

PEARSON

## PEARSON FUNDING FIVE PLC

**€500,000,000 in aggregate principal amount of 1.375% Guaranteed Notes due 2025**

**Guaranteed by Pearson plc**

**Issue price: 99.926 per cent.**

Pearson Funding Five plc (the “**Issuer**”) will pay interest annually on each 6 May, commencing 6 May 2016, up to the date of maturity or earlier upon redemption of the 1.375% Guaranteed Notes due 2025 (the “**Notes**”). The Issuer will be entitled to redeem the Notes in whole or in part at any time prior to their maturity at redemption prices to be determined using the procedures described in this prospectus. The Issuer will be entitled to redeem the Notes, in whole, but not in part, at 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the date of redemption and any additional amounts upon the occurrence of certain tax events. Pearson plc (the “**Guarantor**” or “**Pearson**”) will fully, irrevocably and unconditionally guarantee all amounts payable under the Notes. The Notes will mature on 6 May 2025.

The Notes and the related guarantees will rank *pari passu* with, respectively, all of the Issuer’s and the Guarantor’s other unsecured and unsubordinated debt.

This prospectus constitutes a “prospectus” for the purposes of the Directive 2003/71/EC, as amended by Directive 2010/73/EU (the “**Prospectus Directive**”). Application has been made to the Financial Conduct Authority (the “**FCA**”) in its capacity as competent authority under the Financial Services and Markets Act 2000, as amended (“**FSMA**”) (the “**U.K. Listing Authority**”) for the Notes to be admitted to the Official List of the U.K. Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading on the London Stock Exchange’s Regulated Market. The London Stock Exchange’s Regulated Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

If a change of control triggering event occurs with respect to the Guarantor, the Issuer will make an offer to each holder of Notes to repurchase all or any part of that holder’s Notes at a repurchase price in cash equal to the aggregate principal amount of Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to the date of repurchase. The Guarantor will fully and irrevocably guarantee the obligations of the Issuer to repurchase the Notes and further irrevocably and unconditionally guarantees to make payment for any and all Notes properly tendered for payment.

Ratings for the Notes will be sought from Moody’s Investors Service Limited (“**Moody’s**”) and Standard & Poor’s Credit Market Services Italy Srl (“**Standard & Poor’s**”) both of which are credit rating agencies established in the European Economic Area and registered under Regulation (EU) No 1060/2009, as amended (“**CRA Regulation**”). As such, Moody’s and Standard & Poor’s are included in the list of credit agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

**Investing in the Notes involves risks. See “Risk Factors” beginning on page 1.**

The Notes have not been and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in “*Subscription and Sale*”) (the “**Managers**”) in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be issued in bearer form and in the denominations of €100,000 and integral multiples of €1,000 in excess of €100,000 up to and including €199,000. The Notes will initially be in the form of a temporary global note (the “**Temporary Global Note**”), without interest coupons, which will be deposited on or around 6 May 2015 (the “**Closing Date**”) with a common safekeeper for Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the “**Permanent Global Note**”) and, together with the Temporary Global Note, each a “**Global Note**”), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form with interest coupons attached. See “*Summary of Provisions Relating to the Notes in Global Form*”.

*Joint Lead Managers and Joint Bookrunners*

**BNP PARIBAS**

**Citigroup**

**HSBC**

The date of this prospectus is 1 May 2015.

## IMPORTANT INFORMATION

Each of the Issuer and the Guarantor (the “**Responsible Persons**”) accepts responsibility for the information contained in this prospectus and, to the best of the knowledge of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this prospectus is, to the best of their knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer and the Guarantor, each having made all reasonable inquiries, confirm that (i) this prospectus contains all information with respect to the Issuer, the Guarantor and the Notes that is material to the offering of the Notes; (ii) such information is true and accurate in every material respect and is not misleading in any material respect; (iii) the opinions, assumptions and intentions expressed in this prospectus on the part of the Issuer and the Guarantor are honestly held or made, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect; (iv) this prospectus does not contain any untrue statement of a material fact nor does it omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading; and (v) all proper inquiries have been made to ascertain and verify the foregoing.

This prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. See “*Documents Incorporated by Reference*”. This prospectus should be read and construed on the basis that such documents are incorporated into and form part of the prospectus.

The Managers (as defined in “*Subscription and Sale*”) make no representation, warranty or undertaking, express or implied, and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this prospectus or any information provided by the Issuer or the Guarantor in connection with the issue and offering of the Notes or their distribution.

In making an investment decision, investors must rely upon their own examination of Pearson, the Issuer, and Pearson’s other subsidiaries and the terms of the offering being made, including the merits and risks involved.

Prospective investors should rely only on the information contained in or incorporated by reference into this prospectus. Neither the Issuer nor the Guarantor, nor any of the Managers has authorised anyone to provide potential investors with information different from that contained in or incorporated by reference into this prospectus. The statements contained in or incorporated by reference into this prospectus are made only as of the date of this prospectus or the date of the document incorporated by reference, as the case may be, regardless of the time of delivery of this prospectus or any sale of the Notes.

The market share, ranking and other data contained in, or incorporated by reference into, this prospectus are based either on our management’s own estimates, independent industry publications, reports by market research firms or other published independent sources and, in each case, are believed by our management to be reasonable estimates. However, market share data is subject to change and cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey of market share. In addition, consumption patterns and consumer preferences can and do change. As a result, prospective investors should be aware that a market share, ranking and other similar data set forth herein, and estimates and beliefs based on such data may not be reliable.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see “*Subscription and Sale*”.

The distribution of this prospectus and the offering or sale of the Notes and the guarantees in certain jurisdictions is restricted by law. This prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction in which it is unlawful to make such an offer or solicitation. Persons into whose possession this document may come are required by us and the Managers to inform themselves about and to observe such restrictions. Neither we nor any of the Managers accept any responsibility for any violation by any person, whether or not he, she or it is a prospective purchaser of the Notes, of any such restrictions.

The Issuer reserves the right to withdraw this offering of Notes at any time, and the Issuer and the Managers named in this prospectus reserve the right to reject any commitment to subscribe for the Notes, in whole or in part. The Issuer also reserves the right to allot to prospective investors less than the full amount of Notes sought by them.

Unless otherwise indicated, the financial information contained in, and incorporated by reference into, this prospectus has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”) which in respect of the accounting standards applicable to us do not differ from

IFRS as adopted by the European Union (the “EU”). Our consolidated financial statements are presented in sterling. We have included, however, references to other currencies. In this prospectus and any documents incorporated by reference into this prospectus:

- references to “sterling”, “pounds”, “pence” or “£” are to the lawful currency of the United Kingdom,
- references to “euro” or “€” are to the euro, the lawful currency of the participating Member States in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Union,
- references to “U.S. dollars”, “dollars”, “cents” or “\$” are to the lawful currency of the United States of America,
- references to “we”, “us”, “our”, or the “Group” are references to Pearson plc, its predecessors and its consolidated subsidiaries,
- references to the “Issuer” or “Pearson Funding Five plc” refer only to Pearson Funding Five plc, and
- references to “Pearson” or the “Guarantor” are to Pearson plc only.

**In connection with the issue of the Notes, Citigroup Global Markets Limited (the “Stabilising Manager”) or any person acting on behalf of the Stabilising Manager may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on the part of the Stabilising Manager or any person acting on behalf of the Stabilising Manager to undertake any stabilising action. Any stabilising action may begin on or after the date on which adequate public disclosure of the terms of offer of the Notes is made and, if begun, may be ended at any time but must be brought to an end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of allotment of the Notes. Any stabilisation action must be conducted by the Stabilising Manager in accordance with all applicable laws and rules.**

## CONTENTS

	<b>Page</b>
RISK FACTORS .....	1
DOCUMENTS INCORPORATED BY REFERENCE.....	9
TERMS AND CONDITIONS OF THE NOTES.....	10
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM .....	22
USE OF PROCEEDS .....	24
CAPITALISATION.....	25
DESCRIPTION OF THE ISSUER.....	26
DESCRIPTION OF THE GUARANTOR.....	28
TAXATION.....	31
SUBSCRIPTION AND SALE .....	34
GENERAL INFORMATION .....	36

## RISK FACTORS

*Prospective investors should carefully consider the risk factors described below, as well as the other information contained in and incorporated by reference into this prospectus, before purchasing the Notes. Our business, financial condition or results from operations could be materially adversely affected by any or all of these risks, or by other risks that we presently cannot identify.*

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes and the Guarantor believes that, unless otherwise indicated, the following factors may affect its ability to fulfil its obligations under the guarantees. In addition, each of the risks highlighted below could adversely affect the trading price of Notes or the rights of investors under the Notes and, as a result, investors could lose some or all of their investment.*

*Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Notes are also described below. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.*

*The Issuer and (where applicable) the Guarantor believe the risk factors described below to currently be the most significant risk factors when considering an investment in the Notes. The risks described below do not necessarily comprise all the risks associated with the Group. There may be other risks of which neither the Issuer nor the Guarantor is aware or which the Group believes to be immaterial which may have an adverse effect on the business, financial condition, results or future prospects of the Group and/or its businesses.*

### **Risks Related to Our Business**

***The pace and scope of our business transformation initiatives increase the execution risk that benefits may not be fully realised, that related costs may increase or that our business as usual activities do not perform in line with expectations.***

In parallel with the business transformation as we respond to the digital revolution and shift from a product to a services business, we will continue to look at opportunities to develop new business models and further refine organisation structures. The pace and scope of change increases the risk that not all of these changes will deliver the expected benefits within anticipated timeframes, or that the costs of these changes may increase. In addition, as a result of the increased pressure of transformational change, our business as usual activities may not perform in line with plans or our levels of customer service may not meet expectations.

***Global economic conditions may adversely impact our financial performance.***

With the continued pressure and uncertainty in the worldwide economies, there remains a risk of a weakening in trading conditions, which could adversely impact our future financial performance. The effect of continued deterioration or lack of recovery in the global economy will vary across our different businesses and will depend on the depth, length and severity of any economic downturn. Specific economic risks by business are described more fully in the other risk factors below.

***A significant deterioration in Group profitability and/or cash flow caused by prolonged economic instability could reduce our liquidity and/or impair our financial ratios, and trigger a need to raise additional funds from the capital markets and/or renegotiate our banking covenants.***

To the extent the economic difficulties continue, or worldwide economic conditions materially deteriorate, the Group's revenues, profitability and cash flows could be significantly reduced as customers would be unable to purchase products and services in the expected quantities and/or pay for them within normal agreed terms. A liquidity shortfall may delay certain development initiatives or may expose the Group to a need to negotiate further funding. While we anticipate that our existing cash and cash equivalents, together with availability under our existing credit facility, cash balances and cash from operations, will be sufficient to fund our operations for at least the next 12 months, we may need to raise additional capital to fund operations in the future or to finance acquisitions. If we seek to raise additional capital in order to meet various objectives, including developing future technologies and services, increasing working capital, acquiring businesses and responding to competitive pressures, capital may not be available on favourable terms or may not be available at all.

Our access to capital is influenced by, among other factors, the ratings assigned to our debt by the credit rating agencies. Our long-term ratings are rated Baa1 by Moody's and BBB+ by Standard & Poor's, and the short-term ratings are P2 and A2 respectively. In January 2014, Moody's lowered the outlook, for both their ratings, from "stable" to "negative". If the global economy weakens further and/or the global financial markets collapse, we may not have access to or could lose our bank deposits. Lack of sufficient capital resources could significantly limit our ability to take advantage of business and strategic opportunities. Any additional capital raised through the sale of equity or debt securities with an equity component would dilute our stock ownership. If adequate additional funds are not available, we may be required to delay, reduce the scope of, or eliminate material parts of our business strategy, including potential additional acquisitions or development of new products, services and technologies.

***Our business will be impacted by the rate of and state of technological change, including the digital revolution and other disruptive technologies.***

A common trend facing all our businesses is the digitisation of content and proliferation of distribution channels, either over the internet, or via other electronic means, replacing traditional print formats. The digital migration brings the need for change in product and content distribution, consumers' perception of value and the publisher's position between retailers and authors.

We face competitive threats both from large media players and from smaller businesses, online and mobile portals and operators in the digital arena that provide alternative sources of content, news and information. New distribution channels, e.g. digital format, the internet, online retailers, growing delivery platforms (e.g., e-readers or tablets), pose both threats and opportunities to our traditional publishing business models, potentially impacting both sales volumes and pricing.

If we do not adapt rapidly to these changes we may lose business to 'faster' more 'agile' competitors, who increasingly are non-traditional competitors, making their identification all the more difficult. We may be required to invest significant resources to further adapt to the changing competitive environment.

***Our US and UK educational solutions and assessment businesses may be adversely affected by changes in government funding resulting from either general economic conditions, changes in government educational funding, programs, policy decisions, legislation and/or changes in the procurement processes.***

The results and growth of our US educational solutions and assessment businesses are dependent on the level of federal and state educational funding, which in turn is dependent on the robustness of state finances and the level of funding allocated to educational programs. State, local and municipal finances have been adversely affected by the US recession. Although there are signs of recovery, including increasing US state tax receipts, education funding pressures remain. Competition from low price and disruptive new business models continues and open source is promoted as a way for to keep costs down for our customers. The current challenging environment could impact our ability to collect on education-related debt.

Government changes and decisions can also affect the funding available for educational expenditure, which include the impact of education reform. Similarly, changes in the government procurement process for textbooks, learning material and student tests, and vocational training programs can also affect our markets. Changes in curricula, delays in the timing of the adoptions and changes in the student testing process can all affect these programs and therefore the size of our market in any given year. For our UK examination and assessment businesses, changes in UK Government policy could have a significant impact on our present business.

There are multiple competing demands for educational funds and there is no guarantee that new textbooks or testing or training programs will be funded, or that we will win this business.

***If we do not adequately protect our intellectual property and proprietary rights our competitive position and results may be adversely affected and limit our ability to grow.***

Our products and services largely comprise intellectual property delivered through a variety of media, including newspapers, books, the internet and other growing delivery platforms. We rely on trademark, copyright and other intellectual property laws to establish and protect our proprietary rights in these products and services.

Our intellectual property rights in countries such as the US and the UK, jurisdictions covering the largest proportion of our operations, are well established. However, we also conduct business in other countries where the extent of effective legal protection for intellectual property rights is uncertain, and this uncertainty could affect our future growth. We cannot guarantee that our intellectual property rights will provide competitive advantages to us; our intellectual property

rights will be enforced in jurisdictions where competition may be intense or where legal protection may be weak; any of the intellectual property rights that we may employ in our business will not lapse or be invalidated, circumvented, challenged, or abandoned; or that we will not lose the ability to assert our intellectual property rights against others. Moreover, despite trademark and copyright protection, third parties may copy, infringe or otherwise profit from our proprietary rights without our authorisation. The loss or diminution in value of these proprietary rights or our intellectual property could have a material adverse effect on our business and financial performance.

***A control breakdown or service failure in our school assessment and qualification businesses could result in financial loss and reputational damage.***

There are inherent risks associated with our school assessment and qualification businesses, both in the US and the UK. A service failure caused by a breakdown in our testing and assessment processes could lead to a mis-grading of student tests and/or late delivery of test results to students and their schools. In either event we may be subject to legal claims, penalty charges under our contracts, non-renewal of contracts and/or the suspension or withdrawal of our accreditation to conduct tests. It is also possible that such events would result in adverse publicity, which may affect our ability to retain existing contracts and/or obtain new customers.

***Our professional services and school assessment businesses involve complex contractual relationships with both government agencies and commercial customers for the provision of various testing services. Our financial results, growth prospects and/or reputation may be adversely affected if these contracts and relationships are poorly managed or face increased competitive pressures.***

Our services and assessment businesses are characterised by contracts spread over several years. As in any contracting business, there are inherent risks associated with the bidding process, start-up, operational performance and contract compliance (including penalty clauses) which could adversely affect our financial performance and/or reputation. Failure to retain these contracts at the end of the contract term could adversely impact our future revenue growth.

***Our investment into inherently riskier emerging markets is growing and the returns may be lower than anticipated.***

To take advantage of international growth opportunities and to reduce our reliance on our US and UK markets we are increasing our investments in a number of emerging markets, some of which are inherently more risky than our traditional markets. Political, regulatory, economic and legal systems in emerging markets may be less predictable than in countries with more developed institutional structures. Political, regulatory, economic, currency, reputational and corporate governance and compliance risks (including fraud, bribery and corruption) as well as unmanaged expansion are all factors which could limit our returns on investments made in these markets.

***Failure to generate anticipated revenue growth, synergies and/or cost savings from acquisitions, mergers and other business combinations, could lead to goodwill and intangible asset impairments.***

We continually acquire and dispose of businesses to achieve our strategic objectives. In early 2014 we acquired Grupo Multi, a provider of private language schools in Brazil. Acquired goodwill and intangible assets could be impaired if we are unable to generate the anticipated revenue growth, synergies and/or cost savings associated with these or other acquisitions.

In July 2013, Pearson and Bertelsmann completed the combination of their respective consumer publishing businesses to create Penguin Random House, in which we hold a 47% equity interest. Although Penguin Random House is the world's leading consumer publishing company, our investment and associated return are subject to the continuing success of this venture, in a competitive global market.

***We operate in markets that are dependent on Information Technology (IT) systems and technological change.***

All our businesses, to a greater or lesser extent, are dependent on information technology. We either provide software and/or internet services to our customers or we use complex IT systems and products to support our business activities, including customer-facing systems, back-office processing and infrastructure. We face several technological risks associated with software product development and service delivery, information technology security (including virus and cyber-attacks), e-commerce, enterprise resource planning system implementations and upgrades. Although plans and procedures are in place to reduce such risks, from time to time we have experienced verifiable attacks on our systems by unauthorised parties. To date such attacks have not resulted in any material damage to us, but our businesses could be adversely affected if our systems and infrastructure experience a significant failure or interruption.

***Failure to comply with data privacy regulations and standards or weakness in information security, including a failure to prevent or detect a malicious attack on our systems, could result in a major data privacy breach causing reputational damage to our brands and financial loss.***

Across our businesses we hold large volumes of personal data including that of employees, customers, students and citizens. Despite our implementation of security measures, individuals may try to gain unauthorised access to our data in order to misappropriate such information for potentially fraudulent purposes. Any perceived or actual unauthorised disclosure of personally-identifiable information, whether through breach of our network by an unauthorised party, employee theft, misuse or error or otherwise, could harm our reputation, impair our ability to attract and retain our customers, or subject us to claims or litigation arising from damages suffered by individuals, and thereby harm our business and operating results. Failure to adequately protect personal data could lead to penalties, significant remediation costs, reputational damage, potential cancellation of some existing contracts and inability to compete for future business. In addition, we could incur significant costs in complying with the relevant laws and regulations regarding the unauthorised disclosure of personal information.

***Our reported earnings and cash flows may be adversely affected by changes in our pension costs and funding requirements.***

We operate a number of pension plans throughout the world, the principal ones being in the UK and the US. The major plans are self-administered with the plans' assets held independently of the Group. Regular valuations, conducted by independent qualified actuaries, are used to determine pension costs and funding requirements. As these assets are invested in the capital markets, which are often volatile, the plans may require additional funding from us, which could have an adverse impact on our results.

It is our policy to ensure that each pension plan is adequately funded, over time, to meet its ongoing and future liabilities. Our earnings and cash flows may be adversely affected by the need to provide additional funding to eliminate pension fund deficits in our defined benefit plans. Our greatest exposure relates to our UK defined benefit pension plan, which is valued once every three years. Pension fund deficits may arise because of inadequate investment returns, increased member life expectancy, changes in actuarial assumptions and changes in pension regulations, including accounting rules and minimum funding requirements.

***Operational disruption to our business caused by our third party providers, a major disaster and/or external threats could restrict our ability to supply products and services to our customers.***

Across all our businesses, we manage complex operational and logistical arrangements including distribution centres, data centres, and educational and office facilities, as well as relationships with third party print sites. We have also outsourced some support functions, including information technology and warehousing, to third party providers. The failure of third parties to whom we have outsourced business functions could adversely affect our reputation and financial condition. Failure to recover from a major disaster, (e.g. fire, flood etc.) at a key facility or the disruption of supply from a key third party vendor or partner (e.g. due to bankruptcy) could restrict our ability to service our customers. Similarly external threats, such as a flu pandemic, terrorist attacks, strikes, weather etc., could all affect our business and employees, disrupting our daily business activities.

***Changes in students' buying and distribution behaviour put downward pressure on price.***

Students are seeking cheaper sources of content, e.g. online discounters, file sharing, use of pirated copies, and rentals, along with open source. This change in behaviour puts downward pressure on textbook prices in our major markets, and this could adversely impact our results.

***Changes in tax law or perceptions on tax planning strategies may lead to higher effective tax rate or negative reputational impact.***

Changes in corporate tax rates and/or other relevant tax laws in the UK, US or other jurisdictions could have a material impact on our future reported tax rate and/or our future tax payments. We have been subject to audit by tax authorities. Although we believe our tax provision is reasonable, the final determination of our tax liability could be materially different from our historical income tax provisions, which could have a material effect on our financial position, results of operations or cash flows.

Our tax strategy reflects our business strategy and the locations and financing needs of our operations. In common with many companies, we seek to manage our tax affairs to protect value for our shareholders, in line with our broader



fiduciary duties. We are committed to complying with all statutory obligations, to undertake full disclosure to tax authorities and to follow agreed policies and procedures with regard to tax planning and strategy.

***We generate a substantial proportion of our revenue in foreign currencies, particularly the U.S. dollar, and foreign exchange rate fluctuations could adversely affect our earnings and the strength of our balance sheet.***

As with any international business our earnings can be materially affected by exchange rate movements. We are particularly exposed to movements in the U.S. dollar to sterling exchange rate as approximately 60% of our total revenue is generated in U.S. dollars. In addition, we are increasingly exposed to a range of international currencies. Sales for 2014, translated at 2013 average rates, would have been £272m or 6% higher.

***The inherent volatility of advertising could adversely affect the profitability of our news business.***

Advertising revenue is susceptible to fluctuations in economic cycles. Certain of our products, such as the Financial Times, are more advertising-driven than our other products. Consequently, these products are more affected by decreases in advertising revenue. As the internet continues to grow as a global medium for information, communication and commerce, advertisers are increasingly shifting advertising dollars from print to online media. Any downturn in corporate and financial advertising spend due to the economic slowdown will negatively impact the results.

***If we fail to attract, retain and develop appropriately skilled employees, our business may be harmed.***

Our success depends on the skill, experience and dedication of our employees. If we are unable to attract, retain and develop sufficiently experienced and capable personnel, especially in technology, product development, sales and management, our business and financial results may suffer. When talented employees leave, we may have difficulty replacing them, and our business may suffer. There can be no assurance that we will be able to successfully retain and attract the personnel that we need.

***Social, environmental and ethical risks may also adversely impact our business.***

We consider social, environmental and ethical (SEE) risks no differently to the way we manage any other business risk. These include journalistic/author integrity, ethical business behaviour, intellectual copyright protection, compliance with UN Global Compact standards, environmental impact, people and data privacy.

***Failure to adequately protect employees and learners could have negative financial, legal and reputational impacts.***

We take very seriously the health, safety, well-being and protection of our employees, learners and customers and implement appropriate policies, standards and procedures. However, there may be accidents or incidents that occur, causing injury or harm to individuals. This may include our direct delivery businesses where we are operating, either ourselves or in partnership, schools, colleges, universities, testing and assessment centres.

***Our business depends on a strong brand, and any failure to maintain, protect and enhance our brand would hurt our ability to retain or expand our business.***

We have developed a strong brand that we believe has contributed significantly to the success of our business. Maintaining, protecting and enhancing the Pearson brand is critical to expanding our business and will depend largely on our ability to maintain our customers' trust in our solutions and in the quality and integrity of our products and services. If we do not successfully maintain a strong brand, our business could be harmed.

## **Risks Related to the Notes and this Offering**

### ***There is no public market for the Notes***

Although application has been made to list the Notes on the London Stock Exchange's Regulated Market, there is no existing market for the Notes, and we can offer no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell their Notes or the prices at which they may be able to sell their Notes. Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Each of the Managers has advised us that it currently intends to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making at any time as provided in "Subscription and Sale" below, without notice.

***Pearson is a holding company and it may not have access to the cash that is needed to make payments on the Notes. The claims of the creditors of Pearson's subsidiaries will effectively rank senior to the Noteholders' claims against Pearson and the Issuer with respect to the assets of such other subsidiaries.***

Pearson is a holding company that conducts substantially all of its operations, and holds most of its operating assets, through its subsidiaries. The Issuer, a wholly-owned subsidiary of Pearson, has no operations of its own and its only asset will be claims against Pearson and other subsidiaries of Pearson to which it will advance the proceeds from the sale of the Notes. The Issuer's obligations will consist only of the obligations under the Notes. None of Pearson's subsidiaries is obligated to make funds available to the Issuer or Pearson for payment on the Notes. Accordingly, the ability to make payments on the Notes is dependent on the distribution of earnings or cash payments by Pearson's operating subsidiaries to the Issuer and Pearson. Regulatory, contractual or other restrictions on Pearson's subsidiaries' ability to pay dividends or make cash payments to the Issuer or Pearson may adversely affect the Issuer's or Pearson's ability to pay principal and interest on the Notes. Pearson's subsidiaries are separate and distinct legal entities and, except in the case of the Issuer, they will have no obligation, contingent or otherwise, to pay any amounts due under the Notes or to make any funds available for any of those payments. Claims of creditors of Pearson's subsidiaries other than the Issuer, including trade creditors, will effectively have priority over claims of the holders of the Notes with respect to the assets of those subsidiaries.

Pearson's subsidiaries may incur indebtedness. This indebtedness may restrict or prohibit the making of distributions, the payment of dividends or the making of loans by these subsidiaries. In addition, this indebtedness will effectively rank senior to the Notes with respect to the assets of those subsidiaries. The indenture governing the Notes will not limit the amount of indebtedness that can be incurred by Pearson's subsidiaries. Neither Pearson nor the Issuer can provide assurance that the agreements governing the current and future indebtedness of Pearson's operating subsidiaries will permit those subsidiaries to provide Pearson or the Issuer with sufficient dividends or cash payments to fund payments on the Notes when due.

#### ***Meetings of Noteholders, modification, waiver authorisation, determination and substitution***

The Terms and Conditions of the Notes and the Trust Deed (as defined in the Terms and Conditions of the Notes) contain provisions for convening meetings of Noteholders to consider any matter affecting their interests. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes and the Trust Deed also provide that the Trustee may, without the consent of the Noteholders or Couponholders, agree to (i) any modification of the Notes, the Coupons or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or (ii) any modification of the Notes, the Coupons or the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of applicable law. The Trustee may also agree, without the consent of the Noteholders or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of the Terms and Conditions of the Notes or any of the provisions of the Trust Deed or determine, without any such consent, that any Event of Default or Potential Event of Default (each as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.

The Trust Deed contains provisions under which the Trustee may, without the consent of the Noteholders or the Couponholders, agree with the Issuer and the Guarantor to the substitution (a) in place of the Issuer as the principal debtor in respect of the Notes of (i) of the Guarantor, (ii) a successor in business to the Issuer or the Guarantor, (iii) a holding company (as defined in the Trust Deed) of the Issuer or the Guarantor or (iv) any subsidiary of the Guarantor; or (b) in place of the Guarantor as the guarantor in respect of the Notes, the Coupons and the Trust Deed of (i) a successor in business to the Guarantor or (ii) a holding company of the Guarantor, in each case subject to certain conditions, as specified in Condition 14 (*Substitution*) of the Notes and the Trust Deed, including the Trustee being satisfied that the substitution is not materially prejudicial to the interests of the Noteholders.

#### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each member state of the European Union (a "**Member State**") is required to provide to the tax authorities of another Member State details of payments of interest or other similar income made by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria is instead required (unless during that period it elects otherwise) to apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

On 24 March 2014, the Council of the European Union adopted a directive amending the Savings Directive to extend its scope to cover additional types of savings income and products that generate interest or equivalent income (including certain types of life insurance contracts) as well as a broader range of investment funds. In addition, a “look through” procedure will be established, which may result in the Savings Directive applying in some cases to payment to a person, entity or arrangement established or effectively managed outside of the European Union. Member States have until 1 January 2016 to adopt domestic legislation to give effect to these changes, which must be applied from 1 January 2017.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Notes as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

### ***Change of law***

The Terms and Conditions of the Notes are governed by English law in effect as at the date of this prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this prospectus.

### ***Minimum denomination of €100,000, and integral multiples thereafter of less than €100,000; definitive Notes***

The Notes have a minimum denomination of €100,000. The Terms and Conditions of the Notes provide that, for so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg (or other relevant clearing system) so permit, the Notes will be tradeable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) equal to the minimum denomination plus integral multiples thereafter of €1,000 up to and including €199,000.

Definitive Notes will only be issued if (a) Euroclear or Clearstream, Luxembourg (or other relevant clearing system) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 10 (*Events of Default*) occurs. If Definitive Notes are issued, such Notes will be issued only in denominations of at least €100,000 plus integral multiples thereafter of €1,000 up to and including €199,000. No Definitive Notes will be issued with a denomination above €199,000. As such, a holder of Notes who holds less than the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of Definitive Notes unless and until such time as his holding becomes an integral multiple of a permitted denomination. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination.

### ***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversion if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### ***Interest rate risks***

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

***Credit ratings may not reflect all risks***

The Notes are expected to be rated “Baa1” by Moody's and “BBB+” by S&P. Moody's and S&P are both established in the European Economic Area and are registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (the “**CRA Regulation**”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

## DOCUMENTS INCORPORATED BY REFERENCE

The following document shall be deemed to be incorporated in, and to form part of, this prospectus:

- Pearson's Annual Report on Form 20-F for the year ended 31 December 2014 ("**Pearson's Annual Report on Form 20-F**"), excluding the exhibits incorporated by reference therein as detailed on page 84 thereof.
- The audited annual financial statements (on an entity basis and including the auditor's report thereon and notes thereto) of the Issuer in respect of the 10 months ended 31 December 2013 (the "**2013 Issuer Financial Statements**").

The above mentioned exhibits to Pearson's Annual Report on Form 20-F are not incorporated by reference herein, shall not form part of this prospectus and are not relevant for investors in the Notes. Without limiting the generality of the foregoing, Pearson's Annual Report on Form 20-F includes Pearson's consolidated financial statements for the years ended 31 December 2014, 2013 and 2012 and as of 31 December 2014 and 2013, which have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm.

Pearson's Annual Report on Form 20-F has been previously published and was filed with each of the FCA and the SEC on 26 March 2015 (SEC File No. 1-16055).

Copies of documents incorporated by reference in this prospectus may be obtained at the office of The Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom or (at no cost) by contacting Pearson's Company Secretary at 80 Strand, London WC2R 0RL, United Kingdom (Tel: +44 20 7010 2257). In addition, a copy of Pearson's Annual Report on Form 20-F may be accessed electronically free of charge at Pearson's website at [www.pearson.com](http://www.pearson.com), and the 2013 Issuer Financial Statements may be accessed electronically free of charge at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM). Other than the documents specifically incorporated by reference herein, as set forth above, the information contained on Pearson's website is not incorporated by reference in this prospectus, and prospective investors should not consider any information contained on, or that can be accessed through, Pearson's website as part of this prospectus or in deciding whether to purchase the Notes being offered hereby.

Any statement contained herein or in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this prospectus to the extent that a statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive modifies or supersedes such statement (whether expressly, by implication or otherwise). In addition, any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this prospectus.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes (the “Conditions”) which (subject to modification) will be endorsed on each Note in definitive form (if issued):*

The €500,000,000 1.375 per cent. Guaranteed Notes due 2025 (the “Notes”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series with the Notes) of Pearson Funding Five plc (the “**Issuer**”) are constituted by a Trust Deed dated 6 May 2015 (the “**Trust Deed**”) made between the Issuer, Pearson plc (the “**Guarantor**”) as guarantor and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include its successor(s)) as trustee for the holders of the Notes (the “**Noteholders**”) and the holders of the interest coupons appertaining to the Notes (the “**Couponholders**” and the “**Coupons**” respectively).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 6 May 2015 (the “**Agency Agreement**”) made between the Issuer, the Guarantor, the Principal Paying Agent, and the Trustee are available for inspection during normal business hours by the Noteholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom and at the specified office of the Principal Paying Agent. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denominations of €100,000 and integral multiples of €1,000 (the “**Calculation Amount**”) in excess thereof up to and including €199,000 (each a “**Specified Denomination**”) with Coupons attached on issue. Notes of one denomination may not be exchanged for Notes of the other denomination.

#### 1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

#### 1.3 Holder Absolute Owner

The Issuer, the Guarantor, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### 2. STATUS OF THE NOTES

The Notes and the Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer and rank and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

### 3. GUARANTEE

#### 3.1 Guarantee

The payment of the principal and interest in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor (the “**Guarantee**”) in the Trust Deed.

#### 3.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Guarantor and rank and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all

other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

#### **4. NEGATIVE PLEDGE**

So long as any of the Notes remains outstanding, the Guarantor will not, and will not permit any Material Company to, create or permit to arise or subsist any Relevant Indebtedness or grant or permit to subsist any guarantee of any Relevant Indebtedness, which Relevant Indebtedness or guarantee of Relevant Indebtedness is secured by any mortgage, pledge or other charge upon any of the present or future assets or revenues (including uncalled capital) of the Guarantor or such Material Company, unless in any such case as aforesaid simultaneously with, or prior to the creation of such security, there shall be taken any and all action necessary to procure that such security is extended equally and rateably to all amounts payable in respect of the Notes, the Coupons and under the Trust Deed to the satisfaction of the Trustee, or such other security is provided as the Trustee shall in its absolute discretion deem to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

For the purposes of this Condition, “**Relevant Indebtedness**” means any indebtedness of the Issuer or the Guarantor or of any other person which is in the form of or represented by any bonds, notes, loan stock, depositary receipts or other securities which are intended by the Issuer or the Guarantor to be, or are, with the consent or concurrence of the Issuer or the Guarantor for the time being, quoted or listed on, or dealt in or traded on, any stock exchange, over-the-counter securities market or other organised securities market (whether or not initially distributed by means of a private placing) and any reference to a guarantee in respect of any Relevant Indebtedness shall include a reference to an indemnity being given in respect thereof.

#### **5. INTEREST**

##### **5.1 Interest Rate and Interest Payment Dates**

The Notes bear interest on their outstanding principal amount from and including 6 May 2015 at the rate of 1.375 per cent. per annum, payable annually in arrear on 6 May (each such date an “**Interest Payment Date**”). The first payment (for the period from and including 6 May 2015 to but excluding 6 May 2016 and amounting to €13.75 per €1,000 principal amount of Notes) shall be made on 6 May 2016.

##### **5.2 Interest Accrual**

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

##### **5.3 Calculation of Broken Interest**

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

#### **6. PAYMENTS**

##### **6.1 Payments in respect of Notes**

Payments of principal and interest in respect of each Note will be made in euro against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

##### **6.2 Method of Payment**

Payments will be made by credit or transfer to an account in euro maintained by the payee with a bank in London.

### 6.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8 (*Taxation*)) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

### 6.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*).

### 6.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5 (*Interest*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

**Presentation Date** means a day which (subject to Condition 9 (*Prescription*)):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) a day on which TARGET2 (or any successor thereto) is open for settlement of payments in euro.

In this Condition: “**Business Day**” means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits); and “**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto.

### 6.6 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Notes are admitted to official listing on the London Stock Exchange shall be London; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 13 (*Notices*).

## 7. REDEMPTION AND PURCHASE

### 7.1 Redemption at Maturity



Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 6 May 2025.

## 7.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8 (*Taxation*)), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 6 May 2015, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) or (ii) the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; and
- (b) the requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (*Notices*) (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be required to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, the Guarantor stating that the requirement referred to in (a) above will apply on the next Interest Payment Date, and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

## 7.3 Redemption at the Option of the Issuer

The Issuer may, at any time, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (*Notices*) (which notice shall be irrevocable), redeem all (but not some only) of the Notes at the Optional Redemption Amount on any Optional Redemption Date.

For the purposes of this Condition 7.3, "**Optional Redemption Amount**" means, in respect of each Note of the Specified Denomination: (a) 100 per cent of the Calculation Amount; or (b) if higher, the sum, as determined by the Calculation Agent, of the present values of the remaining scheduled payments of principal and interest on such Note (not including any portion of such payments of interest accrued to the date of redemption) discounted to the Optional Redemption Date on an annual basis at the Reference Rate plus the Optional Redemption Margin, where:

"**Business Day**" shall have the meaning specified in Condition 6.5.

"**Calculation Agent**" means a leading investment, merchant or commercial bank appointed by the Issuer not less than 15 days prior to the scheduled date for redemption for the purposes of calculating the Optional Redemption Amount, and notified to the Noteholders in accordance with Condition 15.

"**Optional Redemption Date**" means any Business Day falling after 6 May 2015.

"**Optional Redemption Margin**" means 17 basis points.

"**Quotation Time**" means 5:00 p.m. (Brussels time).

"**Reference Bond**" means a German Bundesobligationen selected by the Calculation Agent as having maturity comparable to the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"**Reference Bond Price**" means: (i) the average of five Reference Market Maker Quotations for the relevant Optional Redemption Date, after excluding the highest and lowest Reference Market Maker Quotations; (ii) if the Calculation Agent obtains fewer than five, but more than one, such Reference

Market Maker Quotations, the average of all such quotations; or (iii) if only one such Reference Market Maker Quotation is obtained, the amount of the Reference Market Maker Quotation so obtained.

**“Reference Market Makers”** means five brokers or market makers of securities such as the Reference Bond selected by the Calculation Agent or such other five persons operating in the market for securities such as the Reference Bond as are selected by the Calculation Agent in consultation with the relevant Issuer.

**“Reference Market Maker Quotations”** means, with respect to each Reference Market Maker and any Optional Redemption Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Reference Bond (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent at the Quotation Time on the Reference Rate Determination Day.

**“Reference Rate”** means, with respect to any Optional Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Reference Bond, calculated by the Calculation Agent on the Reference Rate Determination Day using a price for the Reference Bond (expressed as a percentage of its principal amount) equal to the Reference Bond Price for such Optional Redemption Date.

**“Reference Rate Determination Day”** means the day falling three Business Days prior to the Optional Redemption Date.

#### 7.4 Offer to Purchase upon a Change of Control Triggering Event

If a Change of Control Triggering Event occurs, unless the Issuer has exercised its option to redeem the Notes pursuant to Conditions 7.2 or 7.3, the Issuer will be required to make an offer (the **“Change of Control Offer”**) to each Noteholder to purchase all or any part (equal to €100,000 or an integral multiple of €1,000 in excess thereof) of that Noteholder’s Notes. In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to the aggregate principal amount of Notes purchased, plus accrued and unpaid interest, if any, on the Notes purchased to but excluding the date of purchase (the **“Change of Control Payment”**). Within 30 days following any Change of Control Triggering Event or, at the option of the Issuer, prior to any Change of Control, but after public announcement of the transaction that constitutes or may constitute the Change of Control, the Issuer will give written notice to the Trustee, in accordance with the procedures set forth in Clause 26 (*Notices*) of the Trust Deed, describing: (i) the transaction which constitutes or may constitute the Change of Control Triggering Event; (ii) offering to purchase the Notes on the date specified in such notice, which date will be a date no earlier than 30 days and no later than 60 days from the date such notice is given (the **“Change of Control Payment Date”**); and (iii) including the instructions (as determined by the Issuer) that a Noteholder must follow in order to have its Notes purchased.

The notice will, if given prior to the date of consummation of the Change of Control, state that the offer to purchase is conditional on the Change of Control Triggering Event occurring on or prior to the Change of Control Payment Date.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- (a) accept for purchase all Notes or portions of Notes properly tendered and not withdrawn pursuant to the Change of Control Offer;
- (b) deposit with the agent as set out in the written notice an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered and not withdrawn; and
- (c) deliver or cause to be delivered to the Principal Paying Agent the Notes accepted for purchase together with a certificate signed by an Officer of the Issuer stating the aggregate principal amount of Notes or portions of Notes being purchased and request that such Notes are cancelled forthwith as contemplated pursuant to Condition 7.6 below.

The Issuer will not be required to make a Change of Control Offer upon the occurrence of a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Issuer and the third party purchases all Notes properly tendered and not withdrawn under its offer. In addition, the Issuer will not purchase any Notes if there has occurred and is continuing on the Change of Control Payment Date an Event of Default under Condition 10 (*Events of Default*), other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

The Guarantor hereby irrevocably and unconditionally guarantees the obligations of the Issuer to make a Change of Control Offer as described above. The Guarantor further irrevocably and unconditionally guarantees to make payment for any and all Notes properly tendered and not withdrawn as described above.

The Trustee is under no obligation to ascertain whether a Change of Control Triggering Event, a Change of Control or Rating Event or any event which could lead to the occurrence of or could constitute a Change of Control Triggering Event or Rating Event has occurred and, until it shall have actual knowledge or notice to the contrary, the Trustee may assume that no Change of Control Triggering Event, Change of Control or Rating Event or other such event has occurred.

References in the Trust Deed and in these Conditions to principal shall, unless the context otherwise requires, be deemed to include a reference any purchase monies paid pursuant to this Condition 7.4.

## **7.5 Purchases**

The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

## **7.6 Cancellations**

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be held, reissued or resold.

## **7.7 Notices Final**

Upon the expiry of any notice as is referred to in paragraph 7.2, 7.3 or 7.4 above the Issuer shall be bound to redeem or purchase the Notes to which the notice refers, all in accordance with the terms of such paragraph.

## **7.8 Interpretation**

In these Conditions:

“**Affiliate**” shall have the meaning given in Rule 405 of the U.S. Securities Act of 1933, as amended.

“**Board of Directors**” means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorised committee thereof.

“**Change of Control**” means the occurrence of any of the following:

- (a) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person or “group” (as used in Section 13d-3 of the Exchange Act) (other than an Affiliate of the Guarantor) becomes the beneficial owner, directly or indirectly, of more than 50 per cent. of the Voting Stock of the Guarantor or other Voting Stock into which the Voting Stock of the Guarantor is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares;
- (b) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or more series of related transactions, of all or substantially all of the assets of the Guarantor and the Subsidiaries of the Guarantor, taken as a whole, to one or more Persons (other than an Affiliate of the Guarantor);
- (c) the first day on which a majority of the members of the Board of Directors of the Guarantor are not Continuing Directors; or
- (d) the adoption of a plan relating to the liquidation or dissolution of the Guarantor.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if:

- (i) the Guarantor becomes a direct or indirect wholly-owned subsidiary of a holding company; and
- (ii) (A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Voting Stock of the Guarantor immediately prior to that transaction or (B)

immediately following that transaction one Person (other than a holding company satisfying the requirements of this sentence) is not the beneficial owner, directly or indirectly, of more than 50 per cent. of the Voting Stock of such holding company.

**“Change of Control Triggering Event”** means the occurrence of both a Change of Control and a Rating Event.

**“Continuing Directors”** means, as of any date of determination, any member of the Board of Directors of the Guarantor who (1) was a member of such Board of Directors on the date the Notes were issued or (2) was nominated for election, elected or appointed to such Board of Directors with the approval of a majority of the continuing directors who were members of such Board of Directors at the time of such nomination, election or appointment (either by a specific vote or by approval of the proxy statement of the Guarantor in which such member was named as a nominee for election as a director, without objection to such nomination).

**“Exchange Act”** means the U.S. Securities Exchange Act of 1934, as amended.

**“Investment Grade Rating”** means a rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P, and the equivalent investment grade credit rating from any additional rating agency or rating agencies selected by the Issuer.

**“Moody's”** means Moody's Investor Service Inc.

**“Officer”** means, when used in connection with any action to be taken by the Issuer or the Guarantor, as the case may be, the chairman of the Board of Directors, the chief executive officer, any executive director of the Issuer or the Guarantor, as the case may be, or any person authorised by the Board of Directors of the Issuer or the Guarantor, as the case may be, (such authorisation to be evidenced in writing and delivered to the Trustee) to act as representative of such persons.

**“Person”** means an individual, partnership, corporation, limited liability company, unincorporated organisation, trust or joint venture, or a governmental agency or political subdivision thereof, or any other entity.

**“Rating Agencies”** means (1) each of Moody's and S&P; and (2) if either Moody's or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside the control of the Issuer and the Guarantor, a “nationally recognised statistical rating organisation” within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Issuer or the Guarantor (as certified by a resolution of the Board of Directors of the Issuer or the Guarantor) as a replacement agency for Moody's or S&P, or both of them, as the case may be.

**“Rating Event”** means the rating on the Notes is lowered by each of the Rating Agencies and the Notes are rated below an Investment Grade Rating by each of the Rating Agencies on any day during the period commencing 60 days prior to the first public announcement by the Guarantor of any Change of Control (or pending Change of Control) and ending 60 days following the consummation of such Change of Control (which period will be extended following consummation of a Change of Control for so long as any of the Rating Agencies has publicly announced that it is considering a possible ratings change).

**“Subsidiary”** means, in relation to the Issuer or the Guarantor, any company (i) in which the Issuer or, as the case may be, the Guarantor holds a majority of the voting rights or (ii) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer or, as the case may be, the Guarantor is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer or, as the case may be, the Guarantor.

**“S&P”** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

**“Voting Stock”** means, with respect to any specified Person as of any date, the capital stock of such Person that is at the time entitled to vote generally in the election of the board of directors of such Person.

## **8. TAXATION**

### **8.1 Payment without Withholding**

All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**“Taxes”**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as

the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) where such withholding or deduction could have been avoided by the holder making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date (as defined in Condition 6 (*Payments*)).

## 8.2 Interpretation

In these Conditions:

- (a) “**Relevant Date**” means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13 (*Notices*); and
- (b) “**Relevant Jurisdiction**” means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

## 8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

## 9. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 6 (*Payments*).

## 10. EVENTS OF DEFAULT

**10.1** At any time after the happening of any of the following events (each an Event of Default), the Trustee at its absolute discretion may, and if so required in writing by the holders of not less than 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction), give notice to the Issuer declaring the Notes to be repayable, so long as at the time of such notice such event or (as the case may be) all such events shall not have been waived by, or remedied to the reasonable satisfaction of, the Trustee:

- (a) default being made in the payment of any interest in respect of any of the Notes for a period of 30 days as and when the same ought to be paid; or

- (b) default being made in the payment of the principal in respect of any of the Notes for a period of two Business Days as and when the same ought to be paid; or
- (c) default being made by the Issuer or the Guarantor in the performance or observance of any other covenant, undertaking, condition or provision contained in the Trust Deed or in the Notes and (except where the Trustee shall have certified in writing to the Issuer or the Guarantor (as the case may be) that it considers such default to be incapable of remedy when no such notice as is hereinafter mentioned shall be required) such default continues for a period of 30 days or more immediately following the service by the Trustee on the Issuer of a notice requiring the same to be remedied; or
- (d) the occurrence of any event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any indebtedness of the Issuer, the Guarantor or any Material Company for money borrowed, whether such indebtedness now exists or shall hereafter be created, resulting in such indebtedness in principal amount in excess of \$50,000,000 (or the equivalent thereof in other currencies) becoming or being declared due and payable prior to the date on which it would otherwise become due and payable, and such acceleration not having been rescinded or annulled, or such indebtedness not having been discharged, within a period of 30 days after written notice thereof shall have been given to the Issuer and the Guarantor by the Trustee; or
- (e) an order being made or an effective resolution being passed for the winding up or dissolution of the Issuer, the Guarantor or any Material Company (except, in the case of a Material Company, for a winding-up for the purpose of a reconstruction or amalgamation the terms of which have previously been approved in writing by the Trustee or a voluntary solvent winding-up in connection with the transfer of all or the major part of the business, undertaking and assets of such Material Company to the Issuer or the Guarantor, another Material Company or any Subsidiary which becomes a Material Company as a result of such transfer); or
- (f) the Issuer, the Guarantor or any Material Company stopping or announcing an intention to stop payment in respect of any binding obligations or ceasing to carry on all or substantially all of its business (except a cessation (1) in the circumstances referred to in the parentheses of paragraph (e) above or (2) consequent upon a sale by a Material Company of all or any part of its business on arm's length terms and for fair market value); or
- (g) an encumbrancer taking possession of, or an administrative or other receiver, an administrator or any similar official being appointed in relation to, the Issuer, the Guarantor or any Material Company or in relation to the whole or any substantial part of the undertaking, property, assets or revenues of the Issuer, the Guarantor or any Material Company or a distress or execution or other legal process being levied or enforced upon or sued out against the whole or any substantial part of the chattels or property of the Issuer, the Guarantor or any Material Company and not being discharged within 28 days; or
- (h) the Issuer, the Guarantor or any Material Company being unable to pay its debts within the meaning of Section 123(1) of the Insolvency Act 1986; or
- (i) the Issuer, the Guarantor or any Material Company consenting to proceedings relating to itself under any applicable bankruptcy, insolvency, composition or other similar laws or making a conveyance or assignment for the benefit of, or entering into any composition with, its creditors generally, or being adjudicated or found bankrupt or insolvent by any competent court; or
- (j) the Guarantee ceases to be in full force and effect or the Guarantor shall, in writing, deny or disaffirm its obligations under the Guarantee.

Upon any such declaration being made as aforesaid, the outstanding Notes shall become immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed.

## 10.2 Interpretation

In this Condition, “**Business Day**” means any day other than a Saturday or Sunday or a day on which commercial banks and trust companies located in New York City or London are authorised or required by law, regulation or executive order to be closed.

In these Conditions:

“**Material Company**” means:

- (a) the Issuer; and
- (b) any Subsidiary of the Guarantor:
  - (i) whose unconsolidated profits (before interest, taxation and non-operating items) are more than 5 per cent. of the consolidated profits of the Guarantor and its Subsidiaries (the “**Group**”) (before interest, taxation and non-operating items); or
  - (ii) whose external turnover is more than 3 per cent. of the consolidated turnover of the Group,

all as shown (in the case of any Subsidiary) in the accounts used for preparing the Group consolidation in the most recent annual consolidated financial statements of the Group. If a Subsidiary (other than the Issuer) which is not a Material Company on the basis of the most recent such accounts receives a transfer of assets or the right to receive any trading profits or turnover which, taken together with the existing trading profits, assets or, as the case may be, turnover of that Subsidiary, would satisfy any test in (i) or (ii) above, then that Subsidiary shall also be a Material Company on and from the date it receives such transfer. If a Material Company disposes of any assets or the right to receive any trading profits or turnover such that it would on the basis of the most recent such accounts cease to be a Material Company, then it shall be excluded as a Material Company on and from the date of such disposal. A report (whether or not addressed to the Trustee) by two directors of the Guarantor that a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Material Company may be relied upon by the Trustee without further enquiry or evidence and, if so relied upon by the Trustee shall, in the absence of manifest error, be conclusive and binding on all parties.

## **11. ENFORCEMENT**

### **11.1 Enforcement by the Trustee**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless (a) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding and (b) it has been indemnified and/or secured and/or prefunded to its satisfaction.

### **11.2 Enforcement by the Noteholders**

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## **12. REPLACEMENT OF NOTES AND COUPONS**

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

## **13. NOTICES**

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

So long as the Notes are held on behalf of Euroclear or Clearstream, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear or Clearstream, rather than by notification as required by these Conditions.

#### **14. SUBSTITUTION**

The Trustee may, without the consent of the Noteholders or the Couponholders, agree with the Issuer and the Guarantor to the substitution (a) in place of the Issuer as the principal debtor in respect of the Notes of (i) the Guarantor, (ii) a successor in business to the Issuer or the Guarantor, (iii) a holding company (as defined in the Trust Deed) of the Issuer or the Guarantor or (iv) any Subsidiary of the Guarantor; or (b) in place of the Guarantor as the guarantor in respect of the Notes, the Coupons and the Trust Deed of (i) a successor in business to the Guarantor or (ii) a holding company of the Guarantor, subject to:

- (a) except in the case of the substitution of the Guarantor, the Notes being unconditionally and irrevocably guaranteed by the Guarantor;
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

#### **15. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee or by Noteholders holding not less than 5 per cent. in principal amount of the Notes for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders. An Extraordinary Resolution may also be effected in writing executed by or on behalf of persons holding or representing not less than three-fourths in principal amount of the Notes for the time being outstanding.

The Trustee may agree, without the consent of the Noteholders or Couponholders, to:

- (a) any modification of the Notes, the Coupons or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders; or
- (b) any modification of the Notes, the Coupons or the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error or to comply with mandatory provisions of applicable law.

The Trustee may also agree, without the consent of the Noteholders or Couponholders, to the waiver or authorisation of any breach or proposed breach of any of these Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (each as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders.

Any such modification, waiver, authorisation or determination as aforesaid shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders by the Issuer in accordance with Condition 13 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general



interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except, in the case of the Issuer, to the extent provided for in Condition 8 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 8 (*Taxation*) pursuant to the Trust Deed.

## **16. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTOR**

### **16.1 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction.

### **16.2 Trustee Contracting with the Issuer and the Guarantor**

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## **17. FURTHER ISSUES**

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

## **18. GOVERNING LAW**

The Trust Deed (including the Guarantee), the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed (including the Guarantee), the Notes and the Coupons are governed by, and will be construed in accordance with, English law.

## **19. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### 1. Form

The Notes will be in bearer new global note (“NGN”) form and will be initially issued in the form of a temporary Global Note which will be delivered on or prior to the issue date of the Notes to a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Notes are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life.

### 2. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (a) upon the happening of any of the events defined in the Trust Deed as “Events of Default”; or
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available.

Thereupon the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

### 3. Payments

On and after 15 June 2015, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made to the bearer of such Global Note and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the nominal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge.

Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

#### **4. Notices**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 13 (*Notices*).

#### **5. Accountholders**

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an Accountholder) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 10 (*Events of Default*)) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

#### **6. Prescription**

Claims against the Issuer and the Guarantor in respect of principal and interest on the Notes represented by a Global Note will be prescribed after ten years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8 (*Taxation*)).

#### **7. Cancellation**

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

## **USE OF PROCEEDS**

The net proceeds from the sale of the Notes, after deduction of discount and management and underwriting commission, will be €497,805,000. After deducting other expenses of the offering, Pearson estimates that the net proceeds from the sale of the Notes will be approximately €496,795,000. Pearson intends to use the net proceeds for general corporate purposes, which may include repayment of £300,000,000 6.00% Guaranteed Notes due 2015 issued by Pearson Funding One plc and the provision of seasonal working capital to Pearson's subsidiaries in the United States.

## CAPITALISATION

The following table sets forth Pearson's capitalisation and cash, liquid resources and marketable securities as at 31 December 2014 (being the most recent completed financial period). This table should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and Pearson's consolidated financial statements included in Pearson's Annual Report on Form 20-F, which is incorporated by reference into this prospectus. The information contained in this table has been derived from Pearson's consolidated balance sheet as of 31 December 2014, which is included in Pearson's Annual Report on Form 20-F and incorporated by reference herein. Borrowings, cash and liquid resources denominated in currencies other than sterling have been translated into sterling at the exchange rates in effect on 31 December 2014, the most significant of which is U.S. dollars, which has been translated at a rate of £1.00 = \$1.56. For convenience, we have translated the sterling amounts in the table below into U.S. dollars at the rate of £1.00 = \$1.56, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by The Federal Reserve Bank of New York on 31 December 2014. On 24 April 2015, the noon buying rate for sterling was £1.00 = \$1.52.

	As at 31 December 2014	
	£	\$
	(in millions, except for share data)	
Cash, liquid resources and marketable securities <sup>(1)</sup> .....	546	852
<b>Indebtedness:</b>		
Short-term borrowings <sup>(2)</sup> .....	342	533
Medium and long-term borrowings:		
- Bonds and loan notes .....	1,878	2,930
- Finance lease liabilities .....	5	8
Total borrowings <sup>(3)</sup> .....	2,225	3,471
<b>Shareholders' Funds:</b>		
Share capital .....	205	320
Share premium .....	2,579	4,023
Consolidated reserves <sup>(4)</sup> .....	3,195	4,984
Total shareholders' funds .....	5,979	9,327
Non-controlling interest .....	6	9
<b>Total capitalisation and indebtedness .....</b>	<b>8,210</b>	<b>12,807</b>

Notes:

- (1) Includes cash and cash equivalents and marketable securities.
- (2) Short-term borrowings are those borrowings maturing within one year.
- (3) As of 31 March 2015, our total borrowings were £2,346 million and our net borrowings, which represent total borrowings less cash and liquid resources, were £1,895 million. The increase in our net borrowings since 31 December 2014 is primarily due to the seasonal fluctuation in our borrowings due to the effect of the school year on the working capital requirements of Pearson's education businesses. Assuming no acquisitions or disposals, our maximum level of net debt normally occurs in July, and our minimum level of net debt normally occurs in December.
- (4) Consolidated reserves includes retained earnings, treasury shares and translation reserve.

Except as disclosed above, since 31 December 2014, the date of our last published consolidated financial statements, there has been no material change in our capitalisation.

## DESCRIPTION OF THE ISSUER

### General

Pearson Funding Five plc, or the Issuer, is a public limited company duly incorporated under the laws of England and Wales. Its registered office and principal administrative office is 80 Strand, London WC2R 0RL, United Kingdom (telephone: +44 20 7010 2000) with Companies House registration number 08422787. Pearson Funding Five plc was duly incorporated and registered on 27 February 2013 and it has an issued share capital of £367,000,000 (divided into 367,000,000 ordinary shares of £1.00 each), of which 366,999,999 ordinary shares are held by Pearson plc and 1 ordinary share is held by Pearson Nominees Limited, a wholly-owned subsidiary of Pearson plc. Pearson Funding Five plc does not have any subsidiary undertakings. Pearson Funding Five plc will use the net proceeds of this offering as described above in “*Use of Proceeds*”. The Issuer’s corporate purposes are to carry on business as a finance company in all its aspects and to carry on any other lawful business activity, in accordance with its Memorandum and Articles of Association.

### Capitalisation of the Issuer

The following table sets out the capitalisation of Pearson Funding Five plc as at 31 December 2014.

	As at 31 December 2014 (in £ millions) (Unaudited)
<b>Shareholders’ Funds:</b>	
Share capital <sup>(1)</sup> .....	247
Reserves .....	2
	<u>249</u>
<b>Indebtedness:</b>	
Total indebtedness <sup>(2)</sup> .....	717
<b>Total capitalization and indebtedness<sup>(1)</sup> .....</b>	<b><u>966</u></b>

Notes:

(1) On 27 April 2015, the Issuer issued 120,000,000 ordinary shares to Pearson plc, resulting in an increase in the Issuer’s share capital by £120,000,000. As a result of this capital increase, the Issuer had 367,000,000 issued and outstanding ordinary shares of £1.00 par value each, in respect of which £367,000,000 had been paid up.

(2) On 8 May 2013, the Issuer issued \$500,000,000 3.250% Guaranteed Notes due 2023, which notes were guaranteed by Pearson, and on 19 May 2014 the Issuer issued €500,000,000 1.875% Guaranteed Notes due 2021, which notes were guaranteed by Pearson.

Except as disclosed above and except for the transactions contemplated in this prospectus, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Issuer since 31 December 2014.

## Directors of the Issuer

The directors of the Issuer manage its affairs.

There are no potential conflicts of interest between any duties owed to the Issuer by its directors and their private interest and/or other duties.

The following table sets forth information concerning each of the directors of Pearson Funding Five plc as of the date of this prospectus.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Steven Ellis	48	Director
Andrew Midgley	53	Director
John Ashworth	51	Director

**Steven Ellis** has been a director of Pearson Funding Five plc since its incorporation. Mr. Ellis is the SVP, Group Treasurer. Previously, he was the VP, Deputy Group Treasurer from 2009 to 2014, having been the Assistant Treasurer from 2005 to 2009. Previously he was with KPMG and Hess Corporation. He is a Chartered Accountant and a Member of the Association of Corporate Treasurers.

**Andrew Midgley** has been a director of Pearson Funding Five plc since its incorporation. Mr. Midgley has also been the VP, Group Reporting and Accounting, since 2013, having been the Head of Financial Reporting from 2001 to 2013 and has been with Pearson since 1996. Before joining Pearson he worked at GlaxoSmithKline and Lloyds TSB. He is a Chartered Accountant.

**John Ashworth** has been a director of Pearson Funding Five plc since 1 January 2015. Mr. Ashworth is currently SVP Finance Transformation at Pearson plc having worked in a variety of Head Office and Group Company roles including as a Senior Internal Audit Manager, the Group Controller Penguin UK and Managing Director UK Shared Services.

The business address for each director of Pearson Funding Five plc is 80 Strand, London WC2R 0RL, United Kingdom.

## DESCRIPTION OF THE GUARANTOR

Information about the Guarantor is incorporated herein by reference from Pearson's Annual Report on Form 20-F.

### Pearson

Pearson is an international education and media company with its principal operations in the education, business information and consumer publishing markets. We create and manage intellectual property, which we promote and sell to our customers under well-known brand names, to inform, educate and entertain. We deliver our content in a variety of forms and through a variety of channels, including books, newspapers and online services. We offer services as well as content, from test creation, administration and processing to teacher development and school software. Though we operate in more than 70 countries around the world, today our largest markets are the US (58% of sales) and Europe (20% of sales) on a continuing basis.

Pearson consists of its worldwide education business, including the FT Group plus a 47% interest in Penguin Random House.

Pearson education is a leading provider of educational materials and learning technologies. It provides test development, processing and scoring services to governments, educational institutions, corporations and professional bodies around the world. It publishes across the curriculum and provides a range of education services including teacher development, educational software and system-wide solutions, and also owns and operates schools. In February 2013, the Group launched a transformation program which is now largely complete. Over the course of two years, Pearson carried out as much restructuring, in terms of activity and costs incurred, as had been undertaken in the previous six years.

From 1 January 2014 the Group has been run as one global education company, organised around three geographical operating segments (North America, Core and Growth), and three lines of business corresponding to the key stages of learning (schools, higher education and professional, which includes the FT Group). The lines of business are responsible for the global strategy, investment priorities, product strategy and product portfolio for respective learner age and stage. The geographies are responsible for customer relationships, sales and marketing, and delivery of education products in their markets. Supporting this structure are the global functions which partner with the geographies and lines of business and operate as integrated global functions to achieve scale economies.

Pearson owns a 47% interest in Penguin Random House, which was formed on 1 July 2013, upon the completion of an agreement between Pearson and Bertelsmann to merge their respective publishing companies, Penguin and Random House. Pearson accounts for its interest in Penguin Random House on the equity basis.

Pearson was incorporated and registered in 1897 under the laws of England and Wales as a limited company and re-registered under the UK Companies Act as a public limited company in 1981. Pearson conducts its operations primarily through its subsidiaries and other affiliates. Pearson's principal executive offices are located at 80 Strand, London WC2R 0RL, United Kingdom (telephone: (0) 20 7010 2000). Pearson's website is <http://www.pearson.com>. The information contained on, or that may be accessed through, this website is not part of, and is not incorporated by reference into, this prospectus.

### Selected Consolidated Financial Data

The table below shows Pearson plc's selected consolidated financial data for the years presented under IFRS as issued by the IASB. The selected consolidated income statement data for the years ended 31 December 2014, 2013 and 2012 and the selected consolidated balance sheet data as at 31 December 2014 and 2013 have been derived from our audited consolidated financial statements, which are incorporated by reference into this prospectus. The selected consolidated income statement data for the years ended 31 December 2011 and 2010, and the selected consolidated balance sheet data as at 31 December 2012, 2011 and 2010 have been derived from our audited consolidated financial statements for those periods and as of those dates, which are not included in, or incorporated by reference into, this prospectus.

In October 2012, Pearson and Bertelsmann entered into an agreement to create a new consumer publishing business by combining Penguin and Random House. The transaction completed on 1 July 2013 and from that point, Pearson no longer controlled the Penguin Group of companies. Pearson accounts for its 47% associate interest in Penguin Random House on an equity basis. The loss of control resulted in the Penguin business being classified as held for sale on the Pearson balance sheet at 31 December 2012. The results of Penguin have been included in discontinued operations for all



years through to 2012 and the first six months of 2013. The share of profit after tax from our associate interest in the Penguin Random House venture from 1 July 2013 is included in operating profit from continuing operations.

On 29 November 2013, Pearson announced the sale of the Mergermarket group which completed on 4 February 2014. The anticipated loss of control as at 31 December 2013 resulted in the Mergermarket business being classified as held for sale on the Pearson balance sheet at 31 December 2013. The results of the Mergermarket business have been included in discontinued operations for all the years through 2014.

The results of the Interactive Data Corporation (Interactive Data) in which Pearson held a 61% interest and which was disposed in July 2010, have been included in discontinued operations for 2010.

The selected consolidated financial information should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and the related notes included in Pearson’s Annual Report on Form 20-F, which is incorporated by reference into this prospectus. The information provided below is not necessarily indicative of the results that may be expected from future operations.

For convenience, we have translated the 2014 amounts into U.S. dollars at the rate of £1.00 = \$1.56, the noon buying rate in The City of New York for cable transfers and foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes on 31 December 2014. On 24 April 2015, the noon buying rate for sterling was £1.00 = \$1.52.

	Year Ended December 31					
	2014	2014	2013	2012	2011	2010
	\$	£	£	£	£	£
	(in millions, except for per share amounts)					
<b>Consolidated Income Statement data</b>						
Sales operating.....	7,603	4,874	5,069	4,959	4,728	4,532
Profit .....	621	398	458	487	1,099	625
Profit after taxation from continuing operations....	378	242	295	253	864	447
Profit for the financial year .....	733	470	539	314	945	1,300
<b>Consolidated Earnings data per share</b>						
Basic earnings per equity share <sup>(1)</sup> .....	0.91	58.1p	66.6p	38.7p	118.2p	161.9p
Diluted earnings per equity share <sup>(2)</sup> .....	0.90	58.0p	66.5p	38.6p	118.0p	161.5p
Basic earnings from continuing operations per equity share <sup>(1)</sup> .....	0.47	30.0p	36.4p	31.1p	108.1p	56.4p
Diluted earnings from continuing operations per equity share <sup>(2)</sup> .....	0.47	29.9p	36.3p	31.0p	107.9p	56.3p
Dividends per ordinary share .....	0.80	51.0p	48.0p	45.0p	42.0p	38.7p
<b>Consolidated Balance Sheet data at period end</b>						
Total assets (non-current assets plus current assets).....	17,779	11,397	10,931	11,348	11,244	10,668
Net assets .....	9,337	5,985	5,706	5,710	5,962	5,605
Long-term obligations <sup>(3)</sup> .....	(5,031)	(3,225)	(2,829)	(3,175)	(3,192)	(2,821)
Capital stock .....	320	205	205	204	204	203
Number of equity shares outstanding (millions of ordinary shares) .....	820	820	819	817	816	813

Notes:

(1) Basic earnings per equity share is based on profit for the financial period and the weighted average number of ordinary shares in issue during the period.

(2) Diluted earnings per equity share is based on diluted earnings for the financial period and the diluted weighted average number of ordinary shares in issue during the period. Diluted earnings comprise earnings adjusted for the tax benefit on the conversion of share options by employees and the weighted average number of ordinary shares adjusted for the dilutive effect of share options.

(3) Long-term obligations comprise any liabilities with a maturity of more than one year, including medium and long-term borrowings, derivative financial instruments, pension obligations and deferred income tax liabilities.

## Directors of the Guarantor

Pearson is managed by a board of directors and a chief executive who reports to the board and manages through an executive committee. Pearson refers to the board of directors, the chairman of the board of directors and the executive committee as its “senior management”.

The directors of Pearson are:

Name	Age	Position
Glen Moreno	71	Chairman
John Fallon	52	Chief Executive
Elizabeth Corley, CBE	58	Non-executive Director
Vivienne Cox	55	Senior Independent Director
Robin Freestone	56	Chief Financial Officer
Josh Lewis	52	Non-executive Director
Linda Lorimer	62	Non-executive Director
Harish Manwani	61	Non-executive Director
Tim Score	54	Non-executive Director

On 27 February 2015, Pearson announced the appointment of Coram Williams as its new Chief Financial Officer. Mr. Williams will join Pearson as Chief Financial Officer designate on 1 July 2015 and will succeed Robin Freestone as Chief Financial Officer on 1 August 2015, when he will also replace Mr. Freestone on the board of directors as an executive director.

On 24 April 2015, Pearson announced that Glen Moreno intends to step down from the board of directors in the next twelve months, after more than nine years as Chairman. A committee of the board of directors, headed by the Senior Independent Director, Vivienne Cox, will select his successor. On 24 April 2015, Pearson also announced that David Arculus and Ken Hydon, each of whom joined the board of directors in 2006, stepped down from the board of directors. Elizabeth Corley and Tim Score, each of whom was appointed to the board of directors in the past twelve months, have succeeded David Arculus and Ken Hydon as Chairs of the Remuneration and Audit committees respectively.

The business address for each director of the Guarantor is 80 Strand, London WC2R 0RL, United Kingdom.

There are no potential conflicts of interest between any duties owed to the Guarantor by its directors and their private interest and/or other duties.

Further details about the directors can be found under “Item 6. Directors, Senior Management and Employees—Directors and Senior Management” of Pearson’s Annual Report on Form 20-F, which is incorporated by reference into this prospectus.

## TAXATION

### United Kingdom Taxation

The following summary describes the material United Kingdom tax consequences of the ownership of the Notes but does not purport to be comprehensive. Except where expressly stated, the summary relates only to the position of those persons who are the absolute beneficial owners of the Notes, who hold the Notes as capital assets and/or as an investment who are resident in the United Kingdom for United Kingdom tax purposes. It may not apply to special situations, such as those of dealers in securities, shares or currencies, banks, other financial institutions, insurance companies, or collective investment schemes. Similarly it does not apply to any person who is connected with Pearson.

Furthermore, the discussion below is generally based upon the provisions of tax law in the United Kingdom and H.M. Revenue & Customs (“**HMRC**”) practice as of the date hereof, and such provisions may be repealed, revoked or modified (possibly with retrospective effect) so as to result in United Kingdom tax consequences different from those discussed below. Persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisers concerning United Kingdom tax consequences in the light of their particular situations as well as any consequences arising under the law of any other relevant jurisdiction. No representations with respect to the tax consequences to any particular holder of Notes are made hereby.

### *Payment of Interest on Notes*

The Notes will constitute “quoted Eurobonds” within the meaning of section 987 of the Income Tax Act 2007 (the “**Tax Act**”) provided they are and continue to be listed on a “recognised stock exchange” within the meaning of section 1005 of the Tax Act. In the case of Notes to be traded on the London Stock Exchange, which is a recognised stock exchange, the Notes will be treated as “listed” on a recognised stock exchange if the Notes are included in the Official List of the U.K. Listing Authority and admitted to trading on the London Stock Exchange. Accordingly, while the Notes are and continue to be quoted Eurobonds, payment of interest may be without withholding on account of United Kingdom income tax. However, there can be no assurances that such listing will be approved or maintained.

In all cases falling outside the exemption described above, an amount must be withheld from interest for or on account of United Kingdom income tax at the rate of (currently) 20%, subject to a direction to the contrary by HMRC in accordance with an applicable double taxation treaty, and subject to any other relief or exemption that may be available.

Regardless of the tax residence of the holder of the Notes and whether or not there is a withholding or deduction for or on account of United Kingdom income tax, interest on the Notes constitutes United Kingdom source income for United Kingdom tax purposes. As such, United Kingdom tax by direct assessment may apply to it even where paid without withholding or deduction. However, interest with a United Kingdom source received without withholding or deduction for or on account of United Kingdom income tax will not be chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom, unless the Noteholder (in the case of an individual) carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency or, for a Noteholder who is a company, carries on a trade in the United Kingdom through a United Kingdom permanent establishment and the interest is received or the Notes are attributable to that United Kingdom branch, agency or permanent establishment. In such a case, tax may be levied on the United Kingdom branch, agency or permanent establishment.

### *Treatment of Gains or Losses*

#### *United Kingdom Corporation Tax Payers*

In general, holders of Notes that are within the charge to United Kingdom corporation tax will normally recognise any interest, profits, gains or losses on the Notes (including on redemption) for United Kingdom corporation tax purposes under the “loan relationship” rules in Part 5 of the Corporation Tax Act 2009. Under these rules, all interest, profits, gains and losses (broadly, measured and recognised in accordance with generally accepted accounting practice) are taxed or relieved as income.

#### *Other United Kingdom Taxpayers*

**Capital Gains.** The Notes should not be treated as “qualifying corporate bonds” in the hands of non-corporate Noteholders. In this case, a partial or complete disposal of such Notes (which includes a redemption) by a non-corporate Noteholder who is resident in the United Kingdom may give rise to a chargeable gain (subject to the annual exemption and any reliefs that may then be available) or an allowable loss. In calculating any gain or loss on a disposal (including redemption of a Note) sterling values are compared at acquisition and disposal. Accordingly, a taxable profit can arise

even where the euro amount received on a disposal (including redemption) is the same as, or less than, the amount paid for the Note. In computing any chargeable gain or allowable loss on a disposal (including redemption) of the Notes, the consideration for the disposal of the Notes will be reduced by any amount by which the Noteholder may be chargeable to income tax under the rules relating to accrued income profits and losses described below.

**Accrued Income Profits and Losses.** Under the rules relating to “accrued income profits and losses” in Part 12 of the Tax Act (formerly known as the “accrued income scheme”), a Noteholder who is within the charge to United Kingdom income tax (as described above) may, on a transfer of Notes, be deemed to receive an amount of income equal to any interest which has accrued since the last interest payment date (or, where no interest has been paid, since the issue of the Notes).

#### ***Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)***

No United Kingdom stamp duty or SDRT is payable on the issue or transfer of the Notes.

#### ***Provision of Information***

Holders of Notes should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a “**paying agent**”), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than where collection is purely passive, for example, solely by clearing or arranging the clearing of a cheque) (a “**collecting agent**”), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Noteholder (including the Noteholder’s name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to HMRC may, in certain cases, be passed by HMRC to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

For the above purposes, “interest” should be taken, for practical purposes, as including payments made by a guarantor in respect of interest on the Notes. The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

#### ***EU Savings Directive***

Under the Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income made by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria is instead required (unless during that period it elects otherwise) to apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

On 24 March 2014, the Council of the European Union adopted a directive amending the Savings Directive to extend its scope to cover additional types of savings income and products that generate interest or equivalent income (including certain types of life insurance contracts) as well as a broader range of investment funds. In addition, a “look through” procedure will be established, which may result in the Savings Directive applying in some cases to payment to a person, entity or arrangement established or effectively managed outside of the European Union. Member States have until 1 January 2016 to adopt domestic legislation to give effect to these changes, which must be applied from 1 January 2017.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

## **OECD Common Reporting Standard**

On 29 October 2014, 51 jurisdictions (including the United Kingdom) signed a multilateral agreement to participate in the automatic exchange of information under the Common Reporting Standard (“**CRS**”), and a number of other countries have indicated their intention to sign up to the CRS. Under the CRS, a wide range of financial information will be automatically exchanged between the participating countries, in a manner similar to the Model Intergovernmental Agreement to Improve International Tax Compliance and to Implement FATCA developed between these countries and the United States. Under the CRS, it is expected that financial institutions with operations in participating countries will be required to report and apply the relevant identification procedures to exchange information on residents of several countries. It is expected that the scope of the CRS will be wider than the scope of the Savings Directive. The CRS is expected to be adopted with effect from 2017 or 2018 and its impact on the Issuer, custodians and intermediaries within the payment chain leading to the ultimate investor will need to be assessed. Noteholders are advised to consult their advisers as to the potential impact of the CRS with respect to their individual circumstances.

## SUBSCRIPTION AND SALE

BNP Paribas, Citigroup Global Markets Limited and HSBC Bank plc (the “**Managers**”) have, pursuant to a Subscription Agreement (the “**Subscription Agreement**”) dated 1 May 2015, jointly and severally agreed to subscribe for or procure subscribers for the Notes at the issue price of 99.926 per cent. of the principal amount of Notes, less a combined management and underwriting commission of 0.365 per cent. of the principal amount of the Notes. The Issuer will reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### General

No action has been taken by the Issuer, the Guarantor or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

The Managers and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Managers and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for Pearson and its affiliates, for which they received or may in the future receive customary fees and reimbursements of their out-of-pocket expenses.

In the ordinary course of their various business activities, the Managers and certain of their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of Pearson or its affiliates. Certain of the Managers or

their affiliates that are lenders under certain of Pearson's credit facilities routinely hedge, and certain other of those Managers may hedge, their credit exposure to Pearson consistent with their customary risk management policies. The Managers and their affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in Pearson's securities or the securities of Pearson's affiliates, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Managers and certain of their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## GENERAL INFORMATION

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 27 April 2015 and the giving of the Guarantee was duly authorised by a resolution of the Board of Directors of the Guarantor dated 5 December 2014 and by a resolution of a Standing Committee of the Board of Directors of the Guarantor dated 27 April 2015.
2. It is expected that official listing will be granted on or about 6 May 2015 subject only to the issue of the Temporary Global Note. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The expenses in relation to admission to trading are expected to be £7,175.
3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS1228153661 and the Common Code is 122815366.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

4. There has been no significant change in the financial or trading position of the Group since 31 December 2014, and there has been no material adverse change in the prospects of the Group since 31 December 2014. There has been no significant change in the financial or trading position of the Issuer since 31 December 2013, the end of the last financial period for which financial information on the Issuer has been published. There has been no material adverse change in the prospects of the Issuer since 31 December 2013, the date of the Issuer's last published audited financial statements.
5. Neither the Issuer nor the Guarantor nor any other member of Pearson is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or the Guarantor are aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer, Pearson or the Group.
6. The auditors of the Issuer are PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH, who have audited the Issuer's accounts, without qualification, in accordance with United Kingdom Generally Accepted Accounting Principles for the 10 months ended 31 December 2013. The auditors of the Issuer have no material interest in the Guarantor.

The auditors of the Guarantor are PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH, who have audited the Guarantor's accounts, without qualification, in accordance with IFRS for the years ended 31 December 2014, 2013 and 2012 and as of 31 December 2014 and 2013. The auditors of the Guarantor have no material interest in the Guarantor.

7. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."
8. For as long as the Notes remain outstanding, copies of the following documents will be available for inspection by Noteholders at the offices of the Principal Paying Agent and the registered office of the Issuer during usual business hours on any weekday (public holidays excepted):
  - (a) this prospectus;
  - (b) the Articles of Association of the Issuer and the Guarantor;
  - (c) the audited consolidated accounts of the Group for the years ended 31 December 2014, 2013 and 2012, respectively;
  - (d) the audited financial statements (on an entity basis and including the auditor's report thereon and notes thereto) of the Issuer in respect of the 10 months ended 31 December 2013;
  - (e) Pearson's Annual Report on Form 20-F for the year ended 31 December 2014 (except for the documents incorporated by reference therein as detailed on page 84 thereof); and
  - (f) the Trust Deed and the Agency Agreement.



9. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Guarantor and their affiliates in the ordinary course of business.

**THE ISSUER**  
**Pearson Funding Five plc**  
80 Strand  
London WC2R 0RL  
United Kingdom

**THE GUARANTOR**  
**Pearson plc**  
80 Strand  
London WC2R 0RL  
United Kingdom

<b>BNP Paribas</b> 10 Harewood Avenue London NW1 6AA United Kingdom	<b>JOINT BOOK-RUNNING MANAGERS</b> <b>Citigroup Global Markets Limited</b> Citigroup Centre Canada Square Canary Wharf London E14 5LB United Kingdom	<b>HSBC Bank plc</b> 8 Canada Square London E14 5HQ United Kingdom
--	--	---

**TRUSTEE**  
**The Law Debenture Trust Corporation p.l.c.**  
100 Wood Street  
London EC2V 7EX  
United Kingdom

**PRINCIPAL PAYING AGENT**  
**The Bank of New York Mellon**  
One Canada Square  
London E14 5AL  
United Kingdom

<b>LEGAL ADVISERS</b> <i>To the Issuer and the Guarantor</i> <b>Morgan, Lewis &amp; Bockius UK LLP</b> Condor House 5-10 St. Paul's Churchyard London EC4M 8AL United Kingdom	<i>To the Managers and the Trustee</i> <b>Sidley Austin LLP</b> Woolgate Exchange 25 Basinghall Street London EC2V 5HA United Kingdom
---	--

**AUDITORS**  
*To the Issuer and the Guarantor*  
**PricewaterhouseCoopers LLP**  
1 Embankment Place  
London WC2N 6RH  
United Kingdom