Pearson Management Services Limited

Registered Number : 00096263

Annual Report and Financial Statements

For the Year Ended : 31 December 2019

Registered address :
80 Strand, London WC2R 0RL

Pearson Management Services Limited

STRATEGIC REPORT

The directors present their Strategic Report of Pearson Management Services Limited (the "company") for the year ended 31 December 2019.

Business review
The results for the company show a loss for the year before taxation of £40,956,000 (2018: loss before taxation of £126,348,000). This includes an exceptional expense incurred in relation to the recognition of onerous leases of £3,000,000 (2018: £90,619,000).

The company provides management and advisory services throughout Pearson plc ('the group') generating revenue through management charges on these services. The directors are of the opinion that the current level of activity and the year end financial position are satisfactory and remain so in the foreseeable future.

During the year the company transferred intangible fixed assets with NBV of £70,806,000 to a Pearson Shared Services Limited, related party at nil profit/loss.

Key performance indicators
From the perspective of the company, the key performance indicators are integrated with the key performance indicators of the group and are not managed separately. Accordingly, the key performance indicators of the group which include those of the company, are discussed in the group's annual report, which does not form part of this report.

Future developments
The external commercial environment is expected to remain as competitive in 2020 as it was in 2019. However, it is expected that the company will maintain the current level of performance in the future, in line with the group results and expectations. The company will continue to develop an interactive learning platform to enable group companies to distribute access to resources for their customers, receiving a royalty for the service. This is expected to provide substantial future revenues in line with the group's continued focus on digital products.

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

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

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

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

In discharging our section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of our stakeholders and the financial markets. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the company's purpose together with its strategic priorities and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and predictable.

The Board also receives reports throughout the year which includes papers relating to business and financial performance, as well as highlighting any emerging themes.

Pearson Management Services Limited

STRATEGIC REPORT (continued)

Section 172 (1) Statement (continued)
While there are cases where the board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and the Pearson group means that generally our stakeholder engagement best takes place at an operational or group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on the some of the engagement that takes place with the group's stakeholders so as to encourage the directors to understand the issues to which they must have regard please see pages 14 and 15 of the Pearson plc 2019 Annual Report.

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

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.

COVID-19

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

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

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

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

On behalf of the board

SM Brennan

S M Brennan
Director
30 September 2020

Pearson Management Services Limited

DIRECTORS' REPORT

The directors present their report and the financial statements of Pearson Management Services Limited for the year ended 31 December 2019.

Dividends
No dividend was paid during the year (2018: £nil).

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

S M Brennan (appointed 24 April 2020)
C Williams (resigned 24 April 2020)
S K M Johnson
G S Baldwin (appointed 1 July 2020)
S A Jones (resigned 30 June 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. The company also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of itself and its directors and officers.

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

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

Further details on the directors' assessment of the impact on the going concern assessment is set out in the Strategic Report on page 2.

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

During the period the board received information to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was provided in a range of different formats including in reports and presentations on non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement. As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our s.172 duty to promote success of the company. For additional information into how engagement has influenced our decisions please see p3 of our strategic report.

Pearson Management Services Limited

DIRECTORS' REPORT

Employee and other stakeholder engagement (continued)

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

Our employees are also integral to the sustainable success of Pearson and the Company is a strong advocate of driving employee engagement within the Group. Pearson offers a variety of thriving Employee Resource Groups which have active UK chapters, including, amongst others, Able, Spectrum and Women in Learning and Leadership, which serve to cultivate and celebrate diversity and inclusion in the employee population. As a Group, Pearson has also created an Employee Engagement Network, providing an insight into the various employee perspectives across the Group.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards comprising Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to :

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

On behalf of the board

SM Brennan

S M Brennan
Director
30 September 2020

Company registered number :
00096263

Pearson Management Services Limited

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

Continuing operations	Note	2019 £'000	2018 £'000
Turnover	3	**125,466**	129,939
Gross profit		**125,466**	129,939
Administrative expenses		**(148,083)**	(150,988)
Exceptional administrative expenses		**(3,000)**	(97,877)
Other operating income		**2,141**	126
Operating loss	4	**(23,476)**	(118,800)
Loss before interest and taxation		**(23,476)**	(118,800)
Interest receivable and similar income	7	**37**	-
Interest payable and similar expenses	7	**(17,517)**	(7,548)
Loss before taxation		**(40,956)**	(126,348)
Tax on loss	8	**14,251**	11,290
Loss for the financial year		**(26,705)**	(115,058)

Pearson Management Services Limited

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

	2019	2018
	£'000	£'000
Loss for the financial year	**(26,705)**	(115,058)
Reserves transfer from liquidated company	**(17)**	-
Total comprehensive expense for the year	**(26,722)**	(115,058)

Pearson Management Services Limited

BALANCE SHEET
As at:
31 December 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	9	**149,115**	190,277
Tangible assets	10	**138,404**	12,768
Investments	11	**82**	82
		287,601	203,127
Current assets			
Debtors	12	**54,709**	55,286
Cash at bank and in hand		**9**	3,375
		54,718	58,661
Creditors - amounts falling due within one year	13	**(277,110)**	(328,718)
Net current liabilites		**(222,392)**	(270,057)
Total assets less current liabilities		**65,209**	*(66,930)*
Creditors - amounts falling due after more than one year	13	**(304,457)**	-
Provisions for liabilities	14	**(10,263)**	(95,642)
Net liabilites		**(249,511)**	(162,572)
Capital and reserves			
Called up share capital	16	**4,000**	4,000
Profit and loss account		**(260,143)**	(175,120)
Other reserves		**6,632**	8,548
Total shareholders' funds		**(249,511)**	(162,572)

For the year ended 31 December 2019:

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

The financial statements were approved by the board of directors and authorised for issue on 30 September 2020. They were signed on its behalf by:

SM Brennan

S M Brennan
Director

Pearson Management Services Limited

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

	Other reserves	Called up share capital	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2018	5,229	4,000	(63,142)	**(53,913)**
Loss for the financial year	-	-	(115,058)	**(115,058)**
Total comprehensive expense for the year	-	-	(115,058)	**(115,058)**
Share-based payment transactions	5,847	-	-	**5,847**
Deferred tax on share-based payment transactions	-	-	552	**552**
Shares exercised / lapsed during year	(2,528)	-	2,528	**-**
At 31 December 2018	8,548	4,000	(175,120)	**(162,572)**
Adjustment on initial application of IFRS 16 net of tax - (see note 23)	-	-	(63,708)	**(63,708)**
At 1 January 2019 (restated)	8,548	4,000	(238,828)	**(226,280)**
Loss for the financial year	-	-	(26,705)	**(26,705)**
Other comprehensive expenditure	-	-	(17)	**(17)**
Total comprehensive expense for the year	-	-	(26,722)	**(26,722)**
Share-based payment transactions	4,120	-	-	**4,120**
Deferred tax on share-based payment transactions	-	-	(629)	**(629)**
Shares exercised / lapsed during year	(6,036)	-	6,036	**-**
At 31 December 2019	**6,632**	**4,000**	**(260,143)**	**(249,511)**

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

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

Other reserves represents capital contributions from Pearson plc in relation to share-based payment charges.

Pearson Management Services Limited

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

1
Accounting policies
The principal accounting policies are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation
Pearson Management Services Limited is a private limited company, limited by shares, incorporated in the United Kingdom. The address of its registered office is 80 Strand, London WC2R 0RL. The nature of the company's principal activities are the supply of management and advisory services to companies within the group.

The financial statements of the company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

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

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

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. Where required, equivalent disclosures are given in the group financial statements of Pearson plc.:
a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
b) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
(i) paragraph 79(a)(iv) of IAS 1;
(ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
(iii) paragraph 118(e) of IAS 38 Intangible Assets;
c) the requirements of paragraphs 10(d), 16, 38(a), and 111 of IAS 1 Presentation of Financial Statements;
d) paragraphs 91-99 of IFRS 13 'Fair Value Measurement'
e) the requirements of IAS 7 Statement of Cash Flows;
f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
h) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets
i) 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
j) IFRS 7 'Financial Instruments: Disclosures'
k) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118. 119(a) to (c), 120 to 127 and129 of IFRS 15 Revenue from Contracts with Customers.
l) the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16.

Interpretations and amendments to published standards effective 2019
The following standards were adopted in 2019:
• IFRS 16 Leases
The impact of the adoption of this standard is set out in note 23.

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

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

1
Accounting policies (continued)

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

These financial statements are separate financial statements.

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

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

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

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

Revenue recognition
Revenue represents the invoiced value of services for support supplied, net of value added tax and trade discounts. Revenue is recognised when the amount can be reliably measured and when it is probable that future economic benefits will flow to the company.

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

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

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

Intangible assets
Software - Internal and external costs incurred during the preliminary stage of developing computer software for internal use are expensed as incurred. Internal and external costs incurred to develop computer software for internal use during the application development stage are capitalised if the company expects economic benefits from the development. Capitalisation in the application development stage begins once the company can reliably measure the expenditure attributable to the software development and has demonstrated its intention to complete and use the software. Software is amortised, when brought into use, on a straight-line basis over its estimated useful life of between 3 and 8 years.

Product development - These assets are capitalised on acquisition at cost and amortised on a straight line basis over their estimated useful lives of between 3 and 10 years.

1
Accounting policies (continued)

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

Plant and machinery 5-10 years
Fixtures and fittings 3-10 years
Leasehold buildings - over the period of the lease

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term investments with maturities of three months or less. Overdrafts are included in borrowings in current liabilities in the balance sheet.

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

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

Pensions
The company participates in The Pearson Pension Plan. This is a hybrid plan with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities.

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

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

1
Accounting policies (continued)

Leases
Policy applicable from 1 January 2019

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

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

Policy applicable before 1 January 2019

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

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

Share capital
Ordinary shares are classified as equity.

2
Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the company's accounting policies

Incremental borrowing rate

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

The are no other critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

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

Intangible assets

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

3
Turnover

	2019	2018
Continuing operations	**£'000**	£'000
Provision of services	**125,466**	129,939
	125,466	129,939

No revenue was derived from exchanges of goods or services (2018: £nil).

Turnover by geographical market is as follows:	**2019**	2018
	£'000	£'000
United Kingdom	**71,142**	74,995
North America	**48,943**	50,635
Rest of world	**5,381**	4,309
	125,466	129,939

4
Operating loss

Operating loss is stated after charging/(crediting):	**2019**	2018
	£'000	£'000
Staff costs	**49,840**	52,866
Depreciation of tangible fixed assets (excluding right of use assets):		
- Owned	**2,680**	3,794
Depreciation of right of use assets	**5,965**	-
Amortisation of intangible assets included in other operating expenses	**22,371**	28,156
Exceptional administrative expenses	**3,000**	97,877
Net foreign exchange (gains)/losses	**(2,695)**	7,543
Other operating income	**(2,141)**	(126)
Charitable donations	**742**	1,261

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

Exceptional administrative expenses
During the year ended 31 December 2018, a provision was recognised in respect of onerous leases, this provision was increased in 2019 by a further £3,000,000. Additionally, exceptional administrative expenses were incurred in the financial year ended 31 December 2018 relating to consultancy and legal fees incurred by the company on behalf of other group companies; these expenses were incurred in relation to the disposal of subsidiary and associated entities.

	2019	2018
	£'000	£'000
Expenses borne on behalf of group companies in relation to disposal of		
- subsidiary enterprises	-	3,437
- joint ventures and associates	-	3,821
Onerous lease provision recognised	**3,000**	90,619
	3,000	97,877

5
Staff costs

	2019	2018
Ordinary staff costs	**£'000**	£'000
Wages and salaries	**40,365**	37,514
Social security costs	**4,543**	4,399
Other pension costs	**1,670**	3,309
Share-based payment costs	**4,120**	5,847
Medical Insurance	**(1,050)**	329
Other employment costs	**192**	1,468
	49,840	52,866

	2019	2018
Average monthly number of persons employed by the company during the year	**Number**	Number
Administration	**490**	465
	490	465

6
Directors' remuneration

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.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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7
Interest

	2019	2018
Interest receivable	**£'000**	£'000
Bank interest receivable	37	-
Interest receivable and similar income	**37**	-

	2019	2018
Interest payable	**£'000**	£'000
Interest payable on overdrafts and bank loans	**-**	(29)
Interest on lease liabilities	**(11,271)**	-
Interest payable to group companies	**(6,246)**	(7,519)
Interest payable and similar expenses	**(17,517)**	(7,548)

8
Taxation

	2019	2018
	£'000	£'000
Current tax		
UK corporation tax credit on losses for the year	**(9,476)**	(19,926)
Adjustments in respect of prior years	**(4,740)**	148
Total current tax	**(14,216)**	(19,778)
Deferred tax		
Origination and reversal of temporary differences	**(861)**	3,151
Deferred tax on share-based payments	**704**	(656)
In respect of defined benefit schemes	**2,088**	-
Adjustments in respect of prior years	**(1,966)**	5,993
Total deferred tax	**(35)**	8,488
Total tax on loss	**(14,251)**	(11,290)
UK standard effective rate of corporation tax (%)	**19**	19

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

	2019	2018
	£'000	£'000
Loss before tax	**(40,956)**	(126,348)
Tax on loss at standard UK corporation tax rate of 19% (2018: 19%)	**(7,782)**	(24,006)
Effects of:		
Expenses not deductible for tax purposes	**470**	4,445
Income not taxable for tax purposes	**(338)**	-
Adjustments in respect of prior years	**(6,706)**	6,141
Change in tax laws and rates	**(144)**	(195)
Share-based payments	**249**	140
Roll over relief claim	**-**	3,971
Capital losses utilised	**-**	(1,786)
Total tax credit for the year	**(14,251)**	(11,290)

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

In addition to the amount charged in the income statement, the following amounts relating to tax have been recognised directly in equity:

	2019	2018
	£'000	£'000
Deferred tax		
Deferred tax on share-based payment transactions	**629**	(552)
Total income tax recognised directly in equity	**629**	(552)

9
Intangible fixed assets

	Assets under construction	Software	Product development	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2019	40,252	88,533	123,981	252,766
Additions	29,814	1,211	28,599	59,624
Disposals	(9,307)	(84,271)	-	(93,578)
Transfers	(1,535)	-	2,223	688
At 31 December 2019	**59,224**	**5,473**	**154,803**	**219,500**
Amortisation				
At 1 January 2019	-	18,482	44,007	62,489
Charge for the year	-	181	22,190	22,371
Disposals	-	(14,475)	-	(14,475)
At 31 December 2019	**-**	**4,188**	**66,197**	**70,385**
Net book value				
At 31 December 2018	40,252	70,051	79,974	190,277
At 31 December 2019	**59,224**	**1,285**	**88,606**	**149,115**

Assets under construction
Assets under construction comprises both software and product development prior to completion.

Software
Software includes Global Finance systems deployment, with a remaining amortisation period of four years.

Product development
Product development relates to an interactive learning platform that is used by multiple Pearson Group entities to deliver educational content and resources to customers. The asset has a remaining amortisation period of between three and nine years.

10
Tangible fixed assets

	Right-of-use assets		Owned assets				
	Land & buildings	Plant & machinery	Work in Progress	Land & buildings	Plant & machinery	Fixtures & fittings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 January 2019	-	-	760	44,783	4,568	2,706	52,817
Adjustment on initial application of IFRS 16 (see note 23)	125,365	83	-	-	-	-	125,448
Additions	8,530	-	4,164	-	-	-	12,694
Disposals	-	(13)	(2,765)	-	(3,549)	(39)	(6,366)
Transfers	-	-	(1,040)	352	-	-	(688)
At 31 December 2019	**133,895**	**70**	**1,119**	**45,135**	**1,019**	**2,667**	**183,905**
Depreciation							
At 1 January 2019	-	-	-	35,631	3,344	1,074	40,049
Charge for the year	5,939	26	-	2,396	108	176	8,645
Disposals	-	(2)	-	-	(3,185)	(6)	(3,193)
At 31 December 2019	**5,939**	**24**	**-**	**38,027**	**267**	**1,244**	**45,501**
Net book value							
At 31 December 2018	-	-	760	9,152	1,224	1,632	12,768
At 31 December 2019	**127,956**	**46**	**1,119**	**7,108**	**752**	**1,423**	**138,404**

11
Investments

	Note	**2019**	2018
		£'000	£'000
Other		**82**	82
	11a	**82**	82

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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11a
Other investments

	2019	2018
	£'000	£'000
Other	**82**	82
	82	82

Details of other investments :

	% owned
Peter Rabbit Picture Letter written in 1893	100

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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Debtors

	Note	**2019**	2018
		£'000	£'000
Amounts falling due within one year			
Trade debtors		**15**	28
Amounts owed by group undertakings		**10,436**	14,387
Deferred taxation	15	**11,291**	-
Corporation tax		**10,171**	19,773
Other taxation		**10,177**	8,744
Other debtors		**6,697**	2,850
Prepayments and accrued income		**5,922**	9,504
		54,709	55,286

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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13
Creditors

	2019	2018
	£'000	£'000
Amounts falling due within one year		
Bank loans and overdrafts	**(47)**	-
Obligations under finance leases	**(5,058)**	-
Trade creditors	**(6,040)**	(5,214)
Amounts owed to group undertakings	**(245,238)**	(267,174)
Other creditors	**(9,855)**	(27,376)
Accruals and deferred income	**(10,872)**	(28,954)
	(277,110)	(328,718)
Amounts falling due after more than one year		
Obligations under finance leases	**(304,457)**	-
	(304,457)	-

14
Provisions

	Restructuring	Post-Retirement Medical Benefit	Other Provisions	Total
	£'000	**£'000**	**£'000**	**£'000**
At 1 January 2019	(1,551)	(2,308)	(90,619)	(94,478)
(Charged)/credited to profit and loss account	(9,776)	129	(3,876)	(13,523)
Unused amounts reversed to profit and loss account	438	1,050	-	1,488
Utilisation of provision	2,631	-	93,619	96,250
At 31 December 2019	**(8,258)**	**(1,129)**	**(876)**	**(10,263)**
Deferred taxation liability			Note 15	-
				(10,263)

The Post-Retirement Medical Benefit provision relates to a scheme which provides medical health care to retired employees.

Other provisions relate to a maintenance provision for external work to be carried out on the company's assets.On the initial application of IFRS 16 (see note 24) onerous lease provisions have been offset against the relevant right-of-use asset.

The restructuring provision relates to costs in respect of the group's reorganisation project.

15
Deferred taxation

Assets/(Liabilities)	Share schemes £'000	Capital allowances £'000	Other timing differences £'000	Total £'000
At 1 January 2019	2,109	(1,605)	(1,668)	(1,164)
Adjustment on initial application of IFRS 16 (see note 23)	-	-	13,049	13,049
(Charged)/credited to profit and loss	(704)	833	(94)	35
(Charged) to equity	(629)	-	-	(629)
At 31 December 2019	**776**	**(772)**	**11,287**	**11,291**

	2019 £'000	2018 £'000
Deferred tax assets due after more than one year	**11,291**	-
Deferred tax liabilities due after more than one year	-	(1,164)
Total deferred taxation	**11,291**	(1,164)

The company has an unprovided deferred tax asset relating to carried forward trading losses of £1,090,000 (2018: £1,090,000).

16
Called up share capital

	2019	2018
	£'000	£'000
Total share capital	**4,000**	4,000

	2019	2018	2019	2018
Ordinary shares £10 each	**No '000s**	No '000s	**£'000**	£'000
Allotted, called up and fully paid	**400**	400	**4,000**	4,000

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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17
Share-based payments

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

Worldwide Save-for-Shares Plans

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

Long-Term Incentive Plan

The plan was first introduced in 2001, renewed again in 2006 and again in 2011. The plan consists of restricted shares. The vesting of restricted shares is normally dependent on continuing service over a three-to five-year period, and in the case of executive directors and senior management upon the satisfaction of corporate performance targets over a three-year period. These targets may be based on market and/or non-market performance criteria. Restricted shares awarded to executive directors in May 2019 and May 2018 vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Other restricted shares awarded in 2019 and 2018 vest depending on continuing service over periods of up to three years.

Management Incentive Plan

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

	2019 Number of share options 000s	**2019 Weighted average exercise price £**	2018 Number of share options 000s	2018 Weighted average exercise price £
Outstanding at beginning of year	**258**	**5.91**	247	6.16
Granted during the year	**82**	**6.77**	78	5.80
Exercised during the year	**(50)**	**6.41**	(5)	5.90
Forfeited during the year	**(51)**	**6.28**	(62)	6.76
Outstanding at end of year	**239**	**6.02**	258	5.91

17
Share-based payments continued

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

Range of exercise prices £	**2019 Number of share options 000s**	**2019 Weighted average contract. life Years**	2018 Number of share options 000s	2018 Weighted average contract. life Years
5-10	**238**	**0.70**	255	1.50
10-15	**1**	**1.09**	3	0.48
	239	**2.10**	258	2.37

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
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18
Retirement benefit schemes

The company participates in The Pearson Pension Plan. This is a hybrid plan with both defined benefit and defined contribution sections but, predominantly, consisting of defined benefit liabilities.

The company is unable to identify its share of the underlying assets and liabilities of The Pearson Pension Plan owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 *(Revised 2011), the company recognises a cost equal to its contribution payable for the period, which in the year ended* 31 December 2019 was £1.7m (2018: £3.3m). The sponsoring entity to this plan is Pearson Services Limited, consolidated with Pearson PLC, further details are disclosed in the financial statements of Pearson plc on pages 171 to 176 which are publicly available.

19
Contingent liabilities

Bank guarantees

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 17 of its subsidiaries, 'the guarantors', are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. Under this arrangement, the net cash position at 31 December 2019 was £47,364,372 (2018: net cash position £51,597,127).

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

20
Post balance sheet events

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

21
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.

22
Ultimate parent undertaking

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

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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23
Leases

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

	At 31 December 2018 under IAS 17	Impact of IFRS 16	At 1 January 2019
	£'000	£'000	£'000
Right of use asset	-	125,448	125,448
Tangible assets	12,768	-	12,768
Other fixed assets	190,359	-	190,359
Deferred tax (liability)/asset	(1,164)	13,049	11,885
Current assets	58,661	-	58,661
Total Assets	260,624	138,497	399,121
Current liabilities (excluding lease liabilities)	(324,842)	23,644	(301,198)
Current finance lease liabilities	-	(9,802)	(9,802)
Non-current liabilities (excluding lease liabilities)	-	-	-
Non-current lease liabilities	-	(306,336)	(306,336)
Provision for liabilities	(98,354)	90,289	(8,065)
Total liabilities	(423,196)	(202,205)	(625,401)
Net assets	(162,572)	(63,708)	(226,280)
Retained earnings	(175,120)	(63,708)	(238,828)
Other changes in equity	12,548	-	12,548
Total equity shareholders' funds	(162,572)	(63,708)	(226,280)

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

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

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

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued
For the year ended :
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23
Leases (continued)

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

	At 1 January 2019
	£'000
Operating lease commitments disclosed at 31 December 2018	463,685
Discounted using the lessee's incremental borrowing rate at the date of initial application	(147,464)
Additional lease liability recognised at 1 January 2019	(316,221)

The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%.

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

		2019
	Note	**£'000**
Interest on lease liabilities	7	(11,271)
Depreciation of right-of-use assets	10	(5,965)

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

The maturities of lease liabilities are as follows:

	2019
	£'000
Less than one year	(16,110)
One to five years	(86,007)
More than five years	(346,923)
Total undiscounted lease liabilities at 31 December	(449,040)
Lease liabilities included in the balance sheet at 31 December	
Current	(5,058)
Non-current	(304,457)

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