

Pearson Management Services Limited

Registered Number :

00096263

Annual Report and Financial Statements

For the Year Ended :

31 December 2022

Registered address :

80 Strand, London WC2R 0RL

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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 2022.

Principal activity and Business model

The results for the company show a loss for the year before taxation of £97,889,000 (2021: £158,118,000). This includes an exceptional expense incurred in relation to the impairment of right of use assets of £18,660,000 (2021: £86,747,000).

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 will remain so in the foreseeable future.

Key performance indicators

From the perspective of the company, the key performance indicators are integrated with the key performance indicators of the consolidated financial statements of Pearson plc ('the Group') and are not managed separately. Accordingly, the key performance indicators of Pearson plc, which include those of the company, are discussed in the Group's annual report, which does not form part of this report.

Future developments

The external commercial environment is expected to remain as competitive in 2023 as it was in 2022. 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.

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.

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 and other factors which we consider relevant to the decision being made. 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.

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 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, 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 promotion of the long-term success of the company and enhancement of its reputation.

We delegate authority for day-to-day management of the company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held periodically where the directors consider the company's activities and make decisions. As a part of those meetings the directors receive information in a range of different formats on section 172 matters when making relevant decisions. For example, each year we make an assessment of the strength of the company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends. There were no dividend payments in 2022 (2021: £nil).

On behalf of the board



R M Coulson
Director
9 October 2023

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 2022.

Directors

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

F E Muir
R M Coulson (appointed 6 October 2022)
S K M Johnson (resigned 6 October 2022)
G S Baldwin

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, is discussed in the Group's annual report which does not form part of this report.

Post balance sheet events

On 31 March 2023, the company sold certain technology assets to Pearson Overseas Holdings Limited, a related party, on arm's length terms, with consideration being \$227m.

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 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 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 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 26-29, 33 to 35, and 67 to 68 of the Pearson plc 2022 Annual Report.

During the year 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 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 section 172 duties to promote success of the company. For additional information into how engagement has influenced our decisions, please see 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. Our Employee Engagement Network provided an insight into the various employee perspectives across the Group in 2022. A wider programme of engagement activities with employees was endorsed by the Group for roll-out in 2023.

Employees

Employee involvement - The company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the company plays a major role in achieving the company's business goals.

Disabled employees - The company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the company. If members of staff become disabled during their service with the company, the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

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

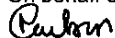
Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards comprising Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and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



R M Coulson

Director

9 October 2023

Company registered number :

00096263

Pearson Management Services Limited

PROFIT AND LOSS ACCOUNT

For the year ended:

31 December 2022

		2022	2021
	Note	£'000	£'000
Continuing operations			
Turnover	3	89,669	86,256
Gross profit		89,669	86,256
Administrative expenses		(172,978)	(223,673)
Other operating income		4,886	3,150
Gain on disposal of right of use assets		5,949	-
Operating loss	4	(72,474)	(134,267)
Interest payable and similar expenses	7	(25,415)	(23,851)
Loss before taxation		(97,889)	(158,118)
Tax on loss	8	15,820	25,482
Loss for the financial year		(82,069)	(132,636)

Pearson Management Services Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended:

31 December 2022

	2022	2021
	£'000	£'000
Loss for the financial year	(82,069)	(132,636)
Total comprehensive expense for the year	(82,069)	(132,636)

Pearson Management Services Limited

BALANCE SHEET

As at:

31 December 2022

		2022	2021
	Note	£'000	£'000
Fixed assets			
Intangible assets	9	158,806	172,450
Tangible assets	10	87,767	91,967
Investments	11	82	82
		246,655	264,499
Current assets			
Debtors (including £54,704,000 (2021: £47,461,000) due after more than one year)	12	100,800	78,831
Cash at bank and in hand		872	1,171
		101,672	80,002
Creditors - amounts falling due within one year	13	(538,906)	(457,810)
Net current liabilities		(437,234)	(377,808)
Total assets less current liabilities		(190,579)	(113,309)
Creditors - amounts falling due after more than one year	13	(286,428)	(290,464)
Provisions for liabilities	14	(9,800)	(4,734)
Net liabilities		(486,807)	(408,507)
Capital and reserves			
Called up share capital	16	4,000	4,000
Profit and loss account		(496,533)	(417,579)
Other reserves		5,726	5,072
Total shareholders' deficit		(486,807)	(408,507)

For the year ended 31 December 2022:

- 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 9 October 2023. They were signed on its behalf by:



R M Coulson
Director

Pearson Management Services Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended:

31 December 2022

	Other reserves	Called up share capital	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2021	5,760	4,000	(288,336)	(278,576)
Loss for the financial year	-	-	(132,636)	(132,636)
Total comprehensive expense for the year	-	-	(132,636)	(132,636)
Share-based payment transactions	2,715	-	-	2,715
Deferred tax on share-based payment transactions	-	-	(10)	(10)
Shares exercised / lapsed during year	(3,403)	-	3,403	-
At 31 December 2021	5,072	4,000	(417,579)	(408,507)
Loss for the financial year	-	-	(82,069)	(82,069)
Total comprehensive expense for the year	-	-	(82,069)	(82,069)
Share-based payment transactions	3,184	-	-	3,184
Current tax on share-based payment transactions	-	-	130	130
Deferred tax on share-based payment transactions	-	-	455	455
Shares exercised / lapsed during year	(2,530)	-	2,530	-
At 31 December 2022	5,726	4,000	(496,533)	(486,807)

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 2022

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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 company, limited by shares, incorporated in the United Kingdom. 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' (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 necessary, on a basis consistent with the current year.

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';
- 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 and 129 of IFRS 15 'Revenue from Contracts with Customers'; and
- l) the requirements of paragraph 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases'.

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 Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2022

1

Accounting policies (continued)

Going concern

The directors are of the opinion that through the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate.

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. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction and are not re-translated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Revenue recognition

Revenue represents the invoiced value of services for support supplied, net of value added tax and trade discounts. Revenue is recognised upon provision of services when the amount can be reliably measured and when it is probable that future economic benefits will flow to the company. The transaction price determined is net of sales taxes, rebates and discounts. Variable consideration is measured using the expected value method. Historical experience, current trends, local circumstances and customer-specific funding formulae are considered in estimating and constraining variable consideration. To the extent that a higher degree of uncertainty exists regarding variable consideration, these amounts are excluded from the transaction price and recognised when the uncertainty is reasonably removed.

Judgement is applied to determine whether control passes over time and if not, the point in time at which control passes. Where revenue is recognised over time judgement is used to determine the method which best depicts the transfer of control.

Turnover that is recognised ahead of billings is shown as accrued income in the balance sheet. Turnover that is recognised as relating to future accounting periods is shown as deferred income in the balance sheet.

Current and deferred income tax

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

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

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

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.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2022

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.

Impairment of non-financial assets

Investments are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value of the investment exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2022

1

Accounting policies (continued)

Share-based payments

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

Leases

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.

As a lessor:

When the company is an intermediate lessor, the head lease and sub-lease are accounted for as two separate contracts. The head lease is accounted for as per the lessee policy above. The sub-lease is classified as a finance lease or operating lease by reference to the right-of-use asset arising from the head lease. Where the lease transfers substantially all the risks and rewards of ownership to the lessee the contract is classified as a finance lease; all other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Amounts due from lessees under finance sub-leases are recognised as receivables at the amount of the company's net investment in the leases discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the discount rate used in the head lease.

Share capital

Ordinary shares are classified as equity.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2022

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.

There 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 factors. See accounting policies and intangible assets note for the carrying amount and for the useful economic lives for each class of assets.

Right of use assets

The recoverability of right-of-use assets and in particular assumptions related to the ability to sublease vacant leased assets in the future. See note 10 for further details.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2022

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Turnover

	2022	2021
	£'000	£'000
<i>Continuing operations</i>		
Provision of services	89,669	86,256
	89,669	86,256

No revenue was derived from exchanges of goods or services (2021: £nil).

Turnover by geographical market is as follows:

	2022	2021
	£'000	£'000
United Kingdom	37,086	41,482
North America	51,125	43,660
Rest of world	1,458	1,114
	89,669	86,256

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2022

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Operating loss

Operating loss is stated after charging/(crediting):

	2022	2021
	£'000	£'000
Staff costs	40,142	37,063
Depreciation of tangible fixed assets (excluding right of use assets):		
- Owned	5,318	4,765
Depreciation of right of use assets	9,419	4,694
Amortisation of intangible assets included in other operating expenses	28,016	28,381
Impairment of right of use assets	18,660	86,747
Other operating income	(4,886)	(3,150)
Gain on disposal of right of use assets	(5,949)	-
Charitable donations	1,136	715

Fees paid to the group's auditor for the year, Ernst & Young 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.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2022

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Staff costs

	2022	2021
	£'000	£'000
Ordinary staff costs		
Wages and salaries	27,706	22,253
Social security costs	4,209	3,729
Other pension costs	2,260	2,168
Share-based payment costs	3,184	2,715
Other employment costs	452	368
Provision for loss of office (note 14)	2,331	5,830
	40,142	37,063

	2022	2021
	Number	Number
Average monthly number of persons employed by the company during the year		
Administration	308	303
	308	303

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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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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Interest

	2022	2021
	£'000	£'000
Interest payable		
Interest on lease liabilities	(10,852)	(10,808)
Interest payable to group companies	(14,563)	(13,043)
Interest payable and similar expenses	(25,415)	(23,851)

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Taxation

	2022	2021
	£'000	£'000
Current tax		
UK corporation tax credit on losses for the year	(10,722)	(760)
Adjustments in respect of prior years	1,688	4,527
Total current tax	(9,033)	3,767
Deferred tax		
Origination and reversal of temporary differences	(2,045)	(18,296)
Impact of change in tax laws and rates	(646)	(11,131)
Deferred tax on share-based payments	(310)	139
Adjustments in respect of prior years	(3,786)	38
Total deferred tax	(6,787)	(29,249)
Total tax on loss	(15,820)	(25,482)
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:

	2022	2021
	£'000	£'000
Loss before tax	(97,889)	(158,118)
Tax on loss at standard UK corporation tax rate of 19% (2021: 19%)	(18,599)	(30,042)
Effects of:		
Expenses not deductible for tax purposes	3,832	2,874
Income not taxable for tax purposes	-	(598)
Current year losses group relieved for Nil payment	1,910	8,195
Adjustments in respect of prior years	(2,098)	4,565
Change in tax laws and rates	(646)	(11,131)
Share-based payments	(219)	655
Total tax credit for the year	(15,820)	(25,482)

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.

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

	2022	2021
	£'000	£'000
Current tax		
Current tax on share-based payment transactions	(130)	-
	(130)	-
Deferred tax		
Deferred tax on share-based payment transactions	(455)	10
	(455)	10
Total income tax recognised directly in equity	(585)	10

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Intangible fixed assets

	Assets under construction	Software	Product development	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2022	71,054	4,562	222,325	297,941
Additions	338	-	14,034	14,372
Disposals	-	(342)	-	(342)
Transfers	(180)	180	-	-
At 31 December 2022	71,212	4,400	236,359	311,971
Amortisation				
At 1 January 2022	-	883	124,608	125,491
Charge for the year	-	595	27,421	28,016
Disposals	-	(342)	-	(342)
At 31 December 2022	-	1,136	152,029	153,165
Net book value				
At 31 December 2021	71,054	3,679	97,717	172,450
At 31 December 2022	71,212	3,264	84,330	158,806

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.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Tangible fixed assets

	Right-of-use assets			Owned assets			Total
	Land & buildings	Motor Vehicles	Assets under construction	Land & buildings	Plant & machinery	Fixtures & fittings	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 January 2022	152,612	42	4,372	38,245	2,709	751	198,731
Additions	-	-	1,921	12,768	-	-	14,689
Disposals	(7,135)	(14)	(2,756)	-	-	-	(9,905)
Transfers	-	-	(3,307)	(364)	640	3,031	-
Remeasurements	17,264	-	-	-	-	-	17,264
At 31 December 2022	162,741	28	230	50,649	3,349	3,782	220,779
Depreciation							
At 1 January 2022	103,723	35	-	2,019	726	261	106,764
Charge for the year	9,412	7	-	4,462	492	364	14,737
Disposals	(7,135)	(14)	-	-	-	-	(7,149)
Impairment	18,660	-	-	-	-	-	18,660
At 31 December 2022	124,660	28	-	6,481	1,218	625	133,012
Net book value							
At 31 December 2021	48,889	7	4,372	36,226	1,983	490	91,967
At 31 December 2022	38,081	-	230	44,168	2,131	3,157	87,767

Property, plant and equipment assets are assessed for impairment triggers annually or when triggering events occur. As part of a major restructuring programme, Pearson plc simplified its property portfolio, reducing the overall office space required. All property related assets were assessed for impairment as a result of this triggering event resulting in an impairment of £18,660,000 in 2022 (2021: £86,747,000). The recoverability of certain of the company's right-of-use assets is now based on the company's ability to sublease vacant space.

This involves the use of assumptions related to future subleases including the achievable rent, lease start dates, lease incentives such as rent free periods and the discount rate applied. Should the future sublease outcomes be more or less favourable than the assumptions used by management this could result in additional impairment charges or reversals of impairment charges.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Investments

	Note	2022	2021
		£'000	£'000
Other investments	11a	82	82
		82	82

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

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11a

Other investments

	2022	2021
	£'000	£'000
Other	82	82
	82	82
Details of other investments :	2022	2021
	% owned	% owned
Peter Rabbit Picture Letter written in 1893	100%	100%

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Debtors

	Note	2022	2021
		£'000	£'000
Amounts falling due within one year			
Trade debtors		-	10
Amounts owed by group undertakings		16,075	8,801
Corporation tax		11,921	3,691
Other taxation		3,611	6,063
Other debtors		12,565	10,216
Prepayments and accrued income		1,924	2,589
Total debtors		46,096	31,370
Amounts falling due in more than one year			
Deferred taxation	15	54,704	47,461
		54,704	47,461
Total debtors		100,800	78,831

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Creditors

	2022	2021
	£'000	£'000
Amounts falling due within one year		
Lease liabilities	(7,381)	(5,333)
Trade creditors	(5,276)	(6,538)
Amounts owed to group undertakings	(505,534)	(423,288)
Other creditors	(4,174)	(8,056)
<i>Accruals and deferred income</i>	(16,541)	(14,595)
	(538,906)	(457,810)
Amounts falling due after more than one year		
Lease liabilities	(286,428)	(290,464)
	(286,428)	(290,464)
Total creditors	(825,334)	(748,274)

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

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Provisions

	Restructuring	Post-Retirement Medical Benefit	Other Provisions	Total
	£'000	£'000	£'000	£'000
At 1 January 2022	(2,346)	(535)	(1,853)	(4,734)
Charged to profit and loss account	(2,331)	-	(6,175)	(8,506)
Unused amounts reversed to profit and loss account	45	-	414	459
Utilisation of provision	2,003	-	978	2,981
At 31 December 2022	(2,629)	(535)	(6,636)	(9,800)

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.

The restructuring provision related to costs in respect of the group's reorganisation project. Provided costs include staff costs in relation to redundancies due to be utilised within 12 months.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Deferred taxation

	Share schemes	Capital allowances	Other temporary differences	Losses	Total
Assets	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	1,084	670	12,942	32,765	47,461
Credited/(charged) to profit and loss	71	(136)	(7,713)	14,566	6,788
Credited to equity	455	-	-	-	455
At 31 December 2022	1,610	534	5,229	47,331	54,704
				2022	2021
				£'000	£'000
Deferred tax assets due after more than one year				54,704	47,461
Total deferred taxation				54,704	47,461

The company has an unprovided deferred tax asset relating to carried forward trading losses of £nil (2021: £1,430,000).

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Called up share capital

	2022		2021	
	£'000		£'000	
Total share capital	4,000		4,000	
	2022	2021	2022	2021
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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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

The Group has a Worldwide Save for Shares Plan. Under these plans, employees can save a portion of their monthly salary over a period of three years. At the end of this period, the employee has the option to purchase ordinary shares with the accumulated funds at a purchase price equal to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan. Options that are not exercised within six months of the end of the savings period lapse unconditionally.

Long-Term Incentive Plan

The plan was first introduced in 2001 and from time to time the plan rules are renewed. 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 2022, May 2021 and May 2020 vest dependent on relative total shareholder return, return on invested capital and adjusted earnings per share growth. Other restricted shares awarded in 2022, 2021 and 2020 generally vest depending on continuing service over periods of up to four 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 the Pearson Executive Management team, upon satisfaction of non-market based performance criteria as determined by the Remuneration Committee. Restricted shares awarded as part of the 2020 Long-Term Incentive Plan were granted in April 2021. In 2021 this scheme was replaced by the Long-Term Incentive Plan for senior management.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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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 2022, was £2.3m (2021: £2.2m). The sponsoring entity to this plan is Pearson Services Limited and further details are disclosed in the accounts of that company which are available from the Company Secretary, 80 Strand, London WC2R 0RL.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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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 2022 was £6,049,575 (2021: net cash position £79,525,979). The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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Post balance sheet events

On 31 March 2023, the company sold certain technology assets to Pearson Overseas Holdings Limited, a related party, on arm's length terms, with consideration being \$227m.

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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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 Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

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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.