**Pearson Funding plc**

Registered Number: 8422787

Annual Report and Financial Statements

For the Year Ended: 31 December 2020

Registered Address:

80 Strand, London WC2R 0RL

**Pearson Funding 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 2020.

**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 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. On the same date, the company entered into a long term interest bearing loan of £350m with Pearson PLC in relation to the 2030 Bond, repayable on 4 June 2030. Interest on this loan is charged at a rate of 3.75%. The bond 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.

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. It is expected that the company will continue in its role as the principle external financing vehicle for its parent in future periods.

**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.

**Pearson Funding plc**

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**Pearson Funding plc**

**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 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 27 to 29 of the Pearson plc 2020 Annual Report.

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

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 2020.

As previously noted, during 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. 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.

Pearson Funding plc

**STRATEGIC REPORT continued**

**COVID-19**

We have continued to monitor COVID-19 developments closely on a day-by-day basis and 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 evolve. The extent to which COVID-19 may impact our business and operations will depend on future developments, including the success of the government vaccination programme and the emergence of new variants. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence.

The principal risk facing the company is the ability to maintain interest payments and repayment of listed debt. All external debt has a back to back loan with Pearson Plc. Thus, Pearson Funding Plc is reliant on the performance of Pearson Plc which has access to the resources of the Group. On the basis of the position of the overall Pearson plc group the company believes it will be able to continue for the foreseeable 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.

**Brexit**

The UK exited the European Union (EU) on 31 January 2020. Given the prolonged negotiation process during the latter part of 2020, we continued our work to identify and mitigate any potential impact on our principal risks, including supply chain and operations, tax and data privacy, workforce mobility and more. By virtue of that analysis and mitigation planning, we have not seen any impact to the company operations or colleagues because of Brexit, with no material adverse impact on financial results.

On behalf of the board

S M Brennan
Director
28 June 2021

**Pearson Funding plc**

**DIRECTORS' REPORT**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2020.

**Dividends**

During the year, an interim dividend of £nil (2019: £nil) on the ordinary shares was paid. The directors do not recommend the payment of a final dividend (2019: £nil).

**Directors**

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

A J Midgley (*resigned 31 July 2020*)

J J T Kelly

S K M Johnson (*resigned 24 April 2020*)

S M Brennan (*appointed 24 April 2020*)

L Found (*appointed 1 August 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-date 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**

The 2021 €500m 1.875% bond on was repaid on 19th May 2021. The amount repaid was €198,205,000 (equivalent £178,082,000).

**Pearson Funding plc**

**DIRECTORS' REPORT continued**

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, 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 the 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 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.

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.

**Directors' confirmations**

In the case of each director in office at the date the Directors' Report is approved, the following applies:

• 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

S Brennan

S Brennan
Director
28 June 2021

Company registered number:
8422787

# Independent auditors' report to the members of Pearson Funding plc

## Report on the audit of the financial statements

**Opinion**
In our opinion, Pearson Funding plc's financial statements:

• give a true and fair view of the state of the company's affairs at 31 December 2020 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 and financial statements (the 'Annual Report'), which comprise: the Balance Sheet at 31 December 2020, 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.

We have provided no non-audit services to the company in the period under audit.

**Our audit approach**
*Overview*

Audit scope
We performed a full scope audit of Pearson Funding plc which is a stand-alone entity.

Key audit matters
• External debt
• Impact of COVID-19

Materiality

• Overall materiality: £9.62 million (2019: £5.86 million) based on 1% of external debt
• Performance materiality: £7.215 million

*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 continued

*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.

The key audit matters below are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***External debt***<br>*Refer to notes 7 and 8 in the financial statements.*<br><br>The company operates as a financing vehicle for its parent, borrowing externally through the issuance of notes in GBP, US dollars and Euros.<br><br>The company held £949 million of external debt at 31 December 2020 (2019: £581 million), having issued a £350m bond during the year. £175m is redeemable within one year, £86m is redeemable between one and two years and £338m is redeemable between two and five years with the remaining £350m redeemable after five years.<br><br>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. | We have reviewed the relevant debt agreements to confirm that the balances and associated interest charges are calculated and disclosed appropriately, including the debt maturity profile, and to check for any unusual terms, including for the new debt issued in the year. We have confirmed the existence and value of external debt to third party sources, including publicly available market data. We have vouched the issuance of new debt in the period to cash received. We have recalculated the remaining carrying value of debt by re-performing amortised cost calculations.<br><br>Based on the procedures performed, we noted no material issues arising from our work. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impact of COVID-19***<br>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 2020, 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.<br><br>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 assessed the recoverability of intercompany debtor balances, taking account of the available funds held by each counterparty and assessing the expected future performance and liquidity position of the Group.<br><br>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.<br><br>Our conclusions in respect of going concern are set out separately in this report.<br><br>Based on the procedures performed, we noted no material issues arising from our work. |

*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. Where applicable, we placed reliance on controls tested as part of the audit of the consolidated group of which the company forms a part.

*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** | £9.62 million (2019: £5.86 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 use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £7.215 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Board of Directors that we would report to them misstatements identified during our audit above £0.48 million (2019: £0.29 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Independent auditors' report to the members of Pearson Funding plc continued

**Conclusions relating to going concern**

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

• Consideration of the company's going concern assessment and the nature of the company's relationship with the consolidated group of which the company forms a part;
• Assessment of the recoverability of intercompany debtor balances, taking account of the available funds held by each counterparty;
• Evaluation of management's overall group base case and downside case scenarios, understanding and evaluating the key assumptions, including assumptions related to COVID-19;
• Validation that the group cash flow forecasts used to support management's going concern assessment were consistent with the forecasts reviewed and approved by the directors;
• Assessment of the historical accuracy and reasonableness of management's forecasting including consideration of the group's performance in 2021 compared with the base case and downside case scenarios;
• Consideration of the group's available financing and debt maturity profile along with the latest available cash and net debt positions;
• Testing of the mathematical integrity of management's liquidity headroom, covenant compliance, sensitivity and stress testing calculations;
• Assessment of the reasonableness of management's planned or potential mitigating actions; and
• Review of the related disclosures in the Annual Report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**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 our work undertaken in the course of the audit, Companies Act 2006 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 2020 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 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, 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 liquidate 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and the industry in which it operates, we identified that the principal risk of non-compliance with laws and regulations related to the Companies Act 2006 and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and we determined that the principal risks related to posting inappropriate journals to manipulate financial results. 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. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

## Independent auditors' report to the members of Pearson Funding plc continued

### 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 board of 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 eight years, covering the years ended 31 December 2013 to 31 December 2020.

Giles Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 June 2021

**Pearson Funding plc**

**PROFIT AND LOSS ACCOUNT**
**For the year ended:**
**31 December 2020**

| | | **2020** | 2019 |
|---|---|---|---|
| Continuing operations | **Note** | **£'000** | £'000 |
| **Result before interest and taxation** | | **-** | - |
| Interest receivable and similar income | 4 | **32,073** | 19,196 |
| Interest payable and similar expenses | 4 | **(24,799)** | (15,612) |
| **Profit before taxation** | | **7,274** | 3,584 |
| Tax on profit | 5 | **(1,382)** | (681) |
| **Profit for the financial year** | | **5,892** | 2,903 |

**Pearson Funding plc**

**STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended:**
**31 December 2020**

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Profit for the financial year | 5,892 | 2,903 |
| Total comprehensive income for the year | 5,892 | 2,903 |

**Pearson Funding plc**

**BALANCE SHEET**
**As at 31 December 2020**

| | Note | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|---|
| **Current assets** | | | |
| Debtors - including £1,113,388,000 (2019: £691,000,000) due after one year | 6 | **1,532,053** | 1,170,657 |
| **Creditors - amounts falling due within one year** | 7 | **(211,859)** | (49,760) |
| **Net current assets** | | **1,320,194** | 1,120,897 |
| **Total assets less current liabilities** | | **1,320,194** | 1,120,897 |
| **Creditors - amounts falling due after more than one year** | 7 | **(774,449)** | (581,044) |
| **Net assets** | | **545,745** | 539,853 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | **476,989** | 476,989 |
| Profit and loss account | | **68,756** | 62,864 |
| **Total shareholders' funds** | | **545,745** | 539,853 |

The notes on pages 17 to 29 are an integral part of these financial statements.

The financial statements on pages 13 to 29 were approved by the board of directors and authorised for issue on 28 June 2021. They were signed on its behalf by :

S Brennan

S Brennan
Director
28 June 2021

**Pearson Funding plc**

**STATEMENT OF CHANGES IN EQUITY**
**For the year ended:**
**31 December 2020**

| | Called up share capital | Profit and loss account | Total shareholders' funds |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 January 2019 | 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** |
| Profit for the financial year | - | 5,892 | **5,892** |
| **Total comprehensive income for the year** | - | 5,892 | **5,892** |
| **At 31 December 2020** | **476,989** | **68,756** | **545,745** |

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

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

Pearson Funding plc

NOTES TO THE FINANCIAL STATEMENTS
For the year ended:
31 December 2020

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 in the United Kingdom and registered 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, in accordance with the Companies Act 2006 as applicable to companies using FRS 101 and on a going concern basis.

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 2020**
The Group early adopted COVID-19 Related Rent Concessions – Amendment to IFRS 16, issued on 28 May 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee. For leases to which the Group applies the amendment, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group has applied the amendment retrospectively to all rent concessions that meet the conditions in the amendment. The amendment has no impact on retained earnings at 1 January 2020. The eligible rent concessions granted to the Group have no material impact on the company's financial statements.

A number of other new pronouncements are also effective from 1 January 2020 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 2021, and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS continued**
**For the year ended:**
**31 December 2020**
**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 2021. 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 principal risk facing the company is the ability to maintain interest payments and repayment of listed debt All external debt has a back to back loan with Pearson Plc. Thus, Pearson Funding Plc is reliant on the performance of Pearson Plc which has access to the resources of the Group. On the basis of the position of the overall Pearson plc group the company believes it will be able to continue for the foreseeable 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.

**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.

**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 date.

**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.

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**
**For the year ended:**
**31 December 2020**

## 2
## Operating profit

Fees payable for the audit of these financial statements are borne by a fellow group company and amounted to £5,000 (2019: £5,000) for the current year.

No fees were paid to the company's auditors (2019: £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 (2019: no one).

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**
**For the year ended:**
**31 December 2020**

## 4
## Interest

| | **2020** | 2019 |
|---|---|---|
| **Interest receivable and similar income** | **£'000** | £'000 |
| Interest receivable from group companies | **30,347** | 19,196 |
| Net foreign exchange gains | **1,726** | - |
| **Interest receivable and similar income** | **32,073** | 19,196 |

| | **2020** | 2019 |
|---|---|---|
| **Interest payable and similar expenses** | **£'000** | £'000 |
| Interest payable to group companies | **(260)** | (535) |
| Guarantee fees | **(4,026)** | (3,818) |
| Net foreign exchange loss | **-** | (86) |
| Interest payable on external borrowings | **(20,513)** | (11,173) |
| **Interest payable and similar expenses** | **(24,799)** | (15,612) |

Pearson Funding plc

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2020

5
Tax on profit

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Current tax** | | |
| UK corporation tax on profits for the year | 1,382 | 681 |
| **Total current tax** | **1,382** | 681 |
| **Total tax charge on profit** | **1,382** | 681 |
| **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:

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Profit before taxation** | **7,274** | 3,584 |
| Tax on profit at standard UK corporation tax rate of 19% (2019: 19%) | 1,382 | 681 |
| **Total tax charge for the year** | **1,382** | 681 |

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 and substantively enacted on 17 March 2020 and has therefore been reflected in these financial statements.

Pearson Funding plc

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2020

6
## Debtors

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **Amounts falling due within one year** | | |
| Amounts owed by group undertakings | **418,665** | 479,625 |
| | **418,665** | 479,625 |
| **Amounts falling due in more than one year** | | |
| Amounts owed by group undertakings | **1,113,388** | 691,032 |
| | **1,113,388** | 691,032 |
| **Total debtors** | **1,532,053** | 1,170,657 |

On 3 September 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc. This included amounts due from Pearson plc of $117,273,000 (equivalent £96,418,000) and associated capitalised interest.

On 4 June 2020 the company entered into a long term interest bearing loan of £350m with PLC in relation to the 2030 £350m bond, repayable on 04 June 2030. Interest is charged at a rate of 3.75%

Pearson Funding plc

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2020

7
Creditors

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Amounts falling due within one year** | | | |
| Amounts owed to group undertakings | | **(22,839)** | (44,009) |
| Corporation tax | | **(1,382)** | (681) |
| External interest payable on borrowings | | **(12,834)** | (5,070) |
| 2021 1.875% €500m notes | 8 | **(174,804)** | - |
| | | **(211,859)** | (49,760) |
| **Amounts falling due after more than one year** | | | |
| 2021 1.875% €500m notes | 8 | - | (165,496) |
| 2022 3.75% $500m notes | 8 | **(85,914)** | (88,938) |
| 2023 3.25% $500m notes | 8 | **(68,993)** | (71,421) |
| 2025 1.375% €500m notes | 8 | **(269,542)** | (255,189) |
| 2030 3.75% £350m notes | 8 | **(350,000)** | - |
| | | **(774,449)** | (581,044) |

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 (equivalent £47,306,000) of the notes, with €194,557,000 (equivalent £165,496,000) remaining due in 2021.

On 3 September 2019 assets and liabilities of Pearson Funding Four plc were transferred to Pearson Funding plc. This included $500m 3.75% notes totalling $117,273,000 (equivalent £96,418,000), due 2022, and associated interest owing to bond holders.

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 2021 €500m 1.875% bond on was repaid on 19th May 2021. The amount repaid was €198,205,000 (equivalent £178,082,000).

Pearson Funding plc

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2020

8
Loans and borrowings

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| 2021 1.875% €500m notes | (174,804) | (165,496) |
| 2022 3.75% $500m notes | (85,914) | (88,938) |
| 2023 3.25% $500m notes | (68,993) | (71,421) |
| 2025 1.375% €500m notes | (269,542) | (255,189) |
| 2030 3.75% £350m notes | (350,000) | - |
| | (949,253) | (581,044) |
| **Maturity of financial liabilities :** | | |
| Between one and two years | (85,914) | - |
| Between two and five years | (338,535) | (325,855) |
| After five years | (350,000) | (255,189) |
| | (774,449) | (581,044) |
| On demand or within a year | (174,804) | - |
| | (949,253) | (581,044) |

The notes are listed on the London Stock Exchange with exception of the 2030 3.75% £350m notes which are listed on the Global Exchange Market of Euronext Dublin. 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).

Pearson Funding plc

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended:
31 December 2020

9
Called up share capital

| | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Total share capital | 476,989 | 476,989 |

| | 2020 | 2019 | 2020 | 2019 |
|---|---|---|---|---|
| Ordinary shares £1 each | No '000s | No '000s | £'000 | £'000 |
| Allotted, called up and fully paid | 476,989 | 476,989 | 476,989 | 476,989 |

Pearson Funding plc

**NOTES TO THE FINANCIAL STATEMENTS continued**
**For the year ended :**
**31 December 2020**

**10**
**Post balance sheet events**

The 2021 €500m 1.875% bond on was repaid on 19th May 2021. The amount repaid was €198,205,000 (equivalent £178,082,000).

**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.

**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 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.