true when we have to reduce staff and, here too, we seek to set a high standard.

ii Training and development ▸ The development of our people is an integral part of the management agenda within each operating unit of Pearson as well as a key responsibility of the top leaders across the company. It is championed by Pearson's director for people. We believe that we have two main aims in our training and development activities: firstly, to ensure that our people are trained to do their current job to the best of their abilities; and secondly, to ensure that we have a strong pipeline of future managers for our businesses.

Each company has people dedicated to training who carry out regular, thorough analyses of training needs, and create programmes and activities to meet these needs.

In addition to the attention to training within each operating unit, we have a number of discrete professional groups across the Pearson companies – editors, designers, sales and marketing people, finance experts and so on. We have created programmes which address the specific skills of each of these groups and last year we held forums for professionals in finance, HR, marketing and design. Each of these was designed to help develop their professional skills and to create opportunities to share ideas, resources and expertise. We have also created opportunities for job swaps, mentoring and other programmes within each functional group. We intend to extend this formula to other functional groups in due course.

In 2002, we again held our leadership forum which brought together over 100 managers from each part of Pearson. This forum, which is also attended by the top management of our company, provides an opportunity to understand our key business challenges and learn more about our many Pearson interests. This forum remains a key initiative in the way that we identify and develop leaders for Pearson's future.

In 2002, we also implemented a new company-wide performance and career review specifically targeted at the most senior leaders of our business units. This enables us to take a snapshot on an annual basis of the performance and career aspirations of these key people. It is enabling us to develop individual plans which match their current and future development with where the business wants to be.

But our emphasis on career development goes beyond senior management. In 2002, we set a goal to ensure that everyone in Pearson had a chance to discuss their own aspirations and career prospects if they wished. With this as an overall objective, we then explored how each operating unit might implement activities to deliver this goal by mid-2003. In some instances, we enhanced the performance appraisal process to include career discussions, and in other instances, we created discrete career discussion meetings. By the end of 2002, we had created pilot programmes in most of our business units and by the end of 2003 will involve everyone in the company.

Many of our people also want to learn more about other parts of Pearson and to have direct experience outside their typical business responsibilities. We set up the Pearson placement programme which enabled people to do an exchange between operating units for a week at a time. This increased individuals' exposure to wider Pearson issues and enhanced their understanding of the business.

The Pearson placement programme was an intense learning and development initiative for a focused group of individuals. We have extended our effort to cross-pollinate learning between the operating units through larger scale activities. During the year, we held a Getting to Know You day in our book publishing units in the US. This comprised a market stall exhibition of products and services and a number of productive business ideas were produced as a result. Following on from this, we intend to hold more such learning and development events in 2003.

iii Employee participation ▸ We continue strongly to encourage share ownership in a number of ways across Pearson and operate profit sharing and share acquisition plans in over 60 countries.

Last year Pearson won the ProShare award for best performance in fostering employee share ownership. This was awarded to recognise Pearson's serious and long-term commitment to employee share ownership. The judges applauded a number of ways in which Pearson used technology, communication and its co-ordinator network to encourage people to respond to the launch of its Sharesave plan.

iv Employee communication ▸ Each operating unit has its own communications plan which cascades the key goals and challenges through line management and encourages feedback to inform future decision making. Across the whole company, activities include our Pearson-wide magazine, *InPearson*, as well as our company-wide website, *Pearson to Pearson*. This year, we have enhanced the company website with the addition of job posting and CV posting through *PearsonPartners*. This aims to connect people from all parts of Pearson to learn about other parts of our business and to explore opportunities for development and networking.

The chief executive continues to communicate her messages to all colleagues worldwide, on a semi-annual basis and as events require, to ensure that people are informed of key developments and goals in a timely and relevant fashion.

v European employee forum ▸ Once again, two meetings were held during the year of the European Employee Forum which brings together representatives from across our European business units where we have a significant number of colleagues. These forums debated key issues relating to employment and business challenges and remain a key conduit of information to and from business units to ensure that colleagues have access to the planning and decision-making made on their behalf.

Labour standards and human rights ▸ During 2000, Pearson, along with other companies, signed a 'global compact' at the United Nations (UN) which set out a series of principles on labour standards, human rights and the environment. At that time, we set a series of key commitments to reflect the UN principles against which we would monitor and report our performance. We describe our progress below.

In 2001, taking independent advice, we put in place a process to ensure we live up to those commitments covering approximately 80% of our workforce, primarily focusing in the UK and the US. In 2002, we surveyed the remaining 20% of our workforce as well as revisiting areas covered earlier. The survey now covers 82 business operations in 41 countries. The survey does not cover sales offices or joint ventures where Pearson does not have management control.

Some of the UN principles concern the environment and are covered by our environmental policy. Others refer to labour standards and human rights. They are:

Labour standards

- Freedom of association and the right to collective bargaining.
- The elimination of all forms of compulsory labour.
- The abolition of child labour.
- The elimination of discrimination in employment and occupation.

Human rights

- To support and respect international human rights within our sphere of influence.
- To ensure that we are not complicit in human rights abuses.

i Labour standards ‣ The commitments shown below reflect the UN principles. As a result of our survey, we are confident that, for all the businesses we own, we meet or exceed the following:

- We offer equal employment opportunities to all. The people we recruit and promote are selected on merit and suitability, and are not discriminated against because of gender, race, origin, background, religion, marital status, sexual orientation, disability or age. In 2001, we identified the need to establish a group-wide diversity policy and last year, we committed ourselves at a meeting of our most senior managers to a five-year programme to progress this.
- We comply with the relevant laws relating to employment and employment conditions in each country and business surveyed. Subject to relevant laws in the countries where we operate, we fully respect the right of our people to freedom of association and representation either through trades unions, works councils, or any other appropriate forum.
- We are satisfied that we have systems in place to deal with physical and verbal abuse, or the threat of it, and any other form of intimidation within our workforce. In 2003, we plan to review these systems.
- We recognise that labour standards and conditions may vary from country to country. Pearson companies conduct business in countries of the world where living standards are low. Where Pearson companies directly control their activities in a country, we ensure that our people have satisfactory wages and working conditions, and that there is no exploitation of labour.

Following our survey in 2001, we set ourselves targets relating to the two supply chain commitments below:

- We expect those who provide us with goods and services to assure, and if necessary, demonstrate to us that their businesses at least comply with the UN standards set out above. We also expect third-party suppliers to provide satisfactory working conditions for their employees.
- We will advise third-party suppliers that we will positively support their efforts to comply with our guidelines to enable them broadly to adhere to our commitments made under the UN 'Global Compact', and we expect them to do so within an agreed time frame.

The targets we set ourselves were to contact all key suppliers in writing to communicate our expectations and to provide guidance for our professional buyers on incorporating our commitments into operational practice.

In 2002, in order to meet these targets, we focused attention first on the UK and the US as these countries account for around 80% of our business. During the year we wrote to over 16,000 of our suppliers managed from the UK or US advising them of our commitment to the UN 'Global Compact' and outlining our expectations of them. We also briefed and provided guidance for our key professional buyers in the UK and US so that our commitments can routinely be included in discussions and arrangements with our suppliers, whenever appropriate. As relationships with our key suppliers came up for renewal in 2002, we introduced a contractual requirement to meet our commitments. In light of the replies we have received from our original mailing, we have identified certain major sectors including printing, distribution and paper supply on which we will concentrate this year.

In each country, our local subsidiary continues to be responsible for monitoring activity annually. Their reports are submitted to the director for people at Pearson.

ii Human rights ‣ Pearson companies and people operate globally. Our products are produced and manufactured across the world and sold in many countries, often by companies we do not own which are operating on our behalf. In the course of conducting business in 'high risk areas', we are committed to ensure that we are not complicit in human rights abuses and continue to monitor this. If we were to find ourselves inadvertently implicated in abuses of human rights, we would take immediate steps to rectify such a situation. Our survey revealed no such situations which cause us concern.

iii Board responsibility ‣ David Bell, as director for people, is the board director with overall responsibility for labour standards, human rights and environmental issues.

Environmental policy ‣ Pearson does not directly operate in industries where there is a potential for serious industrial pollution. Our main products are based on intellectual property. However, in our normal operations we do things that have an impact on the environment in many ways.

Pearson has had an environmental policy since 1992. In an ever-changing world, environmental issues concern the company and its shareholders, customers, staff and the general public alike. During 2000, we reviewed our policy and concluded that, although most of the original principles were still valid, we needed to enhance our efforts and measure them better. During 2001 we worked with independent consultants to put in place a benchmarking procedure to allow us to measure our progress. The procedure has been introduced into all our businesses involving buildings that house over 100 people or are over 25,000 sq ft in size. The data collected from our surveys allows us to set benchmarks and targets to report against.

For the buildings and companies involved we confirm we meet the principal commitments we set ourselves:

- We comply with the relevant environmental laws and regulations applicable in each country in which we operate.
- We work with regulatory agencies and advisers as necessary in the implementation of effective environmental policies.
- We take account of environmental issues when placing contracts with our top suppliers of goods and services. In 2002, we wrote to our principal suppliers, managed from the UK and the US, outlining our commitments and our expectations of them.
- We continue to introduce energy efficient systems into our buildings and to manage sensibly our energy requirements.
- A senior executive, Alan Miller, has the responsibility for ensuring that our environmental principles are followed and we progress towards the targets we set ourselves. The board takes an active interest in our progress, and each of our operating companies has nominated a senior person to take responsibility for implementing our policy in those businesses. The board reviews progress annually.
- Our environmental policy and our annual environmental review are available to everyone in Pearson through our website, and we have encouraged people to participate and contribute to the development of environmental initiatives as they affect our business.

Health and safety ‣ We continue to be committed to protecting our people, our visitors, our contractors and our customers through our health and safety practices in the workplace. As an aid to further progress, we recognised that a group-wide health and safety policy would be a useful supplement to those adopted by our businesses.

We reviewed our policy on health and safety in 2002 and will communicate this around the Group in 2003.

Our commitments are:

- We comply with health and safety laws and regulations applicable in each of the countries in which we operate.
- Each of our operating companies has appropriate guidelines and procedures in place for the people working in these businesses.

- We ensure that our people are made aware of health and safety issues and good practice in their workplace and that suitable training, supervision and instruction are provided as necessary.
- We actively encourage safe systems of work, policies and procedures from external contractors to ensure the safety of all those working at any time in any one of our operating company locations.
- We review our procedures regularly.
- We accurately record 'incidents' that take place and action any changes necessary following such incidents.
- We have measures to monitor our progress and report annually. This forms part of our environmental review.

Supplier payment policy Operating companies are responsible for agreeing the terms and conditions, including terms of payment, under which business transactions with their suppliers are conducted. It is Group policy that suppliers are made aware of such terms of payment and that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. Group trade creditors at 31 December 2002 were equivalent to 32 days of purchases during the year ended on that date. The company does not have any significant trade creditors enabling it to produce creditor information for this purpose.

External giving In 2002, Pearson's external giving totalled £2.8m (£2.39m in 2001). This was split between the UK (£868,000; £745,000 in 2001), and the rest of the world (£1,929,000; £1,648,000 in 2001). In addition to cash donations, Pearson provides in-kind support such as books, publishing expertise, advertising space and staff time. We encourage our employees to support their personal charities by matching fundraising and through payroll giving.

We have conducted a major review of our community involvement, with the aim of focusing our support on a cause where Pearson could make a unique contribution. As the world's leading education company, we decided to focus our charitable giving on projects related to education, and have concentrated on larger projects in our main markets in the UK and US.

We embarked on our first step in 2001 when we made a $2.5m, three-year commitment to Jumpstart, a non-profit organisation that connects college students who aim to become teachers with low-income pre-school children across the US. From September 2002, Pearson is supporting 28 teacher fellows and connecting them with mentors from across the company. Our US businesses are using their expertise and resources creatively to further assist the Jumpstart programme with books, technology and staff time.

We hope to develop a flagship community programme in the UK during 2003.

Pearson businesses have a proud history of corporate giving and supporting projects in the local community. We support Book Aid International, which works with schools and libraries to distribute books and educational materials in Africa. The Financial Times Group in the UK supports schools and colleges in its local borough of Southwark including reading and mentoring schemes. Penguin US has worked with the National Book Foundation and Literacy Partners, which focuses on adult and family literacy programmes. Pearson Education has a book donation programme which has covered countries such as Belize, Nepal, South Africa and Lithuania in 2002.

Share capital ‣ Details of share issues are given in note 23 to the accounts on pages 94 and 95. At the AGM held on 26 April 2002, the company was authorised, subject to certain conditions, to acquire up to 80 million of its ordinary shares by market purchase. Although circumstances have not merited using this authority and there are no plans at present to do so, shareholders will be asked to renew this authority at the AGM on 25 April 2003.

At 3 March 2003, beneficial interests amounting to 3% or more of the issued ordinary share capital of the company notified to the company comprised:

	NUMBER OF SHARES	PERCENTAGE
Legal and General	24,046,759	3.00%
Telefonica Contenidos, SA	38,853,403	4.85%
The Capital Group Companies Inc.	88,115,107	10.99%

Annual general meeting ‣ The notice convening the AGM to be held at 12 noon on Friday, 25 April 2003 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, is contained in a circular to shareholders to be dated 25 March 2003.

Registered auditors ‣ Following the conversion of our auditors PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 31 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the AGM, at a level of remuneration to be agreed by the directors.

Statement of directors' responsibilities ‣ Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and Group as at the end of the year and of the profit or loss of the Group for that period. The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time, the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group, and hence for taking reasonable steps towards preventing and detecting fraud and other irregularities. In preparing the financial statements on pages 61 to 64 and 67 to 102 inclusive, the directors consider that appropriate accounting policies have been used and applied in a consistent manner, supported by reasonable and prudent judgements and estimates, and that all relevant accounting standards have been followed.

JULIA CASSON ‣ SECRETARY ‣ 3 MARCH 2003

Report on Directors' Remuneration

Introduction ‣ The Directors' Remuneration Report is presented to shareholders by the board and contains the following information:

- a description of the role of the personnel committee;
- a summary of the company's remuneration policy, including a statement of the company's policy on directors' remuneration;
- details of the terms of the service contracts and the remuneration of each director for the preceding financial year;
- details of the awards under long-term incentive plans held by the directors;
- details of each director's interest in shares in the company; and
- a graph illustrating the performance of the company relative to the FTSE All-Share index for the last five years.

This report complies with the Directors' Remuneration Report Regulations 2002 that apply to the company for the first time this year. This report also sets out 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 25 April 2003 inviting them to consider and approve this report.

The personnel committee ‣ Reuben Mark chairs the personnel committee; the other member of the committee during 2002 was Terry Burns. Rana Talwar joined the committee in 2003. All three members of the committee are non-executive directors.

It is named the 'personnel committee' rather than the more conventional 'remuneration committee' to underline the fact that, while a major part of its responsibility is concerned with remuneration, its overriding brief in an unusually people-dependent company is to help Pearson achieve its goal of being the best employer in the world.

The committee's terms of reference are:

- To approve the remuneration and benefits packages of the executive directors, the chief executives of the principal operating companies and other members of the Pearson Management Committee. This includes base salary, annual and long-term incentive entitlements and awards, and pension arrangements.
- To approve the company's long-term incentive and other share plans, including guidelines for the operation of such plans as a whole and, where relevant, the determination of performance measures and targets.
- To review, when appropriate with external assistance, the remuneration and benefits packages of comparable companies to ensure that the company's senior executives are fairly and competitively remunerated.
- To review the total cost of annual remuneration of the executive directors, the chief executives of the principal operating companies and other members of the Pearson Management Committee.
- To ensure that the board meets its statutory and regulatory obligations to report the company's remuneration policy and directors' remuneration, including the production of the Report on Directors' Remuneration.
- To advise and decide on general and specific arrangements in connection with the termination of employment of executive directors, the chief executives of the principal operating companies and other members of the Pearson Management Committee.
- To review the company's management development, training and succession plans.
- To recommend to the full board for its approval the remuneration and benefits package of the chairman of the board.

Dennis Stevenson, chairman, 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 attend meetings of the committee, although no director is present when his or her own position is being considered.

To ensure that it received independent advice, the committee appointed Towers Perrin who supplied survey data and advised on market trends, long-term incentives and other general remuneration matters. They did not provide other services to the company.

Other external remuneration and benefits specialists also advised the committee. Watson Wyatt supplied survey data, advised on retirement benefits and tracked the company's relative total shareholder return for the purposes of the incentive share plan. Watson Wyatt were also actuaries for the Pearson Group Pension Plan and advisors to the company on general retirement and benefit matters in the UK and the US. Freshfields Bruckhaus Deringer provided legal advice on long-term incentives. They were the company's main UK legal advisor. Lovells advised the company on the legal aspects of pension arrangements, including those for the executive directors, and were also advisors to the Trustee of the Pearson Group Pension Plan. The committee did not appoint these firms.

Compliance ▸ The committee believes that the company has complied with the provisions regarding remuneration matters of the Combined Code on corporate governance as required by the UK Listing Authority of the Financial Services Authority.

Remuneration policy ▸ This report sets out the company's policy on directors' remuneration. This policy will continue to apply to each director for 2003 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. Any changes in policy for years after 2003 will be described in future reports, which will continue to be subject to shareholder approval. All statements in this report in relation to remuneration policy for years after 2003 should be considered in this context.

Pearson seeks to generate a performance culture by developing programmes that support its business goals and rewarding contributions towards their achievement. It is the company's policy that total remuneration (basic compensation plus short-term and long-term incentives) should reward both short- and long-term results, delivering competitive rewards for target performance, but outstanding rewards for exceptional 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.

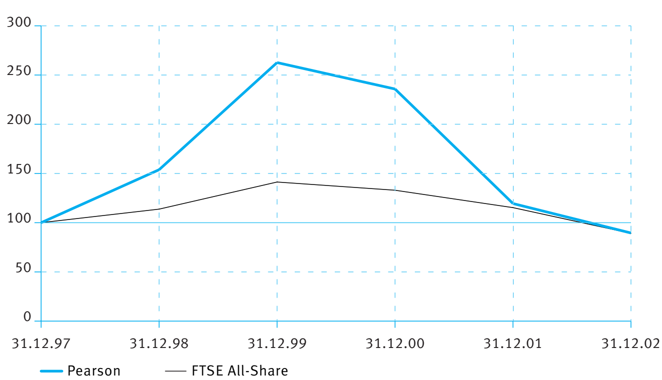
Share ownership is encouraged. Equity-based reward programmes align the interests of directors, and employees in general, with those of shareholders. They also enhance identification with Pearson by linking rewards with Pearson's financial success.

The committee selects performance measures and establishes targets for the company's various performance-related annual or long-term incentive plans based on an assessment of the interests of shareholders and the company and taking into account an appropriate balance of risk and reward for the directors and other participants.

Whether or not targets have been met under the company's various performance-related annual or long-term incentive plans is a matter for the committee to determine based on the relevant information and input from advisors and auditors as appropriate.

Performance ▸ We set out below Pearson's total shareholder return performance relative to the FTSE All-Share index (of which Pearson is a constituent) over the five-year period 1997 to 2002. We have chosen this index on the basis that it is a recognisable reference point and appropriate comparator for the majority of our investors.

TOTAL SHAREHOLDER RETURN



The five-year total shareholder return figures for Pearson, the FTSE All-Share index and the FTSE Media sector (of which Pearson is also a constituent) were as follows:

	PEARSON	FTSE ALL-SHARE	FTSE MEDIA
Dec 97	100.00	100.00	100.00
Dec 02	89.53	89.14	81.00

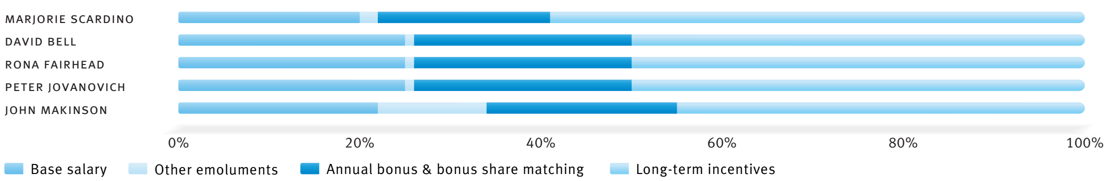
note ▸ Based on data from Bloomberg and FT-SE International.

Main elements of remuneration ‣ We set out below the company's policies for each of the main elements of remuneration as they affect executive directors, namely:

- base salary and other emoluments;
- annual bonus and bonus share matching;
- long-term incentives.

Total remuneration is made up of fixed and performance-linked elements. Consistent with its policy, the committee places considerable emphasis on the performance-linked elements of remuneration that comprise annual bonus, bonus share matching and long-term incentives. As a proportion of total remuneration (not including retirement benefits), the relative importance of fixed and performance-linked remuneration based on the remuneration policy set out in this report for each of the executive directors is broadly as follows:

PROPORTION OF TOTAL COMPENSATION



note ‣ Based on current base salaries and other emoluments, target annual incentives with maximum bonus share matching, and present expected values for long-term incentives.

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

Base salary ‣ Our aim is that the base salaries of the executive directors should be set at levels that are competitive with those of directors and executives in similar positions in comparable companies. This includes a range of companies of comparable size and global reach in different sectors in the UK and selected media companies in North America.

Our policy is to review salaries annually.

Other emoluments ‣ It is the company's policy that its benefit programmes should be competitive in the context of the local labour market, while recognising the requirements, circumstances and mobility of individual executives.

Annual bonus ‣ The committee establishes the annual bonus plans for the executive directors, chief executives of the company's main operating companies and other members of the Pearson Management Committee, including performance measures and targets and the amount of bonus that can be earned.

The performance targets 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 2003, the performance measures for Pearson plc are growth in underlying sales and adjusted earnings per share, operating cash conversion and working capital as a ratio to sales. For subsequent years, the measures will be set at the time.

For 2003, following the committee's review of executive remuneration, the target annual bonus opportunity for executive directors and other members of the Pearson Management Committee will be 75% of salary. Individuals may receive up to twice their target bonus based on performance in excess of target.

The committee will continue to review the bonus plans on an annual basis and to revise the bonus limits and targets in light of the current conditions.

The committee may award individual discretionary bonuses. In the UK, bonuses do not form part of pensionable earnings. In the US, bonuses up to 50% of base salary are pensionable under the supplemental executive retirement plan, consistent with US market practice.

Bonus share matching ‣ The company encourages executive directors and other senior executives to hold Pearson shares.

The annual bonus share matching plan permits executive directors and senior executives around the Group to invest up to 50% of any after tax annual bonus in Pearson shares. If these shares are held and the company's adjusted earnings per share increase in real terms by at least 3% per annum, the company will match them on a gross basis of one share for every two held after three years, and another one for two originally held (i.e. a total of one-for-one) after five years.

This measure of performance is consistent with the test of company performance used in the executive option plan at the time the plan was introduced. It is also in line with that adopted by other companies operating deferred bonus or bonus investment plans of this type where the company match is subject to meeting an additional performance condition.

This target is met if the company's adjusted earnings per share as published in the company's annual report and accounts for the financial year ending prior to the end of the three- or five-year period exceed those for the financial year ending prior to the date of the award by the percentage increase in the Index of Retail Prices (All Items) published by the UK Government plus 3% per annum, subject to any adjustment the committee may make in accordance with the plan rules. This method of calculation thus measures the company's financial progress over the period to which the entitlement to matching shares relates.

The long-term incentive plan ▸ Executive directors, senior and other executives and managers are eligible to participate in Pearson's long-term incentive plan introduced in 2001. The plan consists of two parts: stock options and/or restricted stock. 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. The principles underlying it are as follows:

- the committee establishes guidelines that set out the maximum expected value of awards each year using an economic valuation methodology for fixing the relative values of both option grants and restricted stock awards;
- the maximum expected value of awards for executive directors is based on assessment of market practice for comparable companies;
- no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson's share plans in any ten-year period commencing in January 1997;
- awards of restricted stock are satisfied using existing shares.

For stock options, within this overall 10% limit, up to 1.5% of new issue equity may be placed under option under the plan in any year, subject to the company's earnings per share performance. No options may be granted unless the company's adjusted earnings per share increase in real terms by at least 3% per annum over the three-year period prior to grant. Performance-linking the grant of options is intended to provide a direct link between the amount of equity allocated to option grants and the company's financial progress. The application of a pre-grant performance condition is consistent with the practice in the markets in which the majority of participants find themselves and is acknowledged by institutional investors as being appropriate for companies like Pearson. Earnings per share growth was chosen as the most appropriate test of the company's financial performance for this purpose. This target is met if the company's adjusted earnings per share as published in the company's annual report and accounts for the last financial year prior to grant exceed those for the last financial year prior to the start of the three-year period by the percentage increase in the Index of Retail Prices (All Items) published by the UK Government plus 3% per annum, subject to any adjustment the committee may make in accordance with the plan rules. This method of calculation was chosen to link the extent to which options may be granted in a single year to financial performance. There are no further performance conditions governing the exercise of options.

The vesting of restricted stock is normally dependent on the satisfaction of a stretching corporate performance target over a three-year period. On the introduction of the plan, the committee said that the performance condition governing the vesting of restricted stock would initially be growth in Pearson's free cash flow but that it might specify a different condition in future years if it thought fit. Details of the performance measures and targets for outstanding awards are set out in the notes to table 4 on page 55 of this report. Restricted stock may be granted without performance conditions to satisfy recruitment and retention objectives.

For 2003, the pre-grant performance condition for the award of stock options based on earnings per share growth over the period 1999 to 2002 was not met. The committee will be able to award restricted stock in accordance with policy, although, at the date of publication of this report, no decisions had been made.

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 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 is keen to encourage executive directors to build up a substantial shareholding in the company. However, in view of the volatility of the stock market, we do not think it is appropriate to specify a particular relationship of shareholding to salary.

Service agreements ▸ Executive directors have rolling service agreements with the company. Other than by termination in accordance with the terms of these agreements, employment continues until retirement.

It is normal policy that the company may terminate these agreements by giving 12 months' notice, although there may be circumstances when a longer notice period may be justified. The agreements also specify the compensation payable by way of liquidated damages in circumstances where the company terminates agreements without notice or cause.

In the case of Peter Jovanovich, his service agreement provides for compensation on termination of employment by the company without cause of 200% of annual salary plus target bonus reflecting US employment practice and the terms agreed with him in October 2000 before his appointment as a director of the company.

We summarise the agreements as follows:

NAME	DATE OF AGREEMENT	NOTICE PERIODS	COMPENSATION ON TERMINATION BY THE COMPANY WITHOUT NOTICE OR CAUSE
Dennis Stevenson	13 May 1997	6 months from the director; 12 months from the company	100% of annual salary at the date of termination
Marjorie Scardino	13 May 1997	6 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 a proportion of bonus
David Bell	15 March 1996	6 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 bonus
Rona Fairhead	24 January 2003	6 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 bonus
Peter Jovanovich	9 October 2000	Employment may be terminated by either party at any time, subject to 3 months' notice from the director in the case of voluntary resignation	200% of annual salary and target bonus
John Makinson	24 January 2003	6 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 bonus

Retirement benefits ‣ We describe in turn the retirement benefits for each of the executive directors.

Marjorie Scardino has both defined benefit and defined contribution pension arrangements in the US. The Pearson Inc. Pension Plan (the US Plan) is an approved defined benefit plan providing a lump sum convertible to a pension on retirement. The lump sum accrued at 6% of capped compensation, but accruals of benefit ceased on 31 December 2001.

The defined contribution arrangements are an approved 401(k) plan and an unfunded, unapproved scheme.

The US Plan has a normal retirement age of 65. Early retirement after age 55 is possible, with company consent and on a reduced pension for early payment. The US Plan also provides a spouse's pension on death in service from age 55 and death in retirement broadly equivalent to 50% of the member's early retirement pension. The US Plan does not guarantee any increases to the pension once it comes into payment.

David Bell is a member of the Final Pay Section of the Pearson Group Pension Plan (the UK Plan), to which he contributes 5% of his pensionable salary.

He is eligible for a pension from the UK Plan of two-thirds of his final base salary at normal retirement age (age 62) due to his previous service with the *Financial Times*. Early retirement after age 50 is possible, with company consent, and on a pension that is scaled down to reflect the shorter period of service completed. If retiring before age 60, the pension will be further reduced by an actuarial factor to reflect the longer period over which it is expected to be paid.

On death before normal retirement age, a pension will be paid to the spouse, or in the absence of a spouse to a financial dependant nominated by the member. The pension will be one-third of annual base salary. On death after leaving service but before retirement, a pension of 50% of the deferred pension will be payable to the spouse or nominated financial dependant. On death in retirement the pension payable is 60% of the director's pension (ignoring any pension commuted for a lump sum at retirement). Children's pensions may also be payable to dependent children. Pensions in payment are guaranteed in the UK Plan to increase each year at 5% or the increase in the Index of Retail Prices, if lower.

Rona Fairhead is also a member of the Final Pay Section of the UK Plan, but her pensionable salary is restricted to the earnings cap introduced by the Finance Act 1989. In addition, the company contributes into a Funded Unapproved Retirement Benefits Scheme (FURBS).

The UK Plan provides her with a pension that accrues at one-thirtieth of the earnings cap for each year of service.

Early retirement after age 50 is possible, with company consent, and on a pension from the plan that is scaled down to reflect the shorter period of service completed. If retiring before age 60, the pension will be further reduced by an actuarial factor to reflect the longer period over which it is expected to be paid. Under the company's FURBS arrangements, early retirement is possible with company consent from age 50 onwards. The benefit payable will be the amount of the member's fund at the relevant date.

On death before normal retirement age, a pension will be paid to the spouse, or in the absence of a spouse to a financial dependant nominated by the member. The pension will be one-third of the earnings cap at the time of death. On death after leaving service but before retirement, a pension of 50% of the deferred pension will be payable to the spouse or nominated financial dependant. On death in retirement the pension payable is 60% of the director's pension (ignoring any pension commuted for a lump sum at retirement). Children's pensions may also be payable to dependent children. Pensions in payment are guaranteed in the UK Plan to increase each year at 5% or the increase in the Index of Retail Prices, if lower. In addition the proceeds of the FURBS will be paid.

Peter Jovanovich has both defined benefit and defined contribution pension arrangements in the US. The Pearson Inc. Pension Plan (the US Plan) is an approved defined benefit plan providing a lump sum convertible to a pension on retirement. The lump sum accrued at 6% of capped compensation, but accruals of benefit ceased on 31 December 2001. In addition, there is an unfunded, unapproved Supplemental Executive Retirement Plan (the US SERP) providing an annual pension accrual of 2% of final average earnings, less benefits accrued in the US Plan and US Social Security.

The defined contribution arrangements are an approved 401(k) plan and a funded, unapproved 401(k) excess plan.

The US Plan has a normal retirement age of 65. Early retirement after age 55 is possible, with company consent and on a reduced pension for early payment. The US Plan also provides a spouse's pension on death in service from age 55 and death in retirement broadly equivalent to 50% of the member's early retirement pension. The US Plan does not guarantee any increases to the pension once it comes into payment.

For 2003, Peter Jovanovich's pension arrangements will include a new unfunded, unapproved, defined contribution plan and his participation in the US SERP will cease.

John Makinson is also a member of the Final Pay Section of the UK Plan, and his pensionable salary is also restricted to the earnings cap. The company has been paying contributions into a FURBS, but the contributions ceased on 31 December 2001. During 2002, the company established an Unfunded Unapproved Retirement Benefits Scheme (UURBS) for John Makinson.

The UURBS tops up the pensions payable from the UK Plan and the closed FURBS to a target pension of two-thirds of Revalued Base Salary on retirement at age 62. Revalued Base Salary is defined as £450,000 indexed in line with the increase in the Index of Retail Prices.

Early retirement after age 50 is possible, with company consent based on a uniform accrual from 1 April 1994. The pension from the UK Plan, the FURBS and the UURBS in aggregate will be scaled down to reflect the shorter period of service completed. If retiring before age 60, the pension will be further reduced by an actuarial factor to reflect the longer period over which it is expected to be paid.

On death before normal retirement age, a pension from the UK Plan, the FURBS and the UURBS in aggregate will be paid to the spouse, or in the absence of a spouse to a financial dependant nominated by the member. The pension will be one-third of Revalued Base Salary. On death after leaving service but before retirement, a pension of 50% of the deferred pension will be payable to the spouse or nominated financial dependant. On death in retirement the pension payable is 60% of the director's pension (ignoring any pension commuted for a lump sum at retirement). Children's pensions may also be payable to dependent children. The pension in payment is guaranteed to increase each year at 5% or the increase in the Index of Retail Prices, if lower.

Details of directors' pension arrangements are set out in table 2 on page 53 of this report.

Chairman's remuneration ‣ The committee recommends to the full board for its approval the remuneration and benefits package of the chairman of the board.

Dennis Stevenson's remuneration comprises a salary that is intended to be competitive with those of chairmen in comparable companies taking into account the role that he performs.

His original remuneration package included an entitlement to long-term incentives. He waived this entitlement in 1999 because he thought there might be a conflict when discussing long-term incentive policy with shareholders. In view of that and the fact that his salary was last revised in 1999, his remuneration is currently under consideration.

He is not entitled to an annual bonus, retirement or other benefits. He is eligible to participate in the company's worldwide save for shares plan.

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. Fees are reviewed annually with the help of outside advice. 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.

Since January 2000, non-executive directors have received an annual fee of £35,000 each. One overseas-based director is paid a supplement of £7,000 per annum. The non-executive directors who chair the personnel and audit committees each receive an additional fee of £5,000 per annum. For those non-executive directors who retain their fees personally, £10,000 of the total fee, or all of the fee in the case of Rana Talwar, is payable in the form of Pearson shares which the non-executive directors have committed to retain for the period of their directorships.

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

Non-executive directors serve Pearson under letters of appointment and do not have service contracts.

They were appointed to the board on the following dates:

Patrick Cescau	1 April 2002
Rana Talwar	20 March 2000
Reuben Mark	6 May 1988
Terry Burns	6 May 1999
Vernon Sankey	8 January 1993

There is no entitlement to compensation on the termination of their directorships.

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

TABLE 1	2002				2001
all figures in £000s	SALARIES/FEES	BONUS	OTHER	TOTAL	TOTAL
Chairman					
Dennis Stevenson	275	—	—	275	275
Executive directors					
Marjorie Scardino	525	273	54	852	583
David Bell	310	161	16	487	325
Rona Fairhead (appointed 1 June 2002)	193	100	8	301	—
Peter Jovanovich (appointed 1 June 2002)	325	240	5	570	—
John Makinson	419	279	157	855	396
Non-executive directors					
Terry Burns	35	—	—	35	35
Patrick Cescau (appointed 1 April 2002)	26	—	—	26	—
Reuben Mark	47	—	—	47	45
Vernon Sankey	40	—	—	40	40
Rana Talwar	35	—	—	35	35
Total	**2,230**	**1,053**	**240**	**3,523**	**1,734**
Total 2001†	1,653	—	94	—	1,747

† Includes amounts to former directors.

note 1 ‣ John Makinson was the highest paid director in 2002. His total remuneration, including pension contributions, amounted to £859,607.

note 2 ▸ For the full-year, Rona Fairhead's and Peter Jovanovich's remuneration was as follows:

all figures in £000s	SALARIES/FEES	BONUS	OTHER	TOTAL
Rona Fairhead	318	165	13	496
Peter Jovanovich	557	412	9	978

note 3 ▸ Although the salaries of the executive directors were in certain cases below those of their competitors, the executive directors (along with their fellow senior managers) elected not to receive an increase in their base salaries with effect from 1 January 2002.

Rona Fairhead and John Makinson received increases in their base salaries on taking up their appointments as chief financial officer and chairman and chief executive of the Penguin Group respectively with effect from 1 June 2002.

note 4 ▸ For Pearson plc, the 2002 performance measures in the annual bonus plan were growth in underlying sales, growth in adjusted earnings per share, trading cash conversion and average working capital as a ratio to sales.

In the case of Peter Jovanovich and, for part of the year, John Makinson, part of their bonuses also related to the performance of Pearson Education and Penguin Group respectively. For both businesses, the performance measures were growth in underlying sales, trading margin, trading cash conversion and average working capital as a ratio to sales.

No discretionary bonuses were awarded for 2002.

note 5 ▸ Other emoluments include company car and healthcare benefits and, in the case of Marjorie Scardino, include £36,090 in respect of housing costs.

On taking up his appointment as chairman and chief executive of the Penguin Group with effect from 1 June 2002, John Makinson also became entitled to a location and market premium in relation to the management of the business of the Penguin Group in the US. He received £130,640 for 2002.

Marjorie Scardino, Rona Fairhead, David Bell and John Makinson have the use of a chauffeur.

note 6 ▸ No amounts in compensation for loss of office and no expense allowances chargeable to UK income tax were paid during the year.

TABLE 2

	DIRECTORS' REMUNERATION REPORT REGULATIONS 2002[1]					
	AGE AT 31 DEC 02	IN ACCRUED PENSION OVER THE PERIOD £000	INCREASE ACCRUED PENSION AT 31 DEC 02 £000[2]	TRANSFER VALUE AT 31 DEC 01 £000	TRANSFER VALUE AT 31 DEC 02 £000[3]	INCREASE IN TRANSFER VALUE LESS DIRECTORS' CONTRIBUTIONS £000
Directors' pensions						
Marjorie Scardino	55	-0.5	4.5	33.6	32.0	-1.6
David Bell	56	6.9	179.1	2,104.6	1,965.7	-154.4
Rona Fairhead	41	3.2	4.0	4.9	19.9	10.2
Peter Jovanovich	53	0.7	68.4	339.1	392.5	53.4
John Makinson	48	32.1	97.2	559.2	648.0	84.0

	DIRECTORS' REMUNERATION REPORT REGULATIONS 2002[1]		LISTING RULES[1]	
	OTHER PENSION COSTS TO THE COMPANY OVER THE PERIOD £000[4]	OTHER PENSION RELATED BENEFITS £000[5]	INCREASE IN ACCRUED PENSION (NET OF INFLATION) DURING THE PERIOD £000	TRANSFER VALUE OF THE INCREASE IN ACCRUED PENSION (NET OF INFLATION) AT 31 DEC 02, LESS DIRECTORS' CONTRIBUTIONS £000
Directors' pensions				
Marjorie Scardino	439.6	29.1	-0.6	-4.3
David Bell	–	–	4.0	28.0
Rona Fairhead	78.0	–	3.2	11.2
Peter Jovanovich	20.7	2.1	-0.5	-2.9
John Makinson	–	4.5	31.0	202.1

note 1 ▸ In previous years, details of directors' pension benefits have been reported in accordance with the Listing Requirements of the Listing Authority. The Directors' Remuneration Report Regulations 2002 introduced the requirement to disclose additional information for directors' pension benefits under defined benefit plans. The above table provides the information required on both bases.

note 2 ▸ The accrued pension at 31 December 2002 is that which would become payable from normal retirement age if the member left service at 31 December 2002. For Marjorie Scardino, it relates only to the pension from the US Plan and the increase is negative 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. For Peter Jovanovich it relates to the pension from the US Plan and the US SERP.

note 3 ‣ The UK transfer values at 31 December 2002 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 Plan and SERP, transfer values are calculated using a discount rate equivalent to current US government long term bond yields.

note 4 ‣ This column comprises payments to a FURBS arrangement for Rona Fairhead. For Marjorie Scardino and Peter Jovanovich, it includes company contributions to funded defined contribution plans and notional contributions to unfunded defined contribution plans.

note 5 ‣ This column comprises life assurance, group term life cover and long-term disability insurance.

TABLE 3 *at 31 Dec 02*

	ORDINARY SHARES AT 1 JAN 02	ORDINARY SHARES AT 31 DEC 02
Interests of directors were		
Dennis Stevenson	110,017	161,894
Marjorie Scardino	82,225	86,121
David Bell	49,438	50,939
Terry Burns	812	1,712
Patrick Cescau	—	—
Rona Fairhead	—	560
Peter Jovanovich	54,986	54,986
John Makinson	28,620	29,333
Reuben Mark	10,713	11,837
Vernon Sankey	801	1,666
Rana Talwar	3,283	6,848

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 under the annual bonus share matching plan.

note 2 ‣ On 2 January 2003, Terry Burns acquired 260 shares, Reuben Mark 339, Vernon Sankey 261 and Rana Talwar 1,074. The shares were acquired as part of their directors' fees.

note 3 ‣ Executive directors of the company, as possible beneficiaries, are also deemed to be interested in the Pearson Employee Share Trust and the Pearson Employee Share Ownership Trust, the trustees of which held 175,402 and 850,779 Pearson ordinary shares of 25p each respectively at 31 December 2002 and also at 3 March 2003.

note 4 ‣ At 31 December 2002, Marjorie Scardino, John Makinson and David Bell each held 1,000 shares in Recoletos Grupo de Comunicación S.A. Dennis Stevenson held 8,660 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 2002 was 574.50p per share and the range during the year was 505.00p to 922.00p.

TABLE 4

Movements in directors' interests in restricted shares		DATE OF AWARD	01 JAN 02	AWARDED	RELEASED	LAPSED	31 DEC 02	MARKET VALUE AT DATE OF AWARD	LATEST VESTING DATE
Dennis Stevenson	**a**	12/9/97	74,396	1,232	(76,670)			820.64p	N/A
				1,042			—	660.30p	N/A
			74,396	2,274	(76,670)	—	—		
Marjorie Scardino	**b**	8/6/99	54,029				54,029		
	b	3/5/00	33,840			(33,840)	—		
	c	25/6/98	7,803			(3,903)	3,900		
	c	29/4/99	23,476				23,476		
	c	19/5/00	13,676				13,676		
	c	11/5/01	14,181				14,181		
	d	9/5/01	55,400				55,400		
	d	19/11/02		5,869			5,869	672.00p	29/4/04
	d	16/12/02		362,040			362,040	638.50p	28/6/09
			202,405	367,909	—	(37,743)	532,571		
David Bell	**b**	8/6/99	26,890				26,890		
	b	3/5/00	17,097			(17,097)	–		
	c	29/4/99	9,763				9,763		
	c	19/5/00	6,371				6,371		
	c	11/5/01	6,371				6,371		
	d	9/5/01	21,800				21,800		
	d	19/11/02		2,440			2,440	672.00p	29/4/04
	d	16/12/02		159,678			159,678	638.50p	28/6/09
			88,292	162,118	—	(17,097)	233,313		
Rona Fairhead	**c**	19/4/02		933			933	892.00p	19/4/07
	d	8/4/02		5,000			5,000	843.00p	8/10/04
	d	16/12/02		159,678			159,678	638.50p	28/6/09
			—	165,611	—	—	165,611		
Peter Jovanovich	**b**	8/6/99	46,586				46,586		
	b	3/5/00	30,678			(30,678)	—		
	c	29/4/99	8,889				8,889		
	c	19/5/00	9,822				9,822		
	c	3/1/01	58,343				58,343		
	d	9/5/01	41,560				41,560		
	d	19/11/02		2,222			2,222	672.00p	29/4/04
	d	16/12/02		198,396			198,396	638.50p	28/6/09
			195,878	200,618	—	(30,678)	365,818		
John Makinson	**b**	8/6/99	30,874				30,874		
	b	3/5/00	19,539			(19,539)	—		
	c	25/6/98	4,587			(2,294)	2,293		
	c	29/4/99	11,630				11,630		
	c	19/5/00	9,117				9,117		
	c	11/5/01	9,553				9,553		
	d	9/5/01	26,380				26,380		
	d	19/11/02		2,907			2,907	672.00p	29/4/04
	d	16/12/02		206,880			206,880	638.50p	28/6/09
			111,680	209,787	—	(21,833)	299,634		

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 ‣ Restricted shares designated as: **a** incentive share plan; **b** reward plan; **c** annual bonus share matching plan; and **d** long-term incentive plan.

- Awards released under incentive share plan:

  The incentive share plan was introduced in 1993 to reward executives based on the performance of the company over the medium to longer term. The performance test was Pearson total shareholder return relative to the FTSE 100 total return index so as to reward the small number of senior executives participating in the plan in such a way that their total remuneration reflected the performance of the company and the interests of the shareholders. Dennis Stevenson's was the only outstanding award under this plan covering the five-year performance period May 1997 to April 2002.

  The terms of this award were such that no shares vested if the ratio of Pearson to FTSE 100 total return was less than 100%. 25% of the shares vested if the ratio was 100% and 150% of the shares (the maximum possible) vested if the ratio was 125% or more. In addition, Pearson's adjusted earnings per share for the latest full-year covered by the performance period (2001) needed to be higher than those in the year prior to the award being made (1996). Pearson's total shareholder return was 46.7% over the period and the FTSE 100's was 36.6%, a ratio of 127.6%. Pearson's pre-internet adjusted earnings per share for 2001 were 39.2p against 27.3p in 1996.

  As a consequence, both performance targets were met in full and Dennis Stevenson received 150% of shares comprised in the award together with the rolled-up scrip, dividend re-investment plan or cash dividends. The market value of the shares on the date of release (19 November 2002) was 672.00p. Details of Dennis Stevenson's award under this plan are set out in table 4 itemised as **a** on page 55 of this report.

- Awards lapsed:

  The vesting of Pearson Equity Incentives (PEIs) awarded in 2000 under the reward plan was related to growth in free cash flow per shares over the three-year period 2000 to 2002. On the basis of performance over that period, no PEIs vested and all entitlements lapsed. Marjorie Scardino, David Bell, Peter Jovanovich and John Makinson held PEIs under this plan. Details of these awards are set out in table 4 and itemised as **b** on page 55 of this report.

- Awards outstanding:

  The annual bonus share matching plan permits executive directors and senior executives around the Group to invest up to 50% of any after tax annual bonus in Pearson shares. If these shares are held and the company's adjusted earnings per share increase in real terms by at least 3% per annum, the company will match them on a gross basis of one share for every two held after three years, and another one for two originally held (i.e. a total of one for one) after five years. For the award made in 1998, since the real growth in earnings per share target for the period 1997 to 2002 was not met, participants did not become entitled to the second one-for-two matching shares and these awards lapsed. Participants were, however, already entitled to the first one-for-two matching shares based on 1997 to 2000 performance and these shares will be released in 2003. For the award made in 1999, participants did not become entitled to the one-for-two match in 2002 but remain eligible for the one-for-one match in 2004 subject to the earnings per share target for 1998 to 2003 being met. If this target is not met, the awards lapse. Marjorie Scardino, David Bell, Rona Fairhead, Peter Jovanovich and John Makinson hold awards under this plan. Details of these awards are set out in table 4 and itemised as **c** on page 55 of this report.

  As reported in 2001, Pearson Equity Incentives awarded in 1999 under the reward plan vested on 8 June 2002. Following vesting, the shares remain subject to a two-year retention period and will be released in 2004. Marjorie Scardino, David Bell, Peter Jovanovich and John Makinson hold PEIs under this plan. Details of these awards are set out in table 4 and itemised as **b** on page 55 of this report.

  The vesting of restricted stock awards under the long-term incentive plan made in 2001 is related to free cash flow per share performance over the period 2001 to 2003 consistent with the performance measure used in relation to vesting of restricted stock under the previous reward plan. The committee considered that free cash flow was the most appropriate performance measure to determine the vesting of restricted shares at the time because the cash the businesses generate provides a transparent and accurate measure of Pearson's achievements and was recognised by shareholders as a significant driver of value. This target is met if the company's cumulative free cash flow per share for the three financial years of the performance period exceeds the target set by the committee for growth over the free cash flow per share for the financial year prior to the start of the period (free cash flow being defined as our operating cash flow as stated in each year's accounts less tax liabilities on operating activities and tax paid). Details of the restricted stock awards under this plan for Marjorie Scardino, David Bell, Peter Jovanovich and John Makinson are set out in table 4 and itemised as **d** on page 55 of this report.

- Awards granted:

  The annual bonus share matching plan shares awarded to Rona Fairhead on 19 April 2002 will vest in full on 19 April 2007 if the company's adjusted earnings per share increase in real terms by at least 3% per annum over the period 2001 to 2006. 50% of these shares vest on 19 April 2005 if the company's adjusted earnings per share increase in real terms by at least 3% per annum over the period 2001 to 2004.

  The long-term incentive plan shares awarded to Rona Fairhead on 8 April 2002 will vest on 8 October 2004, being three years from the date of her appointment, in accordance with the terms agreed with her when she joined the company.

  The long-term incentive plan shares awarded on 19 November 2002 will vest on 29 April 2004 providing the company's adjusted earnings per share increase in real terms by an average of 3% per annum over the five-year period 1998 to 2003 by comparing earnings per share for 1998 with those for 2003.

  The long-term incentive plan shares awarded on 16 December 2002 will vest in tranches as follows:

	A	B	C	D	E
Marjorie Scardino	60,340	60,340	60,340	60,340	120,680
David Bell	26,613	26,613	26,613	26,613	53,226
Rona Fairhead	26,613	26,613	26,613	26,613	53,226
Peter Jovanovich	33,066	33,066	33,066	33,066	66,132
John Makinson	34,480	34,480	34,480	34,480	68,960

  The first tranche of shares shown in A will vest on 28 June 2005. The second, third, fourth and fifth tranches shown in B, C, D and E will vest no earlier than 28 June 2005 subject to the Pearson share price reaching £9, £11, £13 and £18 respectively for a period of 20 consecutive business days prior to 28 June 2009. The committee considered that these awards and share price targets, which focus on the restoration of shareholder value, provide meaningful incentives to the executives concerned while recognising the long-term interests of shareholders. Details of the restricted stock awards under this plan for Marjorie Scardino, David Bell, Rona Fairhead, Peter Jovanovich and John Makinson are set out in table 4 and itemised as **d** on page 55 of this report.

TABLE 5		DATE OF GRANT	1 JAN 02	GRANTED	EXERCISED/ LAPSED	31 DEC 02	OPTION PRICE	EARLIEST EXERCISE DATE	EXPIRY DATE
Movements in directors' interests in share options									
Dennis Stevenson	**b**	15/5/98	2,512	—	—	2,512	687p	1/8/03	1/2/04
Total			2,512	—	—	2,512	—		
Marjorie Scardino	**a***	14/9/98	176,556	—	—	176,556	974p	14/9/01	14/9/08
	a*	14/9/98	5,660	—	—	5,660	1090p	14/9/01	14/9/08
	b	15/5/98	2,839	—	—	2,839	687p	1/8/05	1/2/06
	c	8/6/99	37,583	—	—	37,583	1373p	8/6/02	8/6/09
	c	8/6/99	37,583	—	—	37,583	1648p	8/6/02	8/6/09
	c	8/6/99	37,583	—	—	37,583	1922p	8/6/02	8/6/09
	c	3/5/00	36,983	—	—	36,983	2303p	3/5/03	3/5/10
	c	3/5/00	36,983	—	—	36,983	2764p	3/5/03	3/5/10
	c	3/5/00	36,983	—	—	36,983	3225p	3/5/03	3/5/10
	d*	9/5/01	41,550	—	—	41,550	1421p	9/5/02	9/5/11
	d	9/5/01	41,550	—	—	41,550	1421p	9/5/03	9/5/11
	d	9/5/01	41,550	—	—	41,550	1421p	9/5/04	9/5/11
	d	9/5/01	41,550	—	—	41,550	1421p	9/5/05	9/5/11
Total			574,953	—	—	574,953	—		
David Bell	**a***	14/9/98	20,496	—	—	20,496	974p	14/9/01	14/9/08
	b*	9/5/97	650	—	(650)	—	530p	1/8/02	1/2/03
	b	15/5/98	501	—	—	501	687p	1/8/03	1/2/04
	b	16/5/99	184	—	—	184	913p	1/8/04	1/2/05
	b	13/5/00	202	—	—	202	1428p	1/8/03	1/2/04
	b	9/5/01	202	—	—	202	957p	1/8/04	1/2/05
	b	10/5/02	—	272	—	272	696p	1/8/05	1/2/06
	c	8/6/99	18,705	—	—	18,705	1373p	8/6/02	8/6/09
	c	8/6/99	18,705	—	—	18,705	1648p	8/6/02	8/6/09
	c	8/6/99	18,705	—	—	18,705	1922p	8/6/02	8/6/09
	c	3/5/00	18,686	—	—	18,686	2303p	3/5/03	3/5/10
	c	3/5/00	18,686	—	—	18,686	2764p	3/5/03	3/5/10
	c	3/5/00	18,686	—	—	18,686	3225p	3/5/03	3/5/10
	d*	9/5/01	16,350	—	—	16,350	1421p	9/5/02	9/5/11
	d	9/5/01	16,350	—	—	16,350	1421p	9/5/03	9/5/11
	d	9/5/01	16,350	—	—	16,350	1421p	9/5/04	9/5/11
	d	9/5/01	16,350	—	—	16,350	1421p	9/5/05	9/5/11
Total			199,808	272	(650)	199,430	–		
Rona Fairhead	**d***	1/11/01	19,997	—	—	19,997	822p	1/11/03	1/11/11
	d	1/11/01	19,998	—	—	19,998	822p	1/11/04	1/11/11
	d	1/11/01	20,005	—	—	20,005	822p	1/11/05	1/11/11
Total			60,000	—	—	60,000	—		

TABLE 5 CONTINUED

		DATE OF GRANT	1 JAN 02	GRANTED	EXERCISED/ LAPSED	31 DEC 02	OPTION PRICE	EARLIEST EXERCISE DATE	EXPIRY DATE
Peter Jovanovich	**a***	12/9/97	8,250	—	—	8,250	758p	12/9/00	12/9/07
	a*	12/9/97	102,520	—	—	102,520	677p	12/9/00	12/9/07
	c	8/6/99	32,406	—	—	32,406	1373p	8/6/02	8/6/09
	c	8/6/99	32,406	—	—	32,406	1648p	8/6/02	8/6/09
	c	8/6/99	32,406	—	—	32,406	1922p	8/6/02	8/6/09
	c	3/5/00	33,528	—	—	33,528	2303p	3/5/03	3/5/10
	c	3/5/00	33,528	—	—	33,528	2764p	3/5/03	3/5/10
	c	3/5/00	33,528	—	—	33,528	3225p	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	19,998	—	—	19,998	$11.97	1/11/03	1/11/11
	d	1/11/01	19,998	—	—	19,998	$11.97	1/11/04	1/11/11
	d	1/11/01	20,004	—	—	20,004	$11.97	1/11/05	1/11/11
Total			493,252	—	—	493,252	–		
John Makinson	**a***	6/5/94	56,000	—	—	56,000	567p	6/5/97	6/5/04
	a*	20/4/95	20,160	—	—	20,160	487p	20/4/98	20/4/05
	a*	8/8/96	36,736	—	—	36,736	584p	8/8/99	8/8/06
	a*	12/9/97	73,920	—	—	73,920	677p	12/9/00	12/9/07
	a*	14/9/98	30,576	—	—	30,576	974p	14/9/01	14/9/98
	b*	23/5/96	3,342	—	(3,342)	—	517p	1/8/01	1/2/02
	b	9/5/01	1,920	—	—	1,920	957p	1/8/08	1/2/09
	c	8/6/99	21,477	—	—	21,477	1373p	8/6/02	8/6/09
	c	8/6/99	21,477	—	—	21,477	1648p	8/6/02	8/6/09
	c	8/6/99	21,477	—	—	21,477	1922p	8/6/02	8/6/09
	c	3/5/00	21,356	—	—	21,356	2303p	3/5/03	3/5/10
	c	3/5/00	21,356	—	—	21,356	2764p	3/5/03	3/5/10
	c	3/5/00	21,356	—	—	21,356	3225p	3/5/03	3/5/10
	d*	9/5/01	19,785	—	—	19,785	1421p	9/5/02	9/5/11
	d	9/5/01	19,785	—	—	19,785	1421p	9/5/03	9/5/11
	d	9/5/01	19,785	—	—	19,785	1421p	9/5/04	9/5/11
	d	9/5/01	19,785	—	—	19,785	1421p	9/5/05	9/5/11
Total			430,293	—	(3,342)	426,951	–		

note 1 • The option prices and market prices have been rounded up to the nearest whole penny.

note 2 • No variations to the terms and conditions of share options were made during the year.

note 3 • 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.

a Executive

Subject to any performance condition being met, executive options become exercisable on the third anniversary of the date of grant and lapse if they remain unexercised at the tenth.

Options granted prior to 1996 are not subject to performance conditions representing market best practice at that time.

The exercise of options granted since 1996 is subject to a real increase in the company's adjusted earnings per share over any three-year period prior to exercise. This measure of performance represented market best practice and was in accordance with institutional investors' guidelines for option plans of that period.

This target is met if the company's adjusted earnings per share as published in the company's annual report and accounts for the last financial year prior to exercise, exceed those for the last financial year prior to the start of the three-year period by the percentage increase in the Index of Retail Prices (All Items) published by the UK Government plus 2% per annum (for options granted in 1996 and 1997) and 3% per annum (for options granted in 1998), subject to any adjustment the committee may make in accordance with the plan rules.

This target was not met for the period 1998 to 2001 and options granted in 1999 did not become exercisable in 2002. This target was also not met for the period 1999 to 2002 and options granted in 2000 will not become exercisable in 2003.

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 58 and 59 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 and John Makinson hold options under this plan. Details of these holdings are set out in table 5 and itemised as **b** on page 58 and 59 of this report.

c Premium priced

Subject to the performance conditions being met, Premium Priced Options (PPOs) become exercisable on the third anniversary of the date of grant and lapse if they remain unexercised at the tenth.

PPOs were granted in three tranches. For these to become exercisable, the Pearson share price has to stay above the option price for 20 consecutive days within three, five and seven years respectively. The share price targets for the three- and five-year tranches of PPOs granted in 1999 were met in 2000. In addition, for options to be exercisable, the company's adjusted earnings per share have to increase in real terms by at least 3% per annum over the three-year period prior to exercise. This target is met if the company's adjusted earnings per share, as published in the company's annual report and accounts for the last financial year prior to exercise, exceed those for the last financial year prior to the start of the three-year period by the percentage increase in the Index of Retail Prices (All Items) published by the UK Government plus 3% per annum, subject to any adjustment the committee may make in accordance with the plan rules. These targets for the three-year periods 1998 to 2001 and 1999 to 2002 were not met.

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 58 and 59 of this report.

d Long-term incentive

Options granted in 2001 were based on pre-grant earnings per share growth of 75% against a target of 16.6% over the period 1997 to 2000 and are not subject to further performance conditions on exercise.

Long-term incentive options granted on 9 May 2001 become exercisable in tranches on the first, second, third and fourth anniversary of the date of grant and lapse if they remain unexercised at the tenth. The fourth tranche lapses if any of the options in the first, second or third tranche are exercised prior to the fourth anniversary of the date of grant.

Long-term incentive options granted on 1 November 2001 become exercisable in tranches on the first, second and third anniversary of the date of grant and lapse if they remain unexercised at the tenth.

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 58 and 59 of this report.

In addition, Marjorie Scardino and Peter Jovanovich both contribute 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%. Based on the market price at the start of the period, Marjorie Scardino and Peter Jovanovich would have the right to acquire 1,461 American Depositary Receipts.

REUBEN MARK ▸ DIRECTOR ▸ 3 MARCH 2003