Pearson Education Limited

Registered Number: 00872828

Annual Report and Financial Statements

For the Year Ended: 31 December 2019

Registered address:

80 Strand, London WC2R 0RL

Pearson Education Limited

STRATEGIC REPORT

The directors present their strategic report of Pearson Education Limited (the 'company') for the year ended 31 December 2019.

Business review
The results for the company show a pre-tax proft of £6,588,000 (2018: pre-tax profit of £52,466,000) for the year.

Revenue has increased by 5.9% from the prior year, mainly in Assessments and Courseware across all geographical markets.

Key performance indicators
From the perspective of the company, the key performance indicators are integrated with the key performance indicators of the consolidated financial statements of Pearson plc ('the group') and are not managed separately. Accordingly, the key performance indicators 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.

Future developments
In December 2019, a novel strain of COVID-19 was reported in China. Since then, COVID-19 has spread globally, to include the United Kingdom. The spread of COVID-19 from China to other countries has resulted in the World Health Organization (WHO) declaring the outbreak of COVID-19 as a "pandemic," or a worldwide spread of a new disease, on March 11, 2020.

Many countries around the world imposed quarantines and restrictions on travel and large gatherings to slow the spread of the virus and closed non-essential businesses. The directors are closely monitoring developments on a day-by-day basis and have invoked our business resilience plans to maintain our business operations.

The global outbreak of COVID-19 continues to rapidly evolve. The extent to which COVID-19 may impact our business and operations will depend on future developments, including the duration of the outbreak, the effectiveness of actions taken by the government to contain and treat the disease. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence.

On the basis of the position of the overall Pearson plc group the company believes it will be able to continue for the forseeable future. The Pearson plc group has also reassessed its funding requirements considering the impact of the COVID-19 pandemic on the business. The impact has been modelled under several scenarios to ensure that the likelihood of a prolonged period of disruption has been appropriately considered in assessing the availability of funding to the group and the ability of the group to comply with its banking covenants. Based on this modelling and a review of historical trends in working capital requirements and forecast balance sheets for the next 12 months, the group believes that it will comply with its banking covenants and has sufficient funds available for the group's present requirements.

Principal risks and uncertainties
From the perspective of the company, the principal risks and uncertainties of the company 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.

This strategic report contains certain information on financial risk management which is required by legislation to be disclosed in the Directors' Report.

Pearson Education Limited

STRATEGIC REPORT (continued)

Section 172 (1) Statement
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

In discharging our section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of our stakeholders and the financial markets. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the company's purpose together with its strategic priorities and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and predictable. The Board also received reports throughout the year which, in addition to covering our business and financial performance, included papers relating to our regulatory obligations and how we comply with them, as well as highlighting any emerging themes.

While there are cases where the board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and the Pearson group means that generally our stakeholder engagement best takes place at an operational or group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on the some of the engagement that takes place with the group's stakeholders so as to encourage the directors to understand the issues to which they must have regard please see pages 14 and 15 of the Pearson plc 2019 Annual Report.

The Board conducts regular strategic deep-dives into key business areas which, in 2019, included presentations from the relevant senior executives, focusing on the current performance of each area, consideration of the marketplaces in which the Company operates, as well as any opportunities identified or areas for development that each business area may be facing.

In considering the strategic direction of the Company, the Board also considers feedback from engagement with key stakeholders, including our employees, learners, educational institutions, the UK Government and regulators. As a result of this ongoing feedback changes are introduced as and when appropriate which we believe will result in improvements for learners, as well as promoting the long-term success of the Company and enhancing its reputation.

The Board also considers how to embed principles that help deliver long-term success to the Company, including adapting to local market needs and cultures (specifically in relation to our international businesses and product lines). Reports on the skills gap, automation and future skills were considered by the board during 2019 to assist with the implementation of this strategy, acknowledging the changing landscape around education internationally.

On behalf of the board

K R Bristow
Director
15th October 2020

Pearson Education Limited

DIRECTORS' REPORT

The directors present their report and the financial statements of Pearson Education Limited ('the company') for the year ended 31 December 2019.

Going concern
COVID-19 will undoubtedly provide a degree of uncertainty within the Education Sector within the UK and add pressure to all companies' financial sustainability throughout this uncertain period. Despite what will be added financial pressure in the short to medium term, the company is well placed to mitigate those risks.

Several actions have been put in place to mitigate the financial risks as a result of Covid-19 which we expect to limit the impacts of a reduction in income:
- Headcount freeze has been put in place. It is unclear when this will be lifted.
- Events, Industry days etc. have been cancelled and replaced with online events.
- All non-essential travel has ceased

How long these actions will remain in place are to be determined. Any essential additional headcount that may be required will be approved on a case by case basis.

The company has considered the impact of the COVID-19 pandemic on its business and on trading in future periods. We recognize that there will be short term impacts on income recognized in 2020 to 2023, however the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate.

Directors
The directors who held office during the year and up to the date of signing the financial statements are given below:
K R Bristow
S E Hague
S M Brennan (resigned 7 July 2020)
A Hope (appointed 7 July 2020)
D J Richardson
C P Rampersaud
G A Gates (appointed 18 March 2019)
D Melville (Non executive)
R R Price (Non executive)
M M Wilson (Non executive) (resigned 30 September 2019)
V M M Todd (Non executive)
S A S Dicketts (Non executive)
J Laramy (Non executive)
B J Francis (Non executive) (appointed 1 September 2019)

Qualifying third party indemnity provisions and liability insurance
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. Pearson Management Services Limited, a related party, also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of the company 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.

Pearson Education Limited

DIRECTORS' REPORT (continued)

Post balance sheet events
Following the global outbreak of COVID-19 and actions taken by UK Government in March 2020 and subsequently to contain and treat the disease, the company has considered the impact of the COVID-19 pandemic on its businesses and on trading in 2020. We recognize that there will be short term impacts on income recognized in 2020 to 2023, however the company does not believe that any of the impacts constitute an adjusting post balance sheet event for the purposes of the 2019 financial statements.

The potential impacts of the COVID-19 pandemic on the company remains uncertain and cannot be predicted with a high degree of certainty. The directors have assessed the areas within the company that may be required to be reassessed in 2020. This included areas that require a higher degree of judgement or complexity or areas where assumptions and estimates could be significant to the financial statements. These areas include the valuation of pre-publication assets / tax balances / provisions for returns / accounts receivable / pension assets and liabilities. The assumptions and estimates relating to these areas could change as the impact of COVID-19 becomes clearer although currently they are not expected to have a material impact on the income statement.

Employee and other Stakeholder engagement
The Company's key stakeholders are its employees, learners, educational institutions, the Government and regulators, as well as its parent company and fellow subsidiaries within the Pearson Group. The views of, and the impact of the Company's activities on, those stakeholders are an important consideration for the board when making relevant decisions. While there are cases where the board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and the Pearson Group means that generally our stakeholder engagement best takes place at an operational or group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on the some of the engagement that takes place with the Company's employees, educational institutions and educators so as to encourage the directors to understand the issues to which they must have regard, please see pages 14-15 and 62-63 of the Pearson plc 2019 Annual Report.

During the period the board received information to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was provided in a range of different formats including in reports and presentations on non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement. As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our s.172 duty to promote success of the company. Learners and educational institutions help to shape our strategy and, as such, we take their opinions and views into account, for example in the development of our products and resources, pricing structure, and design and delivery of examinations and assessments. For additional information into how engagement has influenced our decisions please see p3 of our strategic report.

Education is evolving to meet the changing demands of today's learners. We have taken into account the emerging themes that have arisen as a result of research and frequent engagement with a variety of stakeholders. As a result, we strive to create long-term sustainable growth for our investors and all stakeholders of the company by being a driving force in an increasingly digital world.

Our employees are also integral to the sustainable success of Pearson. The Company is a strong advocate of driving employee engagement within the Group, with a well-established Employee Engagement Forum, championed by President of Pearson's UK and Global Online Learning business, Rod Bristow. Pearson offers a variety of thriving Employee Resource Groups which have active UK chapters, including, amongst others, Able, Spectrum and Women in Learning and Leadership, which serve to cultivate and celebrate diversity and inclusion in the employee population. As a Group, Pearson has also created an Employee Engagement Network, providing an insight into the various employee perspectives across the Group. Furthermore, each of the Executive Directors represent an integral part of the company's business and can ensure that employees' feedback can be heard at Board level.

Pearson Education Limited

DIRECTORS' REPORT (continued)

Corporate Governance Arrangements

The company follows a combination of formal corporate governance codes of practice and arrangements appropriate to its status as an Ofqual-recognised awarding body, as well as being influenced by the UK Corporate Governance Code (by virtue of its UK premium-listed parent company, Pearson plc). Areas that are predominantly governed at group-level in line with the UK Corporate Governance Code include purpose and values, financial controls, risk management and employee engagement. Additionally, the company has its own distinct governance arrangements, notably the Board of Directors which comprises a majority of independent non-executive directors and is responsible, directly or indirectly, for all corporate approvals and decisions by the entity and for overseeing the regulatory requirements of the company as an awarding body.

The pages that follow describe the company's robust hybrid governance arrangements which, for simplicity, we have aligned with the six core themes of the Wates Principles.

Purpose and Leadership

- The company has a clearly defined purpose, which is agreed on an annual basis and referenced in the schedule of matters reserved for the Board. At its heart, the Board of Pearson Education Limited is responsible for the governance of Pearson's UK education businesses, including the development and administration of qualifications for schools, colleges, higher education and work-based learning settings, plus educational publishing and technologies to support teaching and learning.

- To ensure engagement with a wide variety of stakeholders, the board consists of Executive Directors (to represent internal functions and business areas), and independent Non-Executive Directors. The independent Non-Executive Directors bring experience from a wide range of backgrounds, including educational institutions and employers, and provide scrutiny and challenge to the executive management.

- Representatives from Pearson's HR, Corporate Affairs and Legal functions are also regular attendees at board meetings, and bring a range of internal and external stakeholder perspectives to the board's discussions. There is also an open dialogue between the Board and regulators, typically overseen by the company's Responsible Officer, Derek Richardson (who is also an Executive Director) allowing decisions to be made proactively and in a timely manner when required.

- The company understands that a healthy culture is critical to the company's performance, and is vital to the creation and protection of long-term value. Culture can be defined as a combination of the values, attitudes and behaviours manifested by a company in its operations and relationships with its stakeholders and is a key point of discussion for Directors. Culture is monitored at Group level but is also discussed in detail at Board meetings, where it is also informed by updates from the HR function.

- Whilst the company's overall strategy is driven by the parent company, the details (i.e. the how, when and where) are developed and refined at board level. The board ensures that balance is struck between short-term targets or needs, and the longer-term aspirations which may form part of the Group strategy. As such, strategy is discussed frequently, and at least on an annual basis. The board is responsible for ensuring that its strategy is clearly articulated and implemented throughout the organisation, and that it, along with the company values, supports appropriate behaviours and practices.

Board Composition
- The chair, Sir David Melville, leads the board and is responsible for its overall effectiveness, promoting open debate and facilitating constructive discussion. Sir David, supported by the company secretary, ensures that all directors have appropriate information in a timely manner, and that sufficient time is made available for meaningful discussion. There is a separation between the role of the chair and the Executive Directors, ensuring a balance of power and enabling effective decision-making.

- The company is aware that a balanced board promotes effective decision-making and supports the delivery of a company's strategy. As such, the company ensures that the board is made up of directors with a balance of skills, background and experience. New appointments are always made in line with gaps in this matrix, and with regard to diversity and independence. The board comprises a majority of independent non-executive directors.

- Appointments of Non-Executive Directors are made following a rigorous selection process led by the Chair in conjunction with the President, UK and Global Online Learning and other members of the Board, supported by HR and the Company Secretary. Upon appointment, Non-Executive Directors participate in a detailed induction programme in which they meet with leaders from all main business areas, as well as the Company Secretary and corporate functions such as Finance.

Director Responsibilities
- As the company follows a combination of the UK Corporate Governance Code and the governance arrangements that relate to its status as an awarding body, the directors have a number of policies that work in tangent to promote effective stewardship, delivering long-term value. The key documents relevant to corporate governance and decision-making by the company include:
  - the Schedule of Matters Reserved to the Board, which sets out those matters that require board approval, and
  - the Standing Committee Terms of Reference, which authorises a sub-committee of Executive Directors and other approved senior managers to take certain decisions on behalf of the company, which are primarily routine in nature, for example operational matters or intra-group matters relevant to the company's status as a subsidiary of the Pearson Group.

- The chair and the company secretary periodically review the governance processes (often in line with the Group) to confirm that they remain fit for purpose and consider any initiatives which could strengthen the governance of the company.

- The board has established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable, enabling directors to monitor and challenge the performance of the company, thus allowing the directors to make informed decisions. To do this, the board receives presentations and reports from a broad range of individuals, both internal and, where appropriate, external to the company. These reports contain both qualitative and quantitative information, and the directors are able to request additional information to be provided in order to make an informed decision. Reports could contain information that includes, but is not limited to: financial information; KPIs; workforce data; environmental data: and stakeholder feedback.

- Furthermore, the chair and the company secretary ensure that board papers and supporting information are clear, comprehensive and relevant. Each board paper should have an introduction, to enable the directors to quickly determine the discussion point of each matter, and also to summarise what is expected of the directors on each issue. The board papers are collated and issued to the board in a timely manner, to provide efficient time for the papers to be read and matters to be digested.

Pearson Education Limited

DIRECTORS' REPORT (continued)

Opportunity and Risk
- The board considers and assesses how the company creates and preserves value over the long-term for all areas of the business. The board also considers, including through feedback from stakeholders, areas of innovation and future opportunities. Future opportunities and decisions of a certain size or risk profile are always considered and approved at board or executive level and in line with financial and legal protocols governed by the Group's schedule of authority.

- The board has a responsibility for effective risk management, although risk is predominantly monitored and reported through the risk management framework adopted at Group level. As such, Executive Directors of the company participate in an internal reporting process within the Group, which involves internal communication on the identification of risk factors, both internally and externally. Please refer to pages 40-50 in Pearson plc's 2019 Annual Report for further information on the Group's organisational risk management process.

Remuneration
- The Executive Directors are employees of entities within the Pearson Group and, as such, their remuneration is governed by a group-wide set of remuneration principles that govern how people are rewarded, which has been adopted at Group level. For further details as to the Group reward principles and remuneration framework, please see pages 21 and 86 of the Pearson plc 2019 Annual Report. The remuneration of the Non-Executive Directors and the Chair is reviewed on a periodic basis by the President, UK and Global Online Learning and the Chair (except in respect of his own remuneration) with benchmarking support as required from the HR function.

Stakeholder Relationships and Engagement
- Dialogue with stakeholders helps the board to understand the effects of company policies and practices, predict future developments and trends, and to refine strategy. As such, the board receives reports on each of the business areas (including Schools, Higher Education, BTEC & Apprenticeships), each focusing on different products and services with particular groups of stakeholders. Executive Directors and other members of senior management provide regular updates to the board on engagement with and feedback from these stakeholder groups. Engagement takes place through a wide variety of means such as school and college user groups, dialogue with governmental bodies and regulators, participation in trade associations, and through specially-commissioned research programmes. For additional details on engagement with stakeholders, please see the section on Stakeholder Engagement on page 62 of the Pearson plc 2019 Annual Report.

- Engagement with employees takes place at a Group level through a variety of methods, including but not limited to the Employee Engagement Network and various task forces. For further details, please see page 5 of this report and page 21 of the Pearson plc 2019 Annual Report.

Pearson Education Limited

DIRECTORS' REPORT (continued)

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 Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

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 United Kingdom Accounting Standards, including FRS 101, 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.

On behalf of the board

K R Bristow
Director
15th October 2020

Company registered number:
00872828

Pearson Education Limited

PROFIT AND LOSS ACCOUNT
For the year ended:
31 December 2019

Continuing operations	Note	**2019** £'000	2018 £'000
Turnover	3	**457,681**	432,214
Cost of sales		**(190,138)**	(183,485)
Gross profit		**267,543**	248,729
Administrative expenses		**(258,636)**	(195,313)
Other operating income		**99**	84
Operating profit	4	**9,006**	53,500
Income from shares in associated undertakings		**670**	52
Profit before interest and taxation		**9,676**	53,552
Interest receivable and similar income	7	**25**	159
Interest payable and similar expenses	7	**(3,113)**	(1,245)
Profit before taxation		**6,588**	52,466
Tax on profit	8	**(2,152)**	(7,353)
Profit for the financial year		**4,436**	45,113

Pearson Education Limited

STATEMENT OF COMPREHENSIVE INCOME
For the year ended:
31 December 2019

	2019	2018
	£'000	£'000
Profit for the financial year	**4,436**	45,113
Other comprehensive expense: items that will not be reclassified to profit or loss:		
Actuarial (loss)/gain on pension scheme	-	(1,168)
Deferred tax on pension scheme	-	692
Net decrease in pension scheme assets from disposals/acquistions	-	(2,901)
Other comprehensive expense for the year net of tax	-	(3,377)
Total comprehensive income for the year	**4,436**	41,736

Pearson Education Limited

BALANCE SHEET
For the year ended:
31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	9	**125,175**	126,238
Tangible assets	10	**27,020**	9,884
Investments	11	**2,361**	2,361
		154,556	138,483
Current assets			
Stocks	12	**132,755**	108,775
Debtors (including £7,963,000 (2018: £12,989,000) due after one year)	13	**378,592**	286,126
Cash at bank and in hand		**12,116**	8,832
		523,463	403,733
Creditors - amounts falling due within one year	14	**(396,675)**	(292,993)
Net current assets		**126,788**	110,740
Total assets less current liabilities		**281,344**	249,223
Creditors - amounts falling due after more than one year	14	**(31,937)**	(11,530)
Provisions for liabilities	15	**(7,226)**	(1,559)
Defined benefit pensions plan surplus	19	**-**	1,495
Net assets		**242,181**	237,629
Capital and reserves			
Called up share capital	17	**90,000**	90,000
Share premium account		**45,000**	45,000
Profit and loss account		**103,705**	97,670
Other reserves		**3,476**	4,959
Total shareholders' funds		**242,181**	237,629

For the year ended 31 December 2019:

- 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 the accounts.

The financial statements were approved by the board of directors and authorised for issue on 15 October 2020. They were signed on its behalf by:

K R Bristow
Director

Pearson Education Limited

STATEMENT OF CHANGES IN EQUITY
For the year ended:
31 December 2019

	Other reserves	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	4,380	90,000	45,000	56,435	**195,815**
Adjustment on initial application of IFRS 15 net of tax (see note 1)	-	-	-	(3,509)	**(3,509)**
At 31 December 2017 and 1 January 2018 (restate	4,380	90,000	45,000	52,926	**192,306**
Profit for the financial year	-	-	-	45,113	**45,113**
Other comprehensive expense	-	-	-	(3,377)	**(3,377)**
Total comprehensive income for the year	-	-	-	41,736	**41,736**
Share-based payment transactions	3,209	-	-	-	**3,209**
Deferred tax on share-based payment transactions	-	-	-	378	**378**
Transfers	(2,630)	-	-	2,630	**-**
At 31 December 2018	4,959	90,000	45,000	97,670	**237,629**
Adjustment on initial application of IFRS 16 (see note 24)	-	-	-	(1,896)	**(1,896)**
At 1 January 2019 (restated)	4,959	90,000	45,000	95,774	**235,733**
Profit for the financial year	-	-	-	4,436	**4,436**
Other comprehensive expense	-	-	-	-	**-**
Total comprehensive income for the year	-	-	-	4,436	**4,436**
Share-based payment transactions	2,426	-	-	-	**2,426**
Deferred tax on share-based payment transactions	-	-	-	(414)	**(414)**
Transfers	(3,909)	-	-	3,909	**-**
At 31 December 2019	**3,476**	**90,000**	**45,000**	**103,705**	**242,181**

Other reserves represents capital contributions from Pearson plc in relation to share-based payment charges.
Share capital represents nominal value of shares allotted and called up.
Share premium includes any premium received on the issue of share capital.
Profit and loss account reserve represents accumulated retained earnings less dividends paid.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended:
31 December 2019

1
Accounting policies

The principal accounting policies are set out below. These policies and measurement bases have been consistently applied to all the years presented.

Basis of preparation
Pearson Education Limited (the 'company'), is a private limited company, limited by shares, incorporated in the United Kingdom. The address of its registered office is 80 Strand, London WC2R 0RL. The nature of the company's principal activities are the supply of educational services and resources.

The financial statements of Pearson Education Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. For areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, see note 2.

Prior year comparatives have been reclassified, where appropriate, to ensure consistency.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. Where required, equivalent disclosures are given in the group accounts of Pearson plc.:
a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
b) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
   (iii) paragraph 118(e) of IAS 38 Intangible Assets;
c) the requirements of paragraphs 10(d), 16, 38(A) and 111 of IAS 1 Presentation of Financial Statements;
d) the requirements of IAS 7 Statement of Cash Flows;
e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
h) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
i) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and129 of IFRS 15 Revenue from Contracts with Customers; and
j) IFRS 7 Financial Instruments: Disclosures.
k) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16.

New accounting standards
IFRS 16 'Leases' is a new accounting standard that is effective for the year ended 31 December 2019. The impact of the adoption of this new standard is set out in note 24.

A number of other new pronouncements are also effective from 1 January 2019 but they do not have a material impact on the financial statements. Additional disclosure has been given where relevant.

Standards, interpretations and amendments to published standards that are not yet effective
A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the financial statements.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended:
31 December 2019

1
Accounting policies
Consolidation
The company is a wholly owned subsidiary of Pearson plc and is included in the consolidated financial statements of Pearson plc which are publically available. Consequently the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are separate financial statements.

Going concern
The directors have considered the impact of the COVID-19 pandemic on the business and on trading in future periods. We recognize that there will be short term impacts on income recognized in 2020 to 2023, however the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate.

On the basis of the position of the overall Pearson plc group the company believes it will be able to continue for the forseeable future. The Pearson plc group has also reassessed its funding requirements considering the impact of the COVID-19 pandemic on the business. The impact has been modelled under several scenarios to ensure that the liklihood of a prolonged period of disruption has been appropriately considered in assessing the availablity of funding to the group and the ability of the group to comply with its banking covenants. Based on this modelling and a review of historical trends in working capital requirements and forecast balance sheets for the next 12 months, the group believes that it will comply with its banking covenants and has sufficient funds available for the group's present requirements.

Foreign currency translation
The financial statements are presented in pounds sterling (£) which is also the company's functional currency.

Transactions in currencies other than the functional currency are recorded using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Revenue recognition
Turnover represents the invoiced value of services supplied, net of discounts, from the development and administration of qualifications in business as well as educational publishing technologies to support teaching and learning. Turnover is recognised on contracts with customers when or as performance obligations are satisfied which is the period or the point in time where control of goods or services transfers to the customer. Judgement is applied to determine first whether control passes over time and if not, then the point in time at which control passes. Where revenue is recognised over time (i.e. over the period the qualification is delivered) judgement is used to determine the method which best depicts the transfer of control. Turnover that is recognised ahead of billings is shown as accrued income in the balance sheet. Turnover that is recognised as relating to future accounting periods is shown as deferred Income in the balance sheet.

Current and deferred income tax
Current tax is recognised on the amounts expected to be paid or recovered under the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of tax assets and liabilities and their carrying amounts. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

1
Accounting policies
Intangible assets
Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the net assets acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis. However under IFRS goodwill is not amortised. Consequently the company does not amortise goodwill but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company has therefore invoked a 'true and fair' override in respect of goodwill.

Software - internally developed - internal and external costs incurred during the preliminary stage of developing computer software for internal use are expensed as incurred. Internal and external costs incurred to develop computer software for internal use during the application development stage are capitalised if the company expects economic benefits from the development. Capitalisation in the application development stage begins once the company can reliably measure the expenditure attributable to the software development and has demonstrated its intention to complete and use the software. Internally developed software is amortised on a straight-line basis over its estimated useful life of between 1 and 8 years.

Other intangibles - acquired - Acquired intangible assets include Intellectual property and trade names. These assets are capitalised on acquisition at cost and amortised over their estimated useful lives of between 5 and 20 years using an amortisation method that reflects the pattern of their consumption.

Tangible fixed assets
Tangible fixed assets are stated at historical cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:
Plant and machinery 3-20 years
Fixtures and fittings 3-20 years
Leasehold property - over the period of the lease

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying value of an asset is written down to its recoverable amount if the carrying value of the asset is greater than its estimated recoverable amount.

Investment in subsidiaries
Investments in subsidiaries are held at cost less accumulated impairment losses.

Stocks
Stocks are stated at the lower of cost and net realisable value. Cost is determined using the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made for slow moving and obsolete stock.

Work in progress includes pre-publication assets that represent direct costs incurred in the development of educational programmes and titles prior to their publication. These costs are recognised as work in progress where the title will generate probable future economic benefits and costs can be measured reliably. Pre-publication assets are amortised upon publication of the title over estimated economic lives of five years or less, being an estimate of the expected operating lifecycle of the title, with amortisation taken on a straight line basis.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provisions for bad and doubtful debts and anticipated future sales returns.

Trade receivables are stated at fair value after provision for bad and doubtful debts. Provisions for bad and doubtful debts are based on the expected credit loss model. The 'simplified approach' is used with the expected loss allowance measured at an amount equal to the lifetime expected credit losses.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended:
31 December 2019

1
Accounting policies
Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term investments with maturities of three months or less.

Creditors
Creditors are recognised initially at fair value and subsequently measured at amortised cost.

Provisions
Provisions are recognised if the company has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and that the amount can be reliably estimated.

Pensions
The company participates in The Pearson Pension Plan. This is a hybrid plan 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 Pension Plan owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 Employee Benefits (2011), the company recognises a cost equal to its contribution payable for the period. The sponsoring entity to this scheme is Pearson Services Limited.

The Business and Technology Education Council Pension and Life Assurance Scheme (BTEC PLAS) is a defined benefit scheme. The service cost, representing the benefits accruing over the year, is included in the profit and loss account as an operating cost. The retirement benefit asset and obligation recognised in the balance sheet represents the net present value of the defined benefit obligation and the fair value of the plan assets at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. During 2018 the Trustees undertook a temporary buy in of the Scheme's liabilities with Legal & General Assurance Limited, with a view to buy out before the next year-end. In October 2018, £21,577,000 of the Scheme's assets was transferred to Legal & General in respect of this transaction. On 2 October 2019, a further net amount of £571,782 was remitted to Legal and General Assurance Limited in order to secure an uplift to the pensions provided to the members. Concurrently, the insurance policy was bought out, and all liabilities for future pension payments were assumed by Legal and General Assurance Limited in return for the assets held.

The Superannuation Arrangements of the University of London (SAUL) Scheme is a centralised defined benefit scheme for all qualified employees with the assets held in separate trustee-administered funds. SAUL is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The company therefore accounts for its pension costs on a defined contribution basis.

Share-based payments
Options and shares are awarded to the company's employees under Pearson share and option plans. The fair value of options or shares granted is recognised as an employee expense after taking into account 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.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended:
31 December 2019

1
Accounting policies
Leases
Policy applicable from 1 January 2019:
As a lessee
The company assesses whether a contract is or contains a lease at the inception of the contract. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The company recognises a right-of-use asset and a lease liability at the lease commencement date with respect to all lease arrangements except for short-term leases (leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the lease payments are recognised as an operating expense on a straight-line basis over the term of the lease.

The right of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The company applies IAS 36 to determine whether a right-of-use asset is impaired. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the company's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset.

Policy applicable before 1 January 2019:
Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in financial liabilities – borrowings. The interest element of the finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases by the lessee. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Assets and liabilities held for sale
Assets and liabilities are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. No depreciation is charged in respect of non-current assets classified as held for sale.

Share capital
Ordinary shares are classified as equity.

2
Critical accounting judgements and key sources of estimation uncertainty
In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies
The critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies that have a significant effect on the amounts recognised in the financial statements are:

Incremental borrowing rate
The calculation of lease liabilities requires the company to determine an incremental borrowing rate (IBR) to discount future minimum lease payments. Judgment is applied in determining the components of the IBR used for each lease including risk free rates, the Pearson plc group's borrowing margin and any lease specific adjustments.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Intangible assets
The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives based on the future economic benefit of the asset. The useful economic lives are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and other sales factors. See accounting policies and intangible assets note for the carrying amount and for the useful economic lives for each class of assets. Management have also taken into consideration any impact of COVID-19.

Stock
The assessment of the recoverability of pre-publication assets within stock involves a significant degree of judgement based on historical trends and management estimation of future potential sales. Management have also taken into consideration any impact of COVID-19.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

3
Turnover

	2019	2018
	£'000	£'000
Courseware	**169,331**	162,319
Assessments	**278,050**	259,126
Services	**10,300**	10,769
Turnover	**457,681**	432,214

Turnover by class of business is as follows:	2019	2018
	£'000	£'000
Educational services	**457,681**	432,214

Turnover by geographical market is as follows:	2019	2018
	£'000	£'000
United Kingdom	**314,637**	307,521
Europe, Australia and North America	**60,348**	49,838
Africa, Asia and Rest of America	**82,696**	74,855
	457,681	432,214

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

4
Operating profit

Operating profit is stated after charging/(crediting):

	Note	2019 £'000	2018 £'000
Staff costs	5	**129,752**	132,391
Depreciation of tangible fixed assets included in administrative expenses:			
- owned		**1,629**	1,330
Depreciation of right of use assets		**3,402**	-
Amortisation of intangible assets included in administrative expenses:		**3,383**	4,494
Loss on disposal of tangible fixed assets included in other administrative expenses		**218**	10
Net foreign exchange gains		**(1,950)**	(1,240)

Fees paid to the company's auditor, PricewaterhouseCoopers LLP, and its associates for services other than the statutory audit of the company are not disclosed in the company's accounts since the consolidated accounts of the company's ultimate parent company, Pearson plc, are required to disclose non-audit fees on a consolidated basis.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

5
Staff costs

	2019	2018
Staff costs	**£'000**	£'000
Wages and salaries	**106,215**	107,399
Social security costs	**11,512**	11,139
Other pension costs	**9,599**	10,644
Share-based payment costs	**2,426**	3,209
	129,752	132,391

	2019	2018
Average number of persons employed by the company during the year	**Number**	Number
Sales and marketing	**1,005**	1,002
Administration	**336**	331
Operations	**1,118**	946
	2,459	2,279

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

6
Directors' remuneration

	2019	2018
	£'000	£'000
Aggregate emoluments	**2,519**	2,432
Company contributions to defined contribution pension schemes	**111**	113
	2,630	2,545

Additional share based remuneration to the directors in 2019 was £101,000 (2018: £142,000).

	2019	2018
	Number of directors	Number of directors
Directors accruing benefits under defined benefit scheme	**5**	5
Directors who exercised share options	**-**	-
Directors entitled to shares under long-term incentive schemes	**6**	5

	2019	2018
Highest paid director	**£'000**	£'000
Aggregate emoluments	**930**	967
Defined benefit pension scheme - accrued pension at end of year	**-**	-
Share options exercised under long-term incentive scheme (number)	**71,550**	-
Shares received under long-term incentive scheme (number)	**172,194**	266,352

Some of the company's directors are paid directly by other group companies, and the cost attributable to the company is recharged appropriately. The figures above represent the total emoluments received by the company's directors from the group.

7
Interest

	2019	2018
Interest receivable	**£'000**	£'000
Bank interest receivable	**25**	28
Net finance income in respect of pension benefits	**-**	131
Interest receivable and similar income	**25**	159

	2019	2018
Interest payable	**£'000**	£'000
Interest payable on overdrafts and bank loans	**(70)**	-
Interest payable to group companies	**(2,211)**	(1,245)
Interest on lease liabilities	**(832)**	-
Interest payable and similar expenses	**(3,113)**	(1,245)

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

8
Taxation

	2019	2018
	£'000	£'000
Current tax		
UK corporation tax on profits for the year	**(4,545)**	(1,001)
Adjustments in respect of prior years	**(18)**	(619)
	(4,563)	(1,620)
Foreign tax	**1,715**	106
Total current tax	**(2,848)**	(1,514)
Deferred tax		
Origination and reversal of timing differences	**4,863**	9,406
Deferred tax on share-based payments	**429**	(299)
Adjustments in respect of prior years	**(292)**	(240)
Total deferred tax	**5,000**	8,867
Total tax on profit	**2,152**	7,353
UK standard effective rate of corporation tax (%)	**19**	19

The tax charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2019	2018
	£'000	£'000
Profit before tax	**6,588**	52,466
Tax on profit at standard UK corporation tax rate of 19% (2018: 19%)	**1,252**	9,969
Effects of:		
Expenses not deductible for tax purposes	**124**	443
Rollover claim	**-**	(3,971)
Income not taxable	**(127)**	(10)
Adjustments in respect of prior years	**(310)**	(859)
Change in tax laws and rates	**(572)**	1,309
Foreign tax	**1,715**	106
Share-based payments	**158**	(10)
Tax on partnership profits	**(88)**	376
Total tax charge for the year	**2,152**	7,353

The current rate of corporation tax is 19%. It had been expected to reduce to 17% effective 1 April 2020, however, this was changed to 19% in the 2020 Budget. Although the 19% rate change has now been enacted, it had not been substantively enacted as at the balance sheet date and has therefore not been reflected in these financial statements.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

8
Taxation

In addition to the amount charged in the profit and loss account, the following amounts relating to tax have been recognised in other comprehensive income:

	2019	2018
	£'000	£'000
Deferred tax		
Deferred tax on pension scheme	-	692
Total tax recognised in other comprehensive income	-	692

In addition to the amount charged in the profit and loss account, the following amounts relating to tax have been recognised directly in equity:

	2019	2018
	£'000	£'000
Deferred tax		
Deferred tax on share-based payment transactions	**(414)**	378
Total tax recognised directly in equity	**(414)**	378

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

9
Intangible fixed assets

	Acquired trade names	Software	Goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	3,433	51,205	118,658	173,296
Additions	-	2,350	-	2,350
At 31 December 2019	**3,433**	**53,555**	**118,658**	**175,646**
Amortisation				
At 1 January 2019	3,433	43,625	-	47,058
Charge for the year	-	3,383	-	3,383
Impairment	-	30	-	30
At 31 December 2019	**3,433**	**47,038**	**-**	**50,471**
Net book value				
At 31 December 2018	-	7,580	118,658	126,238
At 31 December 2019	**-**	**6,517**	**118,658**	**125,175**

Software includes a customer support platform used within the qualifications business. Its carrying amount as at 31 December 2019 is £1,852,000 (2018: £4,052,000) and has a remaining useful life of less than 1 year.

Goodwill is tested annually for impairment. The recoverable amount is based on fair value less costs of disposal. There are no other intangible assets with indefinite lives.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

10
Tangible fixed assets

	Right-of-use assets		Owned assets			
	Land and buildings	**Motor vehicles**	**Land and buildings**	**Plant and machinery**	**Fixtures and fittings**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost or valuation						
At 1 January 2019	-	-	10,146	4,040	3,443	17,629
Adjustment on initial application of IFRS 16 (see note 24)	19,129	1,518	-	-	-	20,647
Additions	-	-	205	2,506	69	2,780
Disposals	(425)	(42)	-	(1,479)	(412)	(2,358)
Transfers	-	-	144	(144)	-	0
At 31 December 2019	**18,704**	**1,476**	**10,495**	**4,923**	**3,100**	**38,698**
Depreciation						
At 1 January 2019	-	-	5,004	1,153	1,588	7,745
Charge for the year	2,903	499	1,051	44	534	5,031
Disposals	(102)	(14)	-	(1,218)	(202)	(1,536)
Impairment	31	-	-	407	-	438
At 31 December 2019	**2,832**	**485**	**6,055**	**386**	**1,920**	**11,678**
Net book value						
At 31 December 2018			5,142	2,887	1,855	9,884
At 31 December 2019	**15,872**	**991**	**4,440**	**4,537**	**1,180**	**27,020**

11
Investments

	2019	2018
	£'000	£'000
Subsidiary undertakings	1,981	1,981
Associated undertakings and joint ventures	380	380
	2,361	2,361

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

11a
Investments - subsidiary undertakings

	2019
	£'000
Cost	
At 1 January 2019	7,473
Disposals	(497)
At 31 December 2019	**6,976**
Provision	
At 1 January 2019	5,492
Disposals	(497)
At 31 December 2019	**4,995**
Net book value	
At 31 December 2018	1,981
At 31 December 2019	**1,981**

Details of subsidiary undertakings:

Subsidiary	Principal activity	Class of shares held	Registered address	2019 % held	2018 % held
Education Resources (Cyprus) Limited	Services	Ordinary	1	**100%**	100%
Educational Publishers LLP	Services	Ordinary	2	**85%**	85%
Longman Romania S.R.L.	Dissolved**	Ordinary	3	**0%**	100%
Icodeon Limited	Dissolved*	Ordinary	2	**0%**	100%

* Icodeon Limited was dissolved in April 2019.
** Longman Romania S.R.L was dissolved in February 2019

Investments in subsidiaries are stated at cost less provision for impaiment.

Registered Address

1 - Arch. Makariou III, 199 Neocleous House, PC 3030, Limassol, Cyprus
2 - 80 Strand, London, WC2R 0RL
3 - Sector de Bucarest 2, calle C.A., Rosett1, n.17, oficina 009RESCO-WORK03, Romania

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

11b
Investments - associated undertakings and joint ventures

	2019
	£'000
Cost	
At 1 January 2019	380
At 31 December 2019	**380**
Net book value	
At 31 December 2018	380
At 31 December 2019	**380**

Details of associated undertakings and joint ventures:

			2019	2018
Associated undertaking	**Class of shares held**	**Place of incorp**	**% held**	% held
The Egyptian International Publishing Company - Longman	Ordinary	Egypt	**49%**	49%

Registered Address
10a Hussein Wassef St, Midan Missaha, Dokki Giza, 12311, Egypt

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

12
Stocks

	2019	2018
	£'000	£'000
Work in progress	**110,030**	88,320
Finished goods and goods for resale	**22,725**	20,455
	132,755	108,775

Included within the inventory balance is the estimation of the right to receive goods from contracts with customers via returns (see note 1).

The value of the returns asset is measured at the carrying amount of the assets at the time of sale aligned to the company's normal inventory valuation methodology less any expected costs to recover the asset and any expected reduction in value. Impairment charges against the inventory returns asset are £nil in 2019 (2018: £nil). The returns asset all relates to finished goods.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

13
Debtors

		2019	2018
		£'000	£'000
Amounts falling due within one year			
Trade debtors		**112,577**	90,502
Amounts owed by group undertakings		**236,136**	155,593
Corporation tax		**4,795**	2,690
Other debtors		**12,828**	7,581
Prepayments and accrued income		**4,293**	16,771
		370,629	273,137
Amounts falling due in more than one year			
Deferred taxation	16	**7,963**	12,989
		7,963	12,989
Total debtors		**378,592**	286,126

Prepayments and accrued income includes contract assets which are unbilled amounts where sales to be recognised over time has been recognised in excess of customer billings to date.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

14
Creditors

	2019	2018
	£'000	£'000
Amounts falling due within one year		
Lease liabilities	**(4,346)**	-
Trade creditors	**(26,237)**	(24,908)
Amounts owed to group undertakings	**(247,218)**	(136,233)
Other taxation and social security	**(223)**	(415)
Other creditors	**(6,496)**	(12,076)
Accruals and deferred income	**(112,155)**	(119,361)
	(396,675)	(292,993)
Amounts falling due after more than one year		
Lease liabilities	**(18,831)**	-
Accruals and deferred income	**(13,106)**	(11,530)
	(31,937)	(11,530)

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

15
Provisions

	Property	Reorganisation	Disposals	Other	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January 2019	(1,046)	(407)	(106)	-	(1,559)
Adjustment on initial application of IFRS 16 (see note 24)	946	-	-	-	946
Charged to profit and loss account	(1,396)	(6,444)	-	(1,347)	(9,187)
Unused amounts reversed to profit and loss account	-	384	51	-	435
Utilisation of provision	85	1,999	55	-	2,139
At 31 December 2019	**(1,411)**	**(4,468)**	**-**	**(1,347)**	**(7,226)**

	2019
Analysis of total provisions:	**£'000**
Non-current	**(1,411)**
Current	**(5,815)**
	(7,226)

The property provision relates to a) provisions for dilapidations and b) provisions for rentals on properties which are either vacant or let at less than the rentals paid by the company. Provisions are utilised over the length of the lease. On the initial application of IFRS 16 (see note 24) onerous lease provisions have been offset against the relevant right-of-use asset.

The reorganisation provision relates to costs in association with the planned restructuring of the UK business. Provided costs include staff costs in relation to redundancies due to be utilised within 12 months.

The disposals provision relates to costs in association with the planned exit of the company's warehouse. Provided costs include redundancy payments and property dilapidations due to be utilised within 12 months.

Other provisions relates to profit share and costs associated with cloud migration, and are due to be utilised within 12 months.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

16
Deferred taxation

	Pension	Total
Liability	**£'000**	**£'000**
At 1 January 2019	(254)	(254)
Credit to profit and loss	254	254
At 31 December 2019	**-**	**-**

	Pension	Other timing differences	Share-based payments plan	Total
Asset	***£'000***	***£'000***	***£'000***	***£'000***
At 1 January 2019	8,975	3,011	1,257	13,243
Adjustment on initial application of IFRS 16 (see note 24)	-	388	-	388
Charged to profit and loss	(4,494)	(331)	(429)	(5,254)
Charged to equity	-	-	(414)	(414)
At 31 December 2019	**4,481**	**3,068**	**414**	**7,963**

	2019	2018
	£'000	£'000
Total provision	**7,963**	12,989

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

17
Called up share capital

	2019	2018
	£'000	£'000
Total share capital	**90,000**	90,000

	2019	2018	**2019**	2018
Ordinary shares £1 each	**No '000s**	No '000s	**£'000**	£'000
Allotted, called up and fully paid	**90,000**	90,000	**90,000**	90,000

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

18
Share-based payments

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

Worldwide Save for Shares Plan
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 or five years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equal 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 end of the savings period lapse unconditionally.

Long-Term Incentive Plan
The plan was first introduced in 2001, renewed again 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 executive directors and 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 executive directors in May 2019 and May 2018 vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Other restricted shares awarded in 2019 and 2018 vest depending on continuing service over periods of up to three years.

Management Incentive Plan

The plan was introduced in 2017 combining the Group's Annual Incentive Plan and Long-Term Incentive Plan for senior management. The number of shares to be granted to participants is dependent on Group performance in the calendar year preceding the date of grant (on the same basis as the Annual Incentive Plan). Subsequently, the shares vest dependent on continuing service over a three year period, and additionally in the case of Pearson Executive Management upon satisfaction of non-market based performance criteria as determined by the Remuneration Committee. Restricted shares awarded as part of the 2018 Management Incentive Plan were granted in April 2019. Restricted shares awarded as part of the 2019 Management Incentive Plan will be granted in April 2020.

	2019 Number of share options 000s	**2019 Weighted average exercise price £**	2018 Number of share options 000s	2018 Weighted average exercise price £
Exercised during the year	**(167)**	**6.74**	(17)	6.78
Outstanding at end of year	**845**	**6.08**	968	6.29

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

Range of exercise prices £	**2019 Number of share options 000s**	**2019 Weighted average contract. life Years**	2018 Number of share options 000s	2018 Weighted average contract. life Years
5-10	**839**	**2.05**	909	2.37
10-15	**7**	**1.09**	59	0.34
	845		974	

19
Retirement benefit schemes

The company participates in The Pearson Pension Plan. This is a hybrid plan 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 Pension Plan owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2019 was £9,295,000 (2018: £10,278,000). The sponsoring entity to this scheme is Pearson Services Limited and further details are disclosed in the accounts of that company which are available from the Company Secretary, 80 Strand, London WC2R 0RL.

The Business and Technology Education Council Pension and Life Assurance Scheme (BTEC PLAS)

The BTEC PLAS is a defined benefit scheme which closed to new employees with effect from June 1995. The assets of the scheme are held separately from those of the company.

During 2018 the Trustees undertook a temporary buy in of the Scheme's liabilities with Legal & General Assurance Limited, with a view to buy out before the next year-end. In October 2018, £21,577,000 of the Scheme's assets was transferred to Legal & General in respect of this transaction.

On 2 October 2019, a further net amount of £571,782 was remitted to Legal and General Assurance Limited in order to secure an uplift to the pensions provided to the members. Concurrently, the insurance policy was bought out, and all liabilities for future pension payments were assumed by Legal and General Assurance Limited in return for the assets held.

The value of the liabilities transferred from the Scheme to Legal and General Assurance Limited at buy-out was independently valued as £23.4m, giving an effective change in market value of circa £1.1m.

Costs incurred during this process were met by the company, as principal employer, and recharged to the scheme during completion of the buy-out process.

Due to the scheme having undertaken a buy out there is no pension asset or liability as at 31 December 2019. The IAS19 values provided for the year ended 31 December 2018 have been based on a full actuarial valuation by a qualified independent actuary. The present value of the defined obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Principal assumptions are:	**2019**	2018
	%	%
Inflation	-	3.25
Rate used to discount plan liabilities	-	2.80
Expected rate of increase in salaries	-	2.25
Expected rate of increase of pensions in payment and deferred pensions	-	5.00

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

19
Retirement benefit schemes (continued)

Mortality assumptions are based on standard mortality tables which allow for expected future mortality improvements.

These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65 of:

	2019	2018
	years	years
Current member aged 60 will live on average:		
- Men	-	28.9
- Women	-	29.3
Member retiring in 2038 (2017: 2036) aged 60 will live on average:		
- Men	-	30.8
- Women	-	31.2

The table below provides information on the sensitivity of the defined benefit obligation to changes to the most significant actuarial assumptions. The table shows the impact of changes to each assumption in isolation although, in practice, changes to assumptions may occur at the same time and can either offset or compound the overall impact on the defined benefit obligation. These sensitivities have been calculated using the same methodology as used for the main calculations, and there has been no change since the previous period to the method and assumptions used in preparing the sensitivity analysis. The weighted average duration of the defined benefit obligation is 20 years.

Assumption	**Changes to assumption**	
	Increase by 0.25% pa	Decrease by 0.25% pa
Discount rate	-	-
Inflation	-	-

An increase of one year in the assumed life expectancy for both males and females would have no impact upon Defined Benefit Obligation.

Total cost recognised as an expense in the profit and loss account:	**2019**	2018
	£'000	£'000
Current service cost	-	-
Administration expenses	**1,495**	-
Operating expense	**1,495**	-
Interest on plan assets	-	(637)
Interest on plan liabilities	-	506
Net finance income	-	(131)
Net profit and loss account expense/(income)	**1,495**	(131)

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2019

19
Retirement benefit schemes (continued)

A loss of £nil (2018: loss of £1,168,000) has been recognised in other comprehensive income in respect of actuarial losses.

Changes in the values of plan assets and liabilities are as follows:	**2019**	2018
	£'000	£'000
Fair value of plan assets		
At 1 January 2019	**20,171**	24,513
Return on plan assets	**506**	637
Contributions by employer	**-**	1
Contributions by employee	**-**	-
Benefits paid	**(1,156)**	(662)
Actuarial (losses)/gains	**-**	(1,417)
Surplus distributed	**(506)**	-
Net decrease from disposals	**(19,015)**	(2,901)
At 31 December 2019	**-**	20,171
Present value of defined benefit obligation		
At 1 January 2019	**18,676**	19,081
Interest cost	**-**	506
Actuarial (gains)/losses - demographic	**-**	41
Actuarial (gains)/losses - financial	**-**	(290)
Benefits paid	**(1,156)**	(662)
Write down on buy out	**1,495**	-
Liabilities disposed on buy out	**(19,015)**	-
At 31 December 2019	**-**	18,676
Net amount recognised in balance sheet	**-**	1,495

The fair value of the plan assets comprise:	**2019**	2018
	£'000	£'000
Bonds	**-**	1,357
Insured asset	**-**	18,676
Other	**-**	138
	-	20,171

Future regular employer contributions into the plan are expected to be £nil (2018: £nil).

When the calculation of the defined benefit obligations results in a potential asset, the recognition of that asset is limited to the asset ceiling - that is the present value of any economic benefits available in the form of refunds from the plan or a reduction in the future contributions. Management use judgement to determine the level of refunds available from the plan in recognising an asset.

19
Retirement benefit schemes (continued)

SAUL
The company participates in the Superannuation Arrangements of the University of London ('SAUL'), which is a centralised defined benefit scheme. In the event of the insolvency of any of the participating employers in SAUL, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations. The last available valuation was carried out as at 31 March 2017. This valuation showed the market value of SAUL's assets was £3,205 million representing 102% of the liability for benefits after allowing for expected future increases in salaries.

It is not possible to identify the company's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid in accordance with the multi-employer rules of IAS 19 (Revised 2011).

The total pension cost for the company was £304,000 (2018: £678,000) representing the cash contributions to the fund.

20
Contingent liabilities

Bank guarantees

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 17 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 at 31 December 2019 was £47,364,372 (2018: net cash position £51,597,127).

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

21
Post balance sheet events

COVID-19

Following the global outbreak of COVID-19 and actions taken by UK Government in March 2020 and subsequently to contain and treat the disease, the company has considered the impact of the COVID-19 pandemic on its businesses and on trading in 2020. We recognize that there will be short term impacts on income recognized in 2020 to 2023, however the company does not believe that any of the impacts constitute an adjusting post balance sheet event for the purposes of the 2019 financial statements.

The potential impacts of the COVID-19 pandemic on the company remains uncertain and cannot be predicted with a high degree of certainty. The directors have assessed the areas within the company that may be required to be reassessed in 2020. This included areas that require a higher degree of judgement or complexity or areas where assumptions and estimates could be significant to the financial statements. These areas include the valuation of pre-publication assets / tax balances / provisions for returns / accounts receivable / pension assets and liabilities. The assumptions and estimates relating to these areas could change as the impact of COVID-19 becomes clearer although currently they are not expected to have a material impact on the income statement.

22
Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

23
Ultimate parent undertaking

The immediate parent undertaking is Pearson Education Holdings Limited.

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.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2019

24
Leases

Change of accounting policy: IFRS 16
The company has adopted IFRS 16 'Leases' at 1 January 2019 and applied the modified retrospective approach. Comparatives for 2018 have not been restated and the cumulative impact of adoption has been recognised as a decrease to net assets with a corresponding decrease in retained earnings at 1 January 2019 as follows:

	At 31 December 2018 under IAS 17	Impact of IFRS 16	Closing balance at 31 December 2018
	£'000	£'000	£'000
Right of use asset	-	20,647	20,647
Tangible assets	9,884	-	9,884
Other fixed assets	128,600	-	128,600
Deferred tax asset	12,989	(388)	12,601
Current assets	390,744	-	390,744
Total Assets	**542,216**	**20,259**	**562,475**
Current liabilities (excluding lease liabilities)	(292,993)	3,898	(289,095)
Current finance lease liabilities	-	(4,955)	(4,955)
Non-current liabilities (excluding lease liabilities)	(11,530)	-	(11,530)
Non-current finance lease liabilities	-	(22,044)	(22,044)
Provisions for liabilities	(1,559)	946	(613)
Defined benefit pension (liability)/surplus	1,495	-	1,495
Total liabilities	**(304,587)**	**(22,155)**	**(326,742)**
Net assets	**237,629**	**(1,896)**	**235,733**
Retained earnings	97,670	(1,896)	95,774
Other changes in equity	139,959	-	139,959
Total equity shareholders' funds	**237,629**	**(1,896)**	**235,733**

The company's lease portfolio consists of property leases together with a number of vehicle leases. The lease liability has been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at transition. The right-of-use asset has been measured at the carrying amount as if the standard had been applied since the commencement of the lease, discounted using the incremental borrowing rate at transition.

On transition the company elected not to reassess whether a contract is, or contains, a lease, instead relying on the assessment already made applying IAS 17 'Leases' and IFRIC 4 'Determining whether and Arrangement contains a Lease'. In addition, the company applied the available practical expedients as follows:
• Relied on its assessment of whether leases are onerous immediately prior to the date of initial application.
• Applied the short-term leases exemptions to leases with a lease term ending within 12 months at the date of the initial application.
• Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
• Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases under IAS 17 'Leases', the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
31 December 2019

24
Leases (continued)

The lease liabilities at 1 January 2019 can be reconciled to the operating lease commitments at 31 December 2018 as follows:

	At 1 January 2019
	£'000
Operating lease commitments disclosed at 31 December 2018	(30,374)
Discounted using the lessee's incremental borrowing rate at the date of initial application	3,375
Additional lease liability recognised at 1 January 2019	**(26,999)**

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was between 2.66% and 6.31%.

Disclosure required by IFRS 16:
As a lessee:
The amounts recognised in the profit and loss accounts are as follows:

		2019
	Note	**£'000**
Interest on lease liabilities	7	(832)
Expenses relating to short-term leases (within administrative expenses)		(277)
Depreciation of right-of-use assets	10	(3,402)

Right-of-use assets are included within tangible fixed assets in the balance sheet. For an analysis of the right-of-use assets, including additions, depreciation and disposals, see note 10.

The maturities of lease liabilities are as follows:

	2019
	£'000
Less than one year	(4,346)
One to five years	(15,578)
More than five years	(3,253)
Total discounted lease liabilities at 31 December	(23,177)
Lease liabilities included in the balance sheet at 31 December	
Current	(4,346)
Non-current	(18,831)

At the balance sheet date there were no commitments for capital leases contracted for but not yet incurred. Short-term leases to which the company is committed at the balance sheet date are similar to the portfolio of short-term leases to which the short-term lease expense is disclosed above.