Pearson Funding plc (formerly Pearson Funding Five plc)
Registered Number: 8422787

Annual Report and Financial Statements
For the Year Ended: 31 December 2019

Registered Address:
80 Strand, London WC2R 0RL

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COMPANIES HOUSE

Pearson Funding plc (formerly Pearson Funding Five plc)

STRATEGIC REPORT

The directors present their Strategic Report of Pearson Funding plc (formerly Pearson Funding Five plc), (the 'company') for the year ended 31 December 2019.

Principal activity and Business review

The company operates as the principal external financing vehicle for its parent, borrowing externally through the issuance of notes in British pounds, US dollars and Euros.

On 3 September 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc (formerly Pearson Funding Five plc). This included $500m 3.75% notes ($117,273,000), due 2022, and associated interest owing to bond holders. As part of this transaction the company issued 109,989,000 £1 ordinary shares.

The directors are of the opinion that the current level of activity and the year end financial position are satisfactory and will remain so in the foreseeable future.

Principal risks and uncertainties
From the perspective of the company, the principal risk facing the company is the ability to maintain interest payments and repayment of listed debt. This is reliant on the performance of the group and consequently, the principal risks and uncertainties and financial risk management 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 and financial risk management 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.

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 bondholders 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.

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.

Pearson Funding plc (formerly Pearson Funding Five plc)

STRATEGIC REPORT continued

Section 172 (1) Statement (continued)

We delegate authority for day-to-day management of the company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held periodically where the directors consider the company's activities and make decisions. As a part of those meetings the directors receive information in a range of different formats on section 172 matters when making relevant decisions. For example, each year we make an assessment of the strength of the company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends. There were no dividend payments in 2019.

As previously noted, during 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc (formerly Pearson Funding Five plc) as part of a simplification of the funding structure of two bond issuing companies. In making our decision we considered a range of factors. These included the long-term viability of the company; its expected cash flow and financing requirements; the ongoing need for strategic investment in our business and the expectations of our shareholder as the supplier of long-term equity capital to the company.

COVID-19

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 have imposed quarantines and restrictions on travel and large gatherings to slow the spread of the virus and have 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.

Due to the nature of the company, operating as a financing vehicle for its parent and having no employees or customers external to the group, the impact of this outbreak is limited to movements in foreign exchange rates.

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.

On behalf of the board

A J Midgley
Director
29 June 2020

Pearson Funding plc (formerly Pearson Funding Five plc)

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 31 December 2019.

On 2 September 2019 the company changed its name to Pearson Funding plc.

On 3 September 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc (formerly Pearson Funding Five plc).

Dividends

During the year, an interim dividend of £nil (2018: £nil) on the ordinary shares was paid. The directors do not recommend the payment of a final dividend (2018: £nil).

Directors

The directors who held office during the year and up to the 29th June 2020 of signing the financial statements are given below:

A J Midgley
J J T Kelly
S K M Johnson (*resigned 24 April 2020*)
S M Brennan (*appointed 24 April 2020*)

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 and reporting

Information of the company's approach to principal risks and uncertainties, including financial risk management, is included in the Strategic Report.

Internal controls and risk management systems relating to financial reporting are consistent with those in operation across the wider Pearson group. Pearson's senior management meets regularly with business area management to review their business and financial performance against plan and forecast. Major risks relevant to each business area as well as performance against the stated financial and strategic objectives are reviewed in these meetings.

There is an ongoing process to monitor the risks and effectiveness of controls in relation to the financial reporting process including the related information systems. This includes up-to-29th June 2020 Pearson financial policies, formal requirements for finance to certify that they have been in compliance with policies and that the control environment has been maintained throughout the year and analysis of material variances. The group finance function also monitors and assesses these processes, through a finance compliance function.

Post balance sheet events

Following the global outbreak of COVID-19 and actions taken by the government in March 2020 and subsequently to contain and treat the disease, the directors have considered the impact of the COVID-19 pandemic on its businesses in 2020. The directors do not believe that any of the impacts constitute an adjusting post balance sheet event for the purposes of the 2019 financial statements.

Due to the nature of the company, operating as a financing vehicle for its parent and having no employees or customers external to the group, the impact of this outbreak is limited to movements in foreign exchange rates.

Further details on the directors' assessment of the impact on the going concern assessment is set out in the Strategic Report on page 3.

Pearson Funding plc (formerly Pearson Funding Five plc)

DIRECTORS' REPORT continued

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and 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, comprising FRS 101 'Reduced Disclosure Framework', 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;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Disclosure of information to auditors
In the case of each director in office at the 29th June 2020 the Directors' Report is approved:

- so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

A J Midgley
Director
29 June 2020

Company registered number:
8422787

Independent auditors' report to the members of :
Pearson Funding plc (formerly Pearson Funding Five plc)

Report on the audit of the financial statements

Opinion
In our opinion, Pearson Funding plc's (formerly Pearson Funding Five plc) financial statements:

• give a true and fair view of the state of the company's affairs at 31 December 2019 and of its profit for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
• have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet at 31 December 2019; the Profit and Loss Account, the Statement of Comprehensive Income and, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.
Our opinion is consistent with our reporting to the Board of Directors.

Basis for opinion

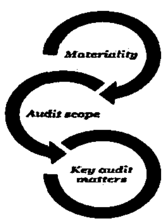
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach
Overview



• Overall materiality: £5.86 million (2018: £5.6 million), based on 1% of external net debt.
• We performed a full scope audit of Pearson Funding plc which is a stand alone entity.
• External debt
Impact of COVID-19

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Pearson Funding plc (formerly Pearson Funding Five plc) continued

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the failure to comply with tax regulations and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to manipulate the year end balances held. Audit procedures performed by the engagement team included:

- Discussions with management and the directors including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Evaluation of the effectiveness of management's controls designed to prevent and detect irregularities; and
- Identifying and testing significant manual journal entries and reviewing assumptions and judgements made by management in making significant accounting estimates.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
External debt (see notes 7 and 8)	
The company operates as a financing vehicle for its parent, borrowing externally through the issuance of notes in US dollars and Euros.	We have reviewed debt agreements to confirm the balances and associated interest charges are calculated and disclosed appropriately, including the debt maturity profile.
The company held £581 million of external debt at 31 December 2019 (2018: £568 million) having redeemed €55m of bonds and received the transfer of a bond with $117m outstanding from another Pearson group company during the year. £326m is redeemable between two and five years with the remaining £255m redeemable after five years.	We have confirmed the amounts of external debt to third party sources. We have vouched redemptions in the period to cash repaid. We have recalculated the remaining carrying value of debt by re-performing amortised cost calculations.
Given the levels of external debt held, any movements in the period are significant and could give rise to material fluctuations in the amount of interest recorded.	

Independent auditors' report to the members of Pearson Funding plc (formerly Pearson Funding Five plc) continued

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (see The severity and duration of the impact of the COVID-19 pandemic on all businesses, including Pearson Funding plc, remain uncertain. Management has undertaken an assessment of the impact of COVID-19 on Pearson Funding plc's financial statements at 31 December 2019, focusing on the impact on the company's accounting estimates, including the recoverability of intercompany debtors, which is in turn dependent on the going concern status of the group of which the company forms a part. We focused on the impact of COVID-19 on the preparation of the financial statements as its impact is significant for certain accounting estimates and for judgements including going concern and in terms of related disclosures in the Annual Report and financial statements.	We obtained and tested management's going concern assessment for the group. We evaluated the downwards COVID-19 adjustments reflected in the 2020 reforecast and revised strategic plan for 2021 compared to the pre COVID-19 budget and strategic plan. We assessed management's estimates of the expected depth and duration of the COVID-19 impact in terms of the short-term impact of lockdown and the longer-term impact of expected global recessionary factors and higher unemployment in the group's key markets. We understood and evaluated management's severe but plausible downside case and how this was applied to the budget and strategic plan. We evaluated the key assumptions reflected in management's downside case and considered whether they resulted in a reasonable downside scenario. We recalculated management's covenant compliance calculations through 30 June 2021 and we confirmed that the calculation methodologies are consistent with the terms of the underlying agreements. We separately tested the integrity of management's liquidity headroom analysis to satisfy ourselves that no breaches are anticipated over the period of assessment. We performed independent sensitivity analyses to ascertain the impact of reasonably possible changes to key assumptions on the available covenant compliance and liquidity headroom and to understand the extent to which headroom exists to absorb any further downside risk related to the severity and duration of the COVID-19 pandemic. We compared the group's actual performance following the declaration of the pandemic in March 2020 to management's reforecast expectations. Having evaluated the reforecast expectations for the group, we considered any additional risks specific to the company which might impact accounting estimates, including the recoverability of intercompany debt. We reviewed management's disclosures in relation to the impact of COVID-19 in the Annual Report and financial statements to determine whether these disclosures are consistent with the analysis which we have evaluated and with the testing which we have performed. Our findings relating to our work on the going concern status of the company are set out in the going concern section of this report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates. Our audit included substantive procedures on all material balances and transactions recorded in the Company financial statements.

Independent auditors' report to the members of Pearson Funding plc (formerly Pearson Funding Five plc) continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£5.86 million (2018: £5.6 million).
How we determined it	1% of external net debt.
Rationale for benchmark applied	We believe that the carrying value of external debt held by the entity is the most suitable measure given the purpose of the entity is to raise and hold externally raised debt. Using this balance sheet measure is a generally accepted auditing benchmark.

We agreed with the directors that we would report to them misstatements identified during our audit above £0.29 million (2018: £0.28 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:
•the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
•the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the 29th June 2020 when the financial statements are authorised for issue.
However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Independent auditors' report to the members of Pearson Funding plc (formerly Pearson Funding Five plc) continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liqui29th June 2020 the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006, we are required to report to you if, in our opinion:
• we have not received all the information and explanations we require for our audit; or
• adequate accounting records have not been kept by the company or returns adequate for our audit have not been received from branches not visited by us; or
• certain disclosures of directors' remuneration specified by law are not made; or
• the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the directors, we were appointed by the directors on 27 February 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 December 2013 to 31 December 2019.

Giles Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2020

Pearson Funding plc (formerly Pearson Funding Five plc)

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

Continuing operations	Note	**2019** £'000	2018 £'000
Result before interest and taxation		**-**	-
Interest receivable and similar income	4	**19,196**	18,760
Interest payable and similar expenses	4	**(15,612)**	(15,038)
Profit before taxation		**3,584**	3,722
Tax on profit	5	**(681)**	(706)
Profit for the financial year		**2,903**	3,016

Pearson Funding plc (formerly Pearson Funding Five plc)

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

	2019	2018
	£'000	£'000
Profit for the financial year	2,903	3,016
Total comprehensive income for the year	2,903	3,016

Pearson Funding plc (formerly Pearson Funding Five plc)

BALANCE SHEET
As at 31 December 2019

	Note	2019 £'000	2018 £'000
Current assets			
Debtors - including £691.0m (2018: £568.2m) due after one year	6	**1,170,657**	1,021,234
Creditors - amounts falling due within one year	7	**(49,760)**	(26,079)
Net current assets		**1,120,897**	995,155
Total assets less current liabilities		**1,120,897**	995,155
Creditors - amounts falling due after more than one year	7	**(581,044)**	(568,194)
Net assets		**539,853**	426,961
Capital and reserves			
Called up share capital	9	**476,989**	367,000
Profit and loss account		**62,864**	59,961
Total shareholders' funds		**539,853**	426,961

The notes on pages 15 to 27 are an integral part of these financial statements.

The financial statements on pages 11 to 27 were approved by the board of directors and authorised for issue on 29 June 2020. They were signed on its behalf by :

A J Midgley
Director

Pearson Funding plc (formerly Pearson Funding Five plc)

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

	Called up share capital	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000
At 1 January 2018	367,000	56,945	**423,945**
Profit for the financial year	-	3,016	**3,016**
Total comprehensive income for the year	-	3,016	**3,016**
At 31 December 2018	367,000	59,961	**426,961**
Profit for the financial year	--	2,903	**2,903**
Total comprehensive income for the year	-	2,903	**2,903**
Issue of share capital	109,989	-	**109,989**
At 31 December 2019	**476,989**	**62,864**	**539,853**

Share capital represents nominal value of shares allotted and called up.

Profit and loss account reserve represents accumulated retained earnings less dividends paid.

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 Funding plc (the 'company') is a public limited company, limited by shares, incorporated and domiciled in England and Wales. The address of its registered office is 80 Strand, London WC2R 0RL.

The financial statements of the company 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 as applicable to companies using FRS 101.

These financial statements are separate financial statements.

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. There were no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements requiring disclosure.

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 financial statements of Pearson plc:

- IFRS 7 'Financial Instruments: Disclosures'
- Paragraphs 91-99 of IFRS 13 'Fair Value Measurement'
- Paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

(i) paragraph 79(a)(iv) of IAS 1;

- The following paragraphs of IAS 1 'Presentation of Financial Statements';

(i) paragraph 10(d)
(ii) paragraph 16
(iii) paragraph 38A
(iv) paragraph 111
(v) paragraph 134-136

- IAS 7 'Statement of Cash Flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- Paragraph 17 of IAS 24' Related Party Disclosures'
- 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.

Interpretations and amendments to published standards effective 2019

The following standards were adopted in 2019:

• IFRS 16 Leases

Adoption of this standard has not had a material impact on the financial statements.

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 Funding plc (formerly Pearson Funding Five plc)

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

Going concern
Following the global outbreak of COVID-19 and actions taken by the government in March 2020 and subsequently to contain and treat the disease, the directors have considered the impact of the COVID-19 pandemic on its businesses in 2020. Due to the nature of the company, operating as a financing vehicle for its parent and having no employees or customers external to the group, the impact of this outbreak is limited to movements in foreign exchange rates.

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 29th June 2020 of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet 29th June 2020. All differences are taken to the profit and loss account.

Interest
Interest is expensed or credited in the profit and loss account as incurred. Amounts are accrued on a time proportioned basis by reference to the principal outstanding and at the applicable effective interest rate.

Guarantee fees
Guarantee fees are expensed in the profit and loss account as incurred.

Current 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 29th June 2020.

Debtors
Debtors are recognised initially at fair value and subsequently at amortised cost. Balances are assessed for potential impairment and recognition of any ECLs (or not if considered to be immaterial).

Borrowings
Borrowings are recognised initially at fair value, being proceeds received. Borrowings are subsequently carried at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the profit and loss account over the period of the borrowings using the effective interest method. Accrued interest is included as part of creditors payable within one year.

Share capital
Ordinary shares are classified as equity.

2
Operating profit

Fees payable for the audit of these financial statements are borne by a fellow group company and amounted to £5,000 (2018: £5,000) for the current year.

No fees were paid to the company's auditors (2018: £nil), PricewaterhouseCoopers LLP, and their associates for services other than the statutory audit of the company.

3
Directors' emoluments and employee information

The emoluments of the directors are paid by their employing company, another group undertaking. 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 their employing company. Accordingly, the financial statements include no emoluments in respect of the directors. No one was employed by the company at any time during the year (2018: no one).

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

4
Interest

	2019	2018
Interest receivable and similar income	**£'000**	£'000
Interest receivable from group companies	**19,196**	18,760
Interest receivable and similar income	**19,196**	18,760

	2019	2018
Interest payable and similar expenses	**£'000**	£'000
Interest payable to group companies	**(535)**	(525)
Guarantee fees	**(3,818)**	(3,188)
Net foreign exchange loss	**(86)**	(936)
Interest payable on external borrowings	**(11,173)**	(10,389)
Interest payable and similar expenses	**(15,612)**	(15,038)

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

5
Tax on profit

	2019	2018
	£'000	£'000
Current tax		
UK corporation tax on profits for the year	**681**	707
Adjustments in respect of prior years	**-**	(1)
Total current tax	**681**	706
Total tax charge on profit	**681**	706
UK standard effective rate of corporation tax (%)	**19**	19

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

	2019	2018
	£'000	£'000
Profit before taxation	**3,584**	3,722
Tax on profit at standard UK corporation tax rate of 19% (2018: 19%)	**681**	707
Effects of:		
Adjustments in respect of prior years	**-**	(1)
Total tax charge for the year	**681**	706

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. This change has no material impact on the deferred tax assets or liabilities recognised by the company.

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

6
Debtors

	2019	2018
	£'000	£'000
Amounts falling due within one year		
Amounts owed by group undertakings	**479,625**	453,041
	479,625	453,041
Amounts falling due in more than one year		
Amounts owed by group undertakings	**691,032**	568,193
	691,032	568,193
Total debtors	**1,170,657**	1,021,234

On 29 January 2018, Pearson plc repaid €250,000,000 of its €500m loan, repayable 2021 to support the company's tender offer in respect of its €500m 1.875% notes, due 2021.

On 29 January 2018, Pearson plc repaid €200,000,000 of its €500m loan, repayable 2025 to support the company's tender offer in respect of its €500m 1.375% notes, due 2025.

On 3 September 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc (formerly Pearson Funding Five plc). This included amounts due from Pearson plc of $117,273,000 and associated capitalised interest.

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

7
Creditors

	Note	2019 £'000	2018 £'000
Amounts falling due within one year			
Amounts owed to group undertakings		**(44,009)**	(19,962)
Corporation tax		**(681)**	(707)
External interest payable on borrowings		**(5,070)**	(5,410)
		(49,760)	(26,079)
Amounts falling due after more than one year			
2021 1.875% €500m notes	8	**(165,496)**	(224,659)
2022 3.75% $500m notes	8	**(88,938)**	-
2023 3.25% $500m notes	8	**(71,421)**	(73,945)
2025 1.375% €500m notes	8	**(255,189)**	(269,590)
		(581,044)	(568,194)

On 29 January 2018, the company made a tender offer in respect of its €500m 1.875% notes, due 2021. The company redeemed €250,000,000 of the notes, with €250,000,000 remaining due in 2021.

On 29 January 2018, the company made a tender offer in respect of its €500m 1.375% notes, due 2025. The company redeemed €200,000,000 of the notes, with €300,000,000 remaining due in 2025.

On 15 March 2019 the company made a tender offer in respect of its €500m 1.875% notes, due 2021. The company redeemed €55,443,000 of the notes, with €194,557,000 remaining due in 2021.

On 3 September 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc (formerly Pearson Funding Five plc). This included $500m 3.75% notes ($117,273,000), due 2022, and associated interest owing to bond holders.

8
Loans and borrowings

	2019	2018
	£'000	£'000
2021 1.875% €500m notes	(165,496)	(224,659)
2022 3.75% $500m notes	(88,938)	-
2023 3.25% $500m notes	(71,421)	(73,945)
2025 1.375% €500m notes	(255,189)	(269,590)
	(581,044)	(568,194)
Maturity of financial liabilities :		
Between two and five years	(325,855)	(298,604)
After five years	(255,189)	(269,590)
	(581,044)	(568,194)

The notes are listed on the London Stock Exchange. The notes are guaranteed by Pearson plc and fees charged at 0.5% are payable by the company as consideration for this guarantee (Note 4).

9
Called up share capital

	2019	2018
	£'000	£'000
Total share capital	**476,989**	367,000

	2019	2018	**2019**	2018
Ordinary shares £1 each	**No '000s**	No '000s	**£'000**	£'000
Allotted, called up and fully paid	**476,989**	367,000	**476,989**	367,000

On 2 September 2019, a further 109,989,000 ordinary shares of £1 each were authorised and issued to Pearson plc for £109,989,000.

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

10
Post balance sheet events

COVID-19

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 and other countries in which the Pearson plc group operates. 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 11 March 2020.

Many countries around the world have imposed quarantines and restrictions on travel and large gatherings to slow the spread of the virus and have 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.

Due to the nature of the company, operating as a financing vehicle for its parent and having no employees or customers external to the group, the impact of this outbreak is limited to movements in foreign exchange rates.

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.

£350m Social Bond

Pearson has developed a Social Bond Framework in alignment with the ICMA Social Bond Principles 2018. On 1 June 2020 Pearson Funding plc successfully priced this £350m, 3.75% Social Bond maturing 4 June 2030.

On 4 June 2020, the company completed the issuance of £350m guaranteed notes maturing 4 June 2030. The notes bear a coupon of 3.75% and have been issued in accordance with the ICMA Social Bond Principles 2018. The proceeds will be primarily used to finance and re-finance delivery of education in Connections Academy, BTEC and GED businesses to help achieve the United Nations' 4th Sustainable Development Goal (SDG) for a Quality Education. The social bond framework is a natural progression of Pearson's long-standing commitment to integrating social and environmental sustainability into our business.

The company is committed to monitoring and reporting on the impact of these projects as set out in Pearson's Social bond framework (https://www.pearson.com/investors/social-bond-framework.html). The web site also contains Vigeo Eiris's second party opinion as well as the group's 2030 sustainability strategy.

11
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.

Pearson Funding plc (formerly Pearson Funding Five plc)

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

12
Ultimate parent undertaking

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 consoli29th June 2020 these financial statements. Copies of Pearson plc's consoli29th June 2020d financial statements can be obtained from the Company Secretary at Pearson plc, 80 Strand, London WC2R 0RL.