

Pearson Management Services Limited

Registered Number

096263

Annual Report and Financial Statements

For the Year Ended

31 December 2014

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COMPANIES HOUSE

Pearson Management Services Limited

STRATEGIC REPORT

For the year ended

31 December 2014

The directors present their strategic report for Pearson Management Services Limited (the "company") for the year ended 31 December 2014

Review of the Business

The results for the company show a loss for the year after taxation of £1, 673,000 (2013 £2,874,000 loss) despite an increase in turnover from £75,243,000 in 2013 to £77,586,000 in 2014

The company provides management and advisory services to companies within the Pearson Group. The directors are of the opinion that the current level of activity and the year end financial position are satisfactory and remain so in the foreseeable future

Future developments

The external commercial environment is expected to remain competitive in 2015 as in 2014. However, it is expected that the company will maintain the current level of performance in the future, in line with the Pearson Group results and expectations

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the consolidated financial statements of Pearson plc ('the group') and are not managed separately. Accordingly, the principal risks and uncertainties of Pearson plc, which include those of the company, are discussed in the group's annual report, which does not form part of this report

Approved by the board of directors and signed on behalf of the board



N J Dale

Joint secretary

29 September 2015

Pearson Management Services Limited

DIRECTORS' REPORT

For the year ended

31 December 2014

The directors present their report and the financial statements of Pearson Management Services Limited (the "company") for the year ended 31 December 2014

Dividends

No dividend was paid in 2014 (2013 £Nil)

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

R A D Freestone (resigned 31 July 2015)

S K M Johnson (resigned 10 January 2014)

P Hoffman

J R Ashworth (appointed 10 January 2014)

C Williams (appointed 1 August 2015)

During the year to 31 December 2014, the company maintained insurance covering directors of the company against liabilities arising in relation to the company in accordance with Section 233 of the Companies Act 2006

Qualifying third party indemnity provisions

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The group also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors and officers.

Financial risk management

From the perspective of the company, financial risk management is integrated with the financial risk management of the consolidated financial statements of Pearson plc (the "group") and is not managed separately. Accordingly, the financial risk management of Pearson plc, which includes that of the company, is discussed in the group's annual report, which does not form part of this report.

Employees

The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Employee Involvement

The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in maintaining its success. The company encourages the involvement of employees specifically through the provision to every employee of annual information on the progress and objectives of the company.

Pearson Management Services Limited

DIRECTORS' REPORT

For the year ended

31 December 2014

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the board of directors and signed on behalf of the board



N J Dale

Joint secretary

29 September 2015

Company registered number

096263

Pearson Management Services Limited

PROFIT AND LOSS ACCOUNT

For the year ended :

31 December 2014

		2014	2013
		£'000	£'000
Continuing operations			
Turnover	3	77,586	75,243
Gross profit		77,586	75,243
Administrative expenses		(100,161)	(87,360)
Other operating income		21,347	9,154
Loss on ordinary activities before interest and taxation	4	(1,228)	(2,963)
Interest receivable and similar income	7	201	1,039
Interest payable and similar charges	7	(1)	(291)
Loss on ordinary activities before taxation		(1,028)	(2,215)
Tax on loss on ordinary activities	8	(645)	(659)
Loss for the financial year		(1,673)	(2,874)

There are no material differences between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents

The company has no recognised gains and losses other than those included in the loss above and, therefore, no statement of total recognised gains or losses has been presented

Pearson Management Services Limited

BALANCE SHEET

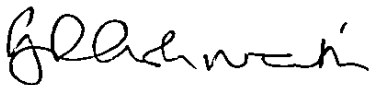
As at
31 December 2014

		2014	2013
		£'000	£'000
Fixed assets			
Tangible assets	9	20,694	21,530
Investments	10	82	82
		20,776	21,612
Current assets			
Debtors	11	130,006	41,965
Cash at bank and in hand		21,214	2,075
		151,220	44,040
Creditors - amounts falling due within one year	12	(148,360)	(45,680)
Net current assets/(liabilities)		2,860	(1,640)
Total assets less current liabilities		23,636	19,972
Provisions for liabilities	13	(4,344)	(4,247)
Net assets		19,292	15,725
Capital and reserves			
Called up share capital	15	4,000	4,000
Other reserves	16	6,065	6,848
Profit and loss account	16	9,227	4,877
Total shareholders' funds		19,292	15,725

For the year ended 31 December 2014

- The Directors confirm that the Company is entitled to take exemption from the requirement to obtain an audit under section 479A of the Companies Act 2006,
- The members have not required the Company to obtain an audit of its accounts in accordance with section 476 of the Companies Act 2006 and,
- The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts

The financial statements on pages 5 to 31 were approved by the board of directors on 29 September 2015 and were signed on its behalf by



J R Ashworth
Director

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended :

31 December 2014

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Accounting policies

Basis of accounting

The financial statements have been prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below.

Turnover

Turnover represents the invoiced value of services net of value added tax and trade discounts. Turnover is recognised on an accruals basis.

Foreign currencies

Transactions in foreign currency are converted to sterling at the rate ruling at the date of the transaction. Monetary assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the date of the balance sheet. Any exchange gains or losses arising are recognised in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated to write off the cost of tangible fixed assets, less their residual values, over their expected useful lives using the straight line basis.

Buildings and improvements 5% straight line

Plant and machinery 14% to 33% straight line

Fixtures and fittings 10% to 14% straight line

Motor Vehicles 25% straight line

Leasehold buildings are depreciated over the period of the lease.

Fixed asset investments

Fixed asset investments are stated at cost less any provision for permanent diminution in value.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2014

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Accounting policies continued

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis

Pensions

The company participates in the Pearson Group Pension Scheme, which is a hybrid with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities. The company is unable to identify its share of the underlying assets and liabilities of the Pearson Group Pension Scheme owing to information regarding non-active members and changes to the group structure including acquisitions and disposals

Accordingly, the company accounts for its participation in the scheme as defined contribution under the multi-employer rules of FRS 17. The sponsoring entity to this scheme is Pearson Services Limited, a fellow subsidiary entity

Share-based payments

Options and shares are awarded to the company's employees under Pearson share and option plans. The fair value of the options granted is recognised as an employee expense after taking account of the company's best estimate of the number of awards expected to vest. Fair value is measured at the date of grant and is spread over the vesting period of the option or share. The fair value of the options granted is measured using an option model that is most appropriate to the award. The fair value of the shares awarded is measured using the share price at the date of grant unless another method is more appropriate

Leases

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

Corporation Tax

Corporation tax payable is provided on taxable profits at the current rate

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2014

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Cash flow statement and related party disclosure

The company is a wholly-owned subsidiary of Pearson plc and is included in the consolidated financial statements of Pearson plc, which are publicly available. Consequently, the company has taken exemption from preparing a cash flow statement under the terms of FRS 1 "Cash flow statements (Revised 1996)". The company is also exempt under the terms of FRS 8 "Related Party Disclosures" from disclosing related party transactions with Pearson plc and its wholly owned subsidiaries.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2014

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Turnover

	2014	2013
	£'000	£'000
Segment Reporting - geographical markets supplied by destination		
United Kingdom	43,757	62,900
North America	31,880	12,343
Rest of world	1,949	0
	77,586	75,243

The company's activities consist of one class of business, namely management and advisory services

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Loss on ordinary activities before interest and taxation			
	2014	2013	
	£'000	£'000	
Profit / (loss) is stated after charging / (crediting)			
Staff costs	44,393	37,338	
Depreciation of tangible fixed assets			
- Owned assets	2,453	2,188	
Operating lease charges			
- Plant and machinery	395	395	
- Other	60	70	
Foreign exchange (gain) / loss	(330)	(101)	
Other operating income	(21,347)	(9,154)	
Charitable donations	1,945	1,693	

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Directors' emoluments

The directors' services to this company and to a number of fellow subsidiaries are chiefly of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Employee information

	2014	2013
	£'000	£'000
Staff costs		
Wages and salaries	24,183	19,643
Social security costs	2,316	2,950
Other pension costs	11,813	8,652
Share-based payment costs	5,240	5,745
Medical Insurance	841	348
	44,393	37,338

	2014	2013
	Number	Number
Average monthly number of persons (including directors) employed by the company during the year		
Administration	184	174

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Net interest

	2014	2013
	£'000	£'000
Interest payable on taxation	(1)	(162)
Interest payable and similar charges	(1)	(291)
Bank interest receivable	46	1,039
Interest receivable from parent company	155	0
Interest receivable and similar income	201	1,039
Net interest receivable / (payable)	200	748

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Tax on profit / (loss) on ordinary activities

	2014	2013
	£'000	£'000
Current tax		
UK corporation tax on profits / (losses) for the year	947	(1,106)
Adjustments in respect of prior years	(61)	368
Total current tax	886	(738)
Deferred tax		
Origination and reversal of timing differences	121	702
Deferred tax on share-based payments	(76)	680
Adjustments in respect of prior years	(286)	15
Total deferred tax	(241)	1,397
Tax charge / (credit) on profit / (loss) on ordinary activities	645	659
UK standard effective rate of corporation tax (%)	21.5	23.25

The tax assessed for the period differs from the standard effective rate of corporation tax in the UK as explained below

	2014	2013
	£'000	£'000
Profit / (loss) on ordinary activities before taxation	(1,028)	(2,215)
Profit / (loss) on ordinary activities before taxation multiplied by UK standard effective rate	(221)	(515)
Effects of		
Accelerated capital allowances	(107)	262
Other expenses not deductible for tax purposes	723	1,562
Other timing differences	21	(1,511)
Adjustments in respect of prior years	(61)	368
Share-based payments	531	(904)
Current tax charge / (credit) for the year	886	(738)

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the company's losses for this accounting period are taxed at an effective rate of 21.5%.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2014

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Tangible assets

	WIP	Land and buildings	Plant and machinery	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation :					
At 1 January 2014	2,235	42,428	8,476	3,137	56,276
Additions	135	1,022	266	194	1,617
Disposals	0	(197)	0	0	(197)
Transfers	(707)	707	0	0	0
At 31 December 2014	1,663	43,960	8,742	3,331	57,696
Accumulated depreciation					
At 1 January 2014	0	24,981	7,293	2,472	34,746
Charge for the year	0	2,191	205	57	2,453
Disposals	0	(197)	0	0	(197)
At 31 December 2014	0	26,975	7,498	2,529	37,002
Net book value .					
At 31 December 2013	2,235	17,447	1,183	665	21,530
At 31 December 2014	1,663	16,985	1,244	802	20,694
				2014	2013
				£'000	£'000
Analysis of land and buildings :					
At cost				45,623	44,663
				45,623	44,663
Net book value of land and buildings comprises					
Long leaseholds				18,648	19,682
				18,648	19,682

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2014

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Investments

	2014	2013
	£'000	£'000
Other	82	82
	82	82

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2014

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Fixed asset investments - other

	Total £'000
Cost	
At 1 January 2014	82
At 31 December 2014	82
Net book value	
At 31 December 2013	82
At 31 December 2014	82

Details of other investments

	% owned
Peter Rabbit Picture Letter written in 1893	100%

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Debtors

	2014	2013
	£'000	£'000
Amounts falling due within one year		
Trade debtors	2,139	1,872
Amounts owed by group undertakings	114,832	23,693
Deferred taxation	3,398	3,157
Corporation tax	-	1,162
Other taxation	5,574	5,601
Other debtors	-	665
Prepayments and accrued income	4,063	5,815
Total debtors	130,006	41,965

Amounts due from fellow subsidiary undertakings are normal trading debts and as such are unsecured and interest free and are payable on demand

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended '

31 December 2014

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Creditors

	2014	2013
	£'000	£'000
Amounts falling due within one year '		
Trade creditors	(2,567)	(2,019)
Amounts owed to group undertakings	(130,153)	(27,520)
Corporation tax	(947)	0
Other creditors	(1,676)	(2,677)
Accruals and deferred income	(13,017)	(13,464)
Total Creditors	(148,360)	(45,680)

Amounts due to ultimate parent undertaking are unsecured. During the period interest was charged at Bank of England base rate with margins ranging from 98 basis points to 106 basis points and is payable on demand.

Amounts due to fellow subsidiary undertakings are normal trading debts and as such are unsecured and interest free.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Provisions for liabilities

	Post- Retirement Medical Benefit	Other Provisions	Total
		£'000	£'000
At 1 January 2014	(2,475)	(1,772)	(4,247)
Utilised in the year	250	492	742
Amounts charged to the profit and loss	(586)	(253)	(839)
At 31 December 2014	(2,811)	(1,533)	(4,344)

The Post-Retirement Medical Benefit Scheme covers 43 individuals including 7 current employees. The scheme provides medical health care to retired employees. Other provisions relate to a maintenance provision for external work to be carried out on the company's assets and an onerous lease commitment and covers rent and other property related costs for the period the company believes a sublet or assignment of lease is not possible.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended .

31 December 2014

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Deferred taxation

	Share schemes	Capital Allowances	Other timing differences	Total
Asset	£'000	£'000	£'000	£'000
At 1 January 2014	1,836	767	554	3,157
Amounts released to the profit and loss	76	(194)	359	241
At 31 December 2014	1,912	573	913	3,398
			2014	2013
			£'000	£'000
Total deferred taxation			3,398	3,157

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2014

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Called up share capital

	2014	2013
	£'000	£'000
Total share capital	4,000	4,000

	2014	2013	2014	2013
	No '000s	No '000s	£'000	£'000
Ordinary share £10 each				
Allotted and fully paid	400	400	4,000	4,000

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Reserves

	Profit and loss	Other reserves	Total
	£'000	£'000	£'000
At 1 January 2014	4,877	6,848	11,725
Profit / (loss) for the financial year	(1,673)	0	(1,673)
Share-based payments charge	0	5,240	5,240
Shares exercised / lapsed during year	6,023	(6,023)	0
At 31 December 2014	9,227	6,065	15,292

Other reserves comprise the accumulated charge for the parent company's share-based payment plans

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended
31 December 2014

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Reconciliation of movements in shareholders' funds

	2014	2013
	£'000	£'000
Profit / (loss) for the financial year	(1,673)	(2,874)
Share-based payments charge	5,240	5,745
	3,567	2,871
Opening shareholders' funds	15,725	12,854
Closing shareholders' funds	19,292	15,725

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Share-based payments

The company's employees are entitled to shares and options under the following equity-settled employee option and share plans

Save-for-Shares Plans

Since 1994, the group has operated a Save-As-You-Earn plan for UK employees. In 1998, the group introduced a Worldwide Save for Shares Plan. Under these plans, employees can save a portion of their monthly salary over periods of three, five or seven years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equivalent to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan. Options that are not exercised within six months of the third, fifth or seventh anniversary after grant lapse unconditionally.

Long-Term Incentive Plan

This plan was introduced in 2001, renewed in 2006 and again in 2011. The plan consists of restricted shares. The vesting of restricted shares is normally dependent on continuing service over a three to five-year period, and in the case of senior management upon the satisfaction of corporate performance targets over a three-year period. These targets may be based on market and/or non-market performance criteria. Restricted shares awarded to senior management in May 2014 and May 2013, vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Restricted shares awarded to senior management in November 2014 vest dependent on earnings per share growth. Other restricted shares awarded in 2014 and 2013 vest depending on continuing service over a three-year period.

Annual bonus share matching

This plan permits executive directors and senior executives around the group to invest up to 50% of any after tax annual bonus in Pearson shares. If these shares are held and the group meets an earnings per share growth target, the company will match them on a gross basis of up to one matching share for every invested share, i.e. the maximum number of matching shares is equal to the number of shares that could have been acquired with the amount of the pre-tax annual bonus taken in invested shares. Awards under this plan ceased in 2013.

The number and weighted average exercise prices of share options granted under the group's schemes are as follows

	2014	2014	2013	2013
	Number of	Weighted		
	share	average	Number of	Weighted
	options	exercise	share options	average
	000s	price	000s	exercise price
		£		£
Outstanding at beginning of year	86	8.87	94	8.04
Granted during the year	90	8.11	29	9.14
Exercised during the year	(19)	8.30	(26)	6.58
Forfeited during the year	(14)	8.89	(7)	8.38
Expired during the year	0	0.00	(1)	5.47
Transferred in during the year	0	0.00	0	0.00
Transferred out during the year	0	0.00	(3)	6.82
Outstanding at end of year	143		86	
Options exercisable at the end of the year	2	8.93	2	8.06
Weighted average share price during the year of options exercised		11.41		12.42

Options were exercised regularly during the year. Early exercises arising from redundancy, retirement or death are treated as an acceleration of vesting and the group therefore recognises in the income statement the amount that otherwise would have been recognised for services received over the remainder of the original vesting period.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

The options outstanding at the end of the year have weighted average remaining contractual lives and exercise prices as follows

	2014	2014	2013	2013
Range of exercise prices £	Number of share options 000s	Weighted average contract life Years	Number of share options 000s	Weighted average contract life Years
5-10	143	2.92	86	2.51

In 2014 and 2013 options were granted under the Worldwide Save for Shares Plan. The weighted average estimated fair value for the options granted was calculated using a Black-Scholes option pricing model.

The weighted average estimated fair values and the inputs to the Black-Scholes model are as follows

	2014 Weighted average	2013 Weighted average
Fair value	2.41	2.28
Weighted average share price	11.09	11.71
Weighted average exercise price	8.11	9.14
Expected volatility	21.3%	22.14%
Expected life	4.1	3.9
Risk-free rate	1.4%	0.55%
Forfeiture rate	3.6%	3.4%
Expected dividend yield	4.3%	3.84%

The expected volatility is based on the historic volatility of the company's share price over the previous 3 to 7 years depending on the vesting term of the options.

During the year, the following shares were granted under restricted share arrangements

	2014	2014	2013	2013
	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £
Annual Bonus Share Matching Plan	0	0.00	10	12.06
Long-term Incentive Plan	1,128	10.71	843	10.36

The fair value of shares granted under the Long-Term Incentive Plan that vest unconditionally is determined using the share price at the date of grant. The number of shares expected to vest is adjusted, based on historical experience, to account for potential forfeitures. Restricted shares granted under the Annual Bonus Share Matching Plan are valued using the share price at the date of grant. Participants under both plans are entitled to dividends during the vesting period and therefore the share price is not discounted.

Restricted shares with a market performance condition were valued by an independent actuary using a Monte Carlo model. Restricted shares with a non-market performance condition were fair valued based on the share price at the date of grant. Non-market performance conditions are taken into consideration by adjusting the number of shares expected to vest based on the most likely outcome of the relevant performance criteria.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Operating lease commitments

	2014	2014	2013	2013
	Land and	Other	Land and	Other
	buildings		buildings	
			£'000	£'000
Expiring				
Within one year	0	87	0	8
Between two and five years	0	0	0	79
In over five years	314	0	314	0
	314	87	314	87

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended

31 December 2014

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Contingent liabilities

Bank guarantees

The Company participates in an arrangement with HSBC Bank plc whereby the financial statements of Pearson plc and 34 of its subsidiaries, 'the guarantors', are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. Under this arrangement the net cash position as at 31 December 2014 was £4,242,473 (2013 £7,538,075). The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

	2014	2013
Potential liability arising from these guarantee arrangements	£'000	£'000
Parent undertaking and fellow subsidiary undertakings	50,000	50,000
Subsidiary undertakings of the company	0	0

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Pension commitments

	2014	2013
	£'000	£'000
Profit and loss charge for the company in respect of its participation in the scheme representing regular contributions paid	2,334	2,506

Pearson Group Pension Scheme

(determined by an actuarial valuation using the projected unit method)

Total market value of assets	2,714,000	2,353,000
Value of liabilities (calculated in accordance with FRS 17)	(2,512,300)	(2,254,200)
Total FRS 17 surplus	201,700	98,800

The company participates in the Pearson Group Pension Scheme

This is a hybrid with both defined benefit contribution sections but, predominantly, consisting of defined benefit liabilities

The company is unable to identify its share of the underlying assets and liabilities of the Pearson Group Pension Scheme owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. Accordingly, the company accounts for its participation in the scheme as defined contribution under the multi-employer rules of FRS 17. The sponsoring entity to this scheme is Pearson Services Limited.

The company will be required to make incremental contributions as part of the group's obligations to fund the scheme and any deficit arising and contributions are expected to remain at similar levels to the current year in 2015.

Pearson Management Services Limited

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Ultimate parent undertaking and Controlling party

The immediate parent undertaking is Pearson plc

The ultimate parent undertaking and controlling party is Pearson plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Pearson plc's consolidated financial statements can be obtained from the Company Secretary at Pearson plc, 80 Strand, London WC2R 0RL.