

**Pearson Funding plc**

Registered Number:

**8422787**

**Annual Report and Financial Statements**

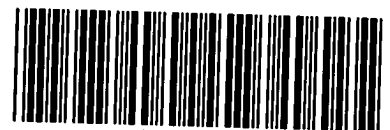
For the Year Ended:

**31 December 2022**

**Registered Address:**

**80 Strand, London WC2R 0RL**

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## **Pearson Funding plc**

### **STRATEGIC REPORT**

The directors present their Strategic Report of Pearson Funding plc (the 'company') for the year ended 31 December 2022.

#### **Principal activity and Business model**

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 8 May 2022, the company repaid the final tranche of the 2022 \$500m 3.75% bond upon maturity. The amount repaid was \$117,273,000 (equivalent £86,792,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

On 16 December 2022, the company repaid the final tranche of the 2023 \$500m 3.25% bond. The amount repaid was \$94,176,000 (equivalent £78,090,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

The directors are of the opinion that the current level of activity and the year end financial position are satisfactory and are consistent with the expected level of activity in the foreseeable future. It is expected that the company will continue in its role as the principal 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 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.

#### **Non-financial information**

Given the nature of the business as explained above under the heading 'Principal activity and Business model', policies in relation to environmental, employee, social, respect for human rights, anti-corruption and anti-bribery matters are not relevant to an understanding of the Company's development, performance and position.

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 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 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 26 to 29 of the Pearson plc 2022 Annual Report.

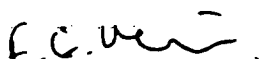
In considering the strategic direction of the Company, the Board also considers feedback from engagement with key stakeholders, including our employees of the Group, customers and suppliers. As a result of this ongoing feedback, changes are introduced as and when appropriate which we believe will result in improvements for stakeholders, as well as promoting the long-term success of the Company. 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 2022.

Going concern

The principal risk facing the company is the ability to maintain interest payments, covenant requirements and repayment of listed debt. All external debt has a back to back loan with the Company's parent, Pearson plc. The bonds are also guaranteed by Pearson plc. Thus, Pearson Funding plc is reliant on the performance of Pearson plc which has access to the resources of the Group. The company has received a letter of support from Pearson plc for a period of 12 months from the date of these financial statements. On the basis of the Company's assessment, including consideration of the position of the overall Group, the Company believes it will be able to continue for the foreseeable future.

The Group has also analysed a variety of downside scenarios including a severe but plausible scenario where the Group is impacted by a combination of all principal risks in both 2023 and H1 2024, adjusted for probability weighting as well as other significant risks, as well as reverse stress testing to identify the reduction in profit required before liquidity is exhausted at or before 30 June 2024. Based on these procedures and considering the strong balance sheet, the Group believes that it will be able to continue in operation and to meet its liabilities as they fall due for the period to 30 June 2024.

On behalf of the board



F E Muir  
Director  
30 June 2023

## **Pearson Funding plc**

### **DIRECTORS' REPORT**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2022.

#### **Dividends**

During the year, no dividends on the ordinary shares were paid (2021: £nil). The directors do not recommend the payment of a final dividend (2021: £nil).

#### **Directors**

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

J J T Kelly  
L Found  
F E Muir

#### **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.

On 8 May 2022, the company repaid the final tranche of the 2022 \$500m 3.75% bond upon maturity. The amount repaid was \$117,273,000 (equivalent £86,792,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

On 16 December 2022, the company repaid the final tranche of the 2023 \$500m 3.25% bond. The amount repaid was \$94,176,000 (equivalent £78,090,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

**DIRECTORS' REPORT continued**

**Statement of directors' responsibilities in respect of the financial statements**

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;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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;
- provide additional disclosures when compliance with the specific requirements of FRS 101 are insufficient to enable users to understand the impact of particular transactions, other event and conditions on the Company's financial position and financial performance;
- 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.

**Directors' confirmations**

Each of the directors, whose names and functions are listed in the Annual Report and Financial Statements confirm that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- the Annual Report and Financial Statements includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is 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.

**Appointment of auditor**

On 22 April 2022 PricewaterhouseCoopers LLP resigned as auditor and Ernst & Young LLP was appointed as auditor of the company with effect from 22 April 2022.

On behalf of the board



F E Muir  
Director  
30 June 2023

Company registered number:  
8422787

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON FUNDING PLC

### Opinion

We have audited the financial statements of Pearson Funding plc (the "Company") for the year ended 31 December 2022 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 11 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

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. The principal risk facing the Company is the ability to maintain interest payments, covenant requirements and repayment of debt. We have performed an assessment of the recoverability of intercompany debtor balances in Pearson Funding plc, taking account of the available funds held by the counterparty.

Our assessment of the Company's going concern assessment and its ability to continue to pay interest included:

- We confirmed our understanding of management's going concern assessment process and the nature of the Company's relationship with Pearson plc and the Group, of which it is a part.
- We performed our own independent assessment of the risk around going concern for Pearson Funding plc.
- We read the Company's debt agreements to understand the covenant requirements and tested to check that no covenants have been breached during the year to 31 December 2022.
- Pearson Funding plc's parent company, Pearson plc, has provided a letter of support to the Company for a period of 12 months from the date of these financial statements. We reviewed the letter of support provided by the parent company to support the Company during the going concern assessment period.

Given Pearson Funding plc's reliance on the letter of support provided by Pearson plc, we considered the ability of Pearson plc to provide this support. Therefore, our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting is based on our assessment of Pearson plc, its subsidiaries and associates (together 'the Group') and included:

- We agreed the 31 December 2022 Group cash and debt balances included in the going concern assessment to the Group's year end balances.
- We read the Group's debt agreements to understand the covenant requirements and tested to check that no covenants have been breached during the year to 31 December 2022 and there is no forecast covenant breach in either the base or severe but plausible downside case scenarios during the going concern assessment period covering the period to 30 June 2024.
- We checked the logic and arithmetical integrity of management's going concern model that includes the cash forecasts for the going concern assessment period.
- We assessed the appropriateness of the duration of the going concern assessment period to 30 June 2024, including by reference to the existence of any significant events or conditions beyond this period.
- We considered the appropriateness of the assumptions used to calculate the cash forecasts under base and plausible downside case scenarios by reference to historical forecasting accuracy and comparison to sector benchmarks. We challenged whether the downside scenarios utilised were sufficiently severe for a going concern assessment.
- We assessed the reasonableness of the cash flow forecasts included in the going concern assessment by understanding the potential impact of the Group's principal risks as well as any potential impact from COVID-19, current geopolitical matters and the impact of climate change have been reflected in the forecasts.
- We evaluated the key assumptions by searching for contrary evidence to challenge these assumptions, including third party sector forecasts and analyst expectations. Further, we ensured these assumptions were consistent with the budget approved by Pearson's Board.
- We also challenged the measurement and completeness of the downside scenario modelled by management by reference to the Group's principal risks and uncertainties of the Group.
- We considered the mitigating actions that are within the control of the Group and evaluated whether the timing and amounts were appropriate.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON FUNDING PLC (continued)

### Conclusions relating to going concern (continued)

- We considered whether the Group's forecasts in the going concern assessment were consistent with other forecasts used by the Group in its accounting estimates, including goodwill impairment.
  - We considered the Group's reverse stress testing to identify the magnitude of decline in revenue and operating profit that would lead to the Group utilising all liquidity or breaching a covenant during the going concern assessment period and we have considered the likelihood of such a decline.
  - We considered whether there have been developments or changes in facts and circumstances that would alter conclusion pertaining to the Group since the assessment has been performed through review of quarterly results and enquiry of management.
- 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 Pearson Funding plc's ability to continue as a going concern for the period to 30 June 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to Pearson Funding plc's ability to continue as a going concern.

### Overview of our audit approach

Key audit matter	• Valuation of external borrowings
Materiality	• Overall materiality of £5.8m which represents 0.5% of total assets

### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

#### Climate change

Investors are increasingly interested in the environmental sustainability of debt issuers activities. The Company has determined that the susceptibility to the risk of climate change on the Company's operation is low due to the nature of business activities being the financing vehicle for its parent, Pearson plc.

In planning and performing our audit we assessed the potential impacts of climate change on the Company's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on assessing whether the effects of potential climate risks have been appropriately reflected by management in reaching their judgments in relation to the measurement of borrowings.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON FUNDING PLC**  
**(continued)**

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our 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) that we identified. These matters included 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 were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to those charged with governance
<p><b>Valuation of external borrowings (borrowings of £612m, PY borrowings of £758m)</b></p> <p>Refer to the Accounting policies (page 17); and Note 8 of the Financial Statements (page 24)</p> <p>The Company operates as a financing vehicle for its parent, Pearson plc, borrowing externally through issuance of notes in British pounds, US dollars and Euros. External debt represents the largest liability on the balance sheet amounting to £612m as at 31 December 2022 and we have identified a risk around the completeness and valuation of the debt.</p>	<p>We obtained an understanding and evaluated the design of controls over the borrowings process.</p> <p>We tested the carrying value of external borrowings through recalculation of the amortised cost including the interest expense and ending carrying value based on the terms in the original prospectus documents and we performed our own independent effective interest rate calculation and compared it to the one used by management. We agreed payments made during the year to bank statements.</p> <p>We confirmed the borrowings with the principal paying agent as at the year-end reporting date. We confirmed the amounts of notes and accrued interest outstanding for the 2025 1.375% €500m notes and the 2030 3.75% £350m notes as the notes payable that remain outstanding at 31 December 2022.</p> <p>We reviewed the disclosures in the financial statements.</p>	<p>Based on the procedures performed, we agree that the accounting for the external borrowings is appropriate.</p> <p>Disclosures in Note 7 of the financial statements are appropriate.</p>



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON FUNDING PLC (continued)**

### **Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### **Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £5.8m, which is 0.5% of total assets. We believe that total assets provides us with the most relevant performance measure to the stakeholders of the Company given its nature of operating as a financing vehicle for the Group with loans to Pearson plc.

The predecessor auditor determined materiality for the Company to be £7.6m for the year ended 31 December 2021.

### **Performance materiality**

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £2.9m. We have set performance materiality at this percentage on the basis that this is our first year as auditors of the Company.

### **Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Directors that we would report to them all uncorrected audit differences in excess of £0.29m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON FUNDING PLC (continued)**

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

### **Auditor's 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 auditor's 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.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

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

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (United Kingdom Generally Accepted Accounting Practices and the Companies Act 2006) and the relevant tax laws and regulations in the UK.
- We understood how Pearson Funding plc is complying with those frameworks by making enquiries of management, and those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through review of Board minutes, as well as consideration of the results of our audit procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur and met with finance and operational management from the business to understand where they considered there was a susceptibility to fraud. We have determined that there is a fraud risk with aspects of management override of controls. We considered the policies, processes and controls that the Company has established to address the risks identified, including the design of the controls over financial statements closing process. We also considered the controls that the Company has that otherwise prevent, deter, and detect fraud; and how senior management monitors those controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. We performed audit procedures to address the identified fraud risk, including testing over the manual journal entries. These procedures were designed to provide reasonable assurance that the financial statements as a whole are free from material misstatement, due to fraud or error. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Financial Statements with all applicable requirements. Any instances of non-compliance with laws and regulations were communicated and considered in our audit approach, if applicable.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEARSON FUNDING PLC**  
**(continued)**

**Other matters we are required to address**

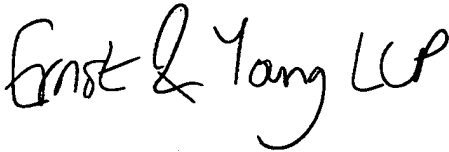
- Following the recommendation from the Board of Directors we were appointed by the Company at the Annual General Meeting on 22 April 2022 to audit the financial statements for the year ending 31 December 2022 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is one year, covering the year ending 31 December 2022.

- The audit opinion is consistent with our communications to the Directors of the Company.

**Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'Ernst & Young LLP', is written over the printed name of the auditor.

**Ben Marles (Senior statutory auditor)**  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
30 June 2023

**Pearson Funding plc**

**PROFIT AND LOSS ACCOUNT**

**For the year ended:**

**31 December 2022**

		<b>2022</b>	<b>2021</b>
Continuing operations	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Result before interest and taxation</b>		-	-
Interest receivable and similar income	4	<b>31,761</b>	28,428
Interest payable and similar expenses	4	<b>(31,827)</b>	(25,440)
<b>(Loss)/profit before taxation</b>		<b>(66)</b>	2,988
Tax on (loss)/profit	5	<b>12</b>	(568)
<b>(Loss)/profit for the financial year</b>		<b>(54)</b>	2,420

**Pearson Funding plc**

**STATEMENT OF COMPREHENSIVE INCOME**

**For the year ended:**

**31 December 2022**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>(Loss)/profit for the financial year</b>	<b>(54)</b>	<b>2,420</b>
<b>Total comprehensive (loss)/income for the year</b>	<b>(54)</b>	<b>2,420</b>

**Pearson Funding plc**

**BALANCE SHEET**  
**As at 31 December 2022**

		2022	2021
	Note	£'000	£'000
<b>Current assets</b>			
Debtors - including £731,527,000 (2021: £900,496,000) due after one year	6	1,169,629	1,317,747
<b>Creditors - amounts falling due within one year</b>	7	(9,991)	(98,037)
<b>Net current assets</b>		<b>1,159,638</b>	<b>1,219,710</b>
<b>Total assets less current liabilities</b>		<b>1,159,638</b>	<b>1,219,710</b>
<b>Creditors - amounts falling due after more than one year</b>	7	<b>(611,527)</b>	<b>(671,545)</b>
<b>Net assets</b>		<b>548,111</b>	<b>548,165</b>
<b>Capital and reserves</b>			
Called up share capital	9	476,989	476,989
Profit and loss account		71,122	71,176
<b>Total shareholders' funds</b>		<b>548,111</b>	<b>548,165</b>

The notes on pages 16 to 27 are an integral part of these financial statements.

The financial statements on pages 12 to 27 were approved by the board of directors and authorised for issue on 30 June 2023. They were signed on its behalf by :



F E Muir  
Director

**Pearson Funding plc**

**STATEMENT OF CHANGES IN EQUITY**

**For the year ended:**

**31 December 2022**

	<b>Called up share capital</b>	<b>Profit and loss account</b>	<b>Total shareholders' funds</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 2021	476,989	68,756	545,745
Profit for the financial year	-	2,420	2,420
<b>Total comprehensive income for the year</b>	-	2,420	2,420
<b>At 31 December 2021</b>	<b>476,989</b>	<b>71,176</b>	<b>548,165</b>
Loss for the financial year	-	(54)	(54)
<b>Total comprehensive loss for the year</b>	-	(54)	(54)
<b>At 31 December 2022</b>	<b>476,989</b>	<b>71,122</b>	<b>548,111</b>

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended:

31 December 2022

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### 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.

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 2022

No new standards were adopted in 2022.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the Company's financial statements.



## **Pearson Funding plc**

### **NOTES TO THE FINANCIAL STATEMENTS continued**

For the year ended:

31 December 2022

#### **1 Accounting Policies continued**

##### **Going concern**

The principal risk facing the company is the ability to maintain interest payments, covenant requirements and repayment of listed debt. All external debt has a back to back loan with the Company's parent, Pearson plc. The bonds are also guaranteed by Pearson plc. Thus, Pearson Funding plc is reliant on the performance of Pearson plc which has access to the resources of the Group. The company has received a letter of support from Pearson plc for a period of 12 months from the date of these financial statements. On the basis of the Company's assessment, including consideration of the position of the overall Group, the Company believes it will be able to continue for the foreseeable future.

The Group has also analysed a variety of downside scenarios including a severe but plausible scenario where the Group is impacted by a combination of all principal risks in both 2023 and H1 2024, adjusted for probability weighting as well as other significant risks, as well as reverse stress testing to identify the reduction in profit required before liquidity is exhausted at or before 30 June 2024. Based on these procedures and considering the strong balance sheet, the Group believes that it will be able to continue in operation and to meet its liabilities as they fall due for the period to 30 June 2024.

##### **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 Expected Credit Loss (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 2022**

**2**

**Operating profit**

Fees payable for the audit of these financial statements are borne by a fellow Group company and amounted to £50,000 (2021: £5,000 paid to previous auditor) for the current year.

No fees were paid to the company's auditors Ernst & Young LLP (2021: PricewaterhouseCoopers LLP £nil), and their associates for services other than the statutory audit of the company.

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**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 do not constitute a significant portion of their time and therefore 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 (2021: no one).

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**4**

**Interest**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest receivable and similar income</b>		
Interest receivable from group companies	<b>31,538</b>	28,428
Net foreign exchange gains	<b>223</b>	-
<b>Interest receivable and similar income</b>	<b>31,761</b>	28,428
	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest payable and similar expenses</b>		
Interest payable to group companies	<b>(4)</b>	(102)
Guarantee fees	<b>(11,295)</b>	(1,100)
Net foreign exchange loss	<b>-</b>	(1,172)
Interest payable on external borrowings	<b>(20,528)</b>	(23,066)
<b>Interest payable and similar expenses</b>	<b>(31,827)</b>	(25,440)

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**5**

**Tax on profit**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
UK corporation tax on (losses)/profits for the year	<b>(12)</b>	<b>568</b>
<b>Total current tax</b>	<b>(12)</b>	<b>568</b>
<b>Total tax (credit)/charge on (loss)/profit</b>	<b>(12)</b>	<b>568</b>
<b>UK standard effective rate of corporation tax (%)</b>	<b>19</b>	<b>19</b>

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

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>(Loss)/profit before taxation</b>	<b>(66)</b>	<b>2,988</b>
Tax on (loss)/profit at standard UK corporation tax rate of 19% (2021: 19%)	<b>(12)</b>	<b>568</b>
<b>Total tax (credit)/charge for the year</b>	<b>(12)</b>	<b>568</b>

The current rate of corporation tax is 19% which has been effective since April 2017. The Spring Budget 2021 announced an increase in the corporation tax rate to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021 and received Royal Assent on 10 June 2021.

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**6**

**Debtors**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>		
Amounts owed by group undertakings	<b>438,090</b>	417,251
Corporation tax	<b>12</b>	-
	<b>438,102</b>	417,251
<b>Amounts falling due in more than one year</b>		
Amounts owed by group undertakings	<b>731,527</b>	900,496
	<b>731,527</b>	900,496
<b>Total debtors</b>	<b>1,169,629</b>	1,317,747

On 19th May 2021, Pearson Funding plc repaid its 2021 €500m 1.875% bond. The amount repaid was €198,205,000 (equivalent £170,616,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

On 8 May 2022, the company repaid the final tranche of the 2022 \$500m 3.75% bond upon maturity. The amount repaid was \$117,273,000 (equivalent £86,792,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

On 16 December 2022, the company repaid the final tranche of the 2023 \$500m 3.25% bond. The amount repaid was \$94,176,000 (equivalent £78,090,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**7**

**Creditors**

		<b>2022</b>	<b>2021</b>
	<b>Note</b>	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>			
Amounts owed to group undertakings		(2)	-
Corporation tax		-	(568)
External interest payable on borrowings		(9,989)	(10,677)
2022 3.75% \$500m notes	8	-	(86,792)
		<b>(9,991)</b>	<b>(98,037)</b>
<b>Amounts falling due after more than one year</b>			
2023 3.25% \$500m notes	8	-	(69,698)
2025 1.375% €500m notes	8	(265,226)	(251,847)
2030 3.75% £350m notes	8	(346,301)	(350,000)
		<b>(611,527)</b>	<b>(671,545)</b>

On 19th May 2021, the company repaid its 2021 €500m 1.875% bond. The amount repaid was €198,205,000 (equivalent £170,616,000) being bond and associated interest. On the same date, Pearson plc repaid its loan from Pearson Funding plc for the same amount.

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**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**8**

**Loans and borrowings**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
2022 3.75% \$500m notes	-	(86,792)
2023 3.25% \$500m notes	-	(69,698)
2025 1.375% €500m notes	(265,226)	(251,847)
2030 3.75% £350m notes	(346,301)	(350,000)
	<b>(611,527)</b>	<b>(758,337)</b>
<b>Maturity of financial liabilities :</b>		
Between one and two years	-	(69,698)
Between two and five years	(265,226)	(251,847)
After five years	(346,301)	(350,000)
	<b>(611,527)</b>	<b>(671,545)</b>
On demand or within a year	-	(86,792)
	<b>(611,527)</b>	<b>(758,337)</b>

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 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 2022**

**9**

**Called up share capital**

	<b>2022</b>		<b>2021</b>	
	<b>£'000</b>		<b>£'000</b>	
<b>Total share capital</b>	<b>476,989</b>		<b>476,989</b>	

	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>No '000s</b>	<b>No '000s</b>	<b>£'000</b>	<b>£'000</b>
<b>Ordinary shares £1 each</b>				
Allotted, called up and fully paid	<b>476,989</b>	<b>476,989</b>	<b>476,989</b>	<b>476,989</b>

**Pearson Funding plc**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**10**

**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**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2022**

**11**

**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.