

**Pearson Management Services Limited**

Registered Number :

00096263

Annual Report and Financial Statements

For the Year Ended :

31 December 2020

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 2020.

#### **Business review**

The results for the company show a loss for the year before taxation of £37,532,000 (2019: loss before taxation of £40,956,000). This includes an exceptional expense incurred in relation to the recognition of onerous leases of £nil (2019: £3,000,000).

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.

#### **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 2021 as it was in 2020. 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.

#### **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 27 to 29 of the Pearson plc 2020 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 2020 (2019: £nil).

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**

We have continued to monitor COVID-19 developments closely on a day-by-day basis and invoked our business continuity plans.

The global outbreak of COVID-19 continues to rapidly evolve and the extent to which COVID-19 may impact our business and operations will depend on future developments, including the success of the government vaccination programme and the emergence of new variants. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence.

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

**Brexit**

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

On behalf of the board



G S Baldwin  
Director  
22 September 2021

## **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 2020.

#### **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 foreseeable future. The Pearson plc group has also reassessed its funding requirements considering the impact of the COVID-19 pandemic on the business. The impact has been modelled under several scenarios to ensure that the likelihood of a prolonged period of disruption has been appropriately considered in assessing the availability of funding to the group and the ability of the group to comply with its banking covenants. Based on this modelling and a review of historical trends in working capital requirements and forecast balance sheets for the next 12 months the group believes that it will comply with its banking covenants and has sufficient funds available for the group's present requirements. *Therefore the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate.*

#### **Dividends**

No dividend was paid during the year (2019: £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, resigned 30 July 2021)

C Williams (resigned 24 April 2020)

F E Muir (appointed 30 July 2021)

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**

*In March 2021, the Group announced that it planned to simplify its property portfolio to occupy a significantly smaller square footage. The property simplification programme is ongoing. Decisions and actions have been taken in the post balance sheet period which will result in further impairments to the Group's right of use assets within the £130m estimate announced in March 2021. A right of use asset was impaired by £51.9m in April 2021 by Pearson Management Services Limited in respect of this.*

## DIRECTORS' REPORT

### 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 27-29 and 80-81 of the Pearson plc 2020 Annual Report.

During 2020 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 p2 of our strategic report.

Furthermore education is constantly 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



G S Baldwin  
Director  
22 September 2021

Company registered number:  
00096263

**Pearson Management Services Limited**

**PROFIT AND LOSS ACCOUNT**

**For the year ended:**

**31 December 2020**

		2020	2019
Continuing operations	Note	£'000	£'000
Turnover	3	105,897	125,466
<b>Gross profit</b>		<b>105,897</b>	<b>125,466</b>
Administrative expenses		(128,402)	(148,083)
Exceptional administrative expenses		-	(3,000)
Other operating income		2,467	2,141
<b>Operating loss</b>	4	<b>(20,038)</b>	<b>(23,476)</b>
<b>Loss before interest and taxation</b>		<b>(20,038)</b>	<b>(23,476)</b>
Interest receivable and similar income	7	-	37
Interest payable and similar expenses	7	(17,494)	(17,517)
<b>Loss before taxation</b>		<b>(37,532)</b>	<b>(40,956)</b>
Tax on loss	8	15,073	14,251
<b>Loss for the financial year</b>		<b>(22,459)</b>	<b>(26,705)</b>

Pearson Management Services Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended:

31 December 2020

	2020	2019
	£'000	£'000
Loss for the financial year	(22,459)	(26,705)
Reserves transfer from liquidated company	-	(17)
<b>Total comprehensive expense for the year</b>	<b>(22,459)</b>	<b>(26,722)</b>

Pearson Management Services Limited

**BALANCE SHEET**

As at:

31 December 2020

		2020	2019
	Note	£'000	£'000
<b>Fixed assets</b>			
Intangible assets	9	177,249	149,115
Tangible assets	10	140,554	138,404
Investments	11	82	82
		<b>317,885</b>	<b>287,601</b>
<b>Current assets</b>			
Debtors	12	65,602	54,709
Cash at bank and in hand		365	9
		<b>65,967</b>	<b>54,718</b>
<b>Creditors - amounts falling due within one year</b>	13	<b>(356,044)</b>	<b>(277,110)</b>
<b>Net current liabilities</b>		<b>(290,077)</b>	<b>(222,392)</b>
<b>Total assets less current liabilities</b>		<b>27,808</b>	<b>65,209</b>
<b>Creditors - amounts falling due after more than one year</b>	13	<b>(293,732)</b>	<b>(304,457)</b>
<b>Provisions for liabilities</b>	14	<b>(2,605)</b>	<b>(10,263)</b>
<b>Net liabilities</b>		<b>(268,529)</b>	<b>(249,511)</b>
<b>Capital and reserves</b>			
Called up share capital	16	4,000	4,000
Profit and loss account		(278,289)	(260,143)
Other reserves		5,760	6,632
<b>Total shareholders' deficit</b>		<b>(268,529)</b>	<b>(249,511)</b>

For the year ended 31 December 2020:

- 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 22 September 2021. They were signed on its behalf by:



G S Baldwin  
Director



**Pearson Management Services Limited**

**STATEMENT OF CHANGES IN EQUITY**

For the year ended:

**31 December 2020**

	Other reserves	Called up share capital	Profit and loss account	Total
	£'000	£'000	£'000	£'000
<b>At 1 January 2019</b>	8,548	4,000	(238,828)	<b>(226,280)</b>
Loss for the financial year	-	-	(26,705)	<b>(26,705)</b>
Other comprehensive expenditure	-	-	(17)	<b>(17)</b>
<b>Total comprehensive expense for the year</b>	-	-	<b>(26,722)</b>	<b>(26,722)</b>
Share-based payment transactions	4,120	-	-	<b>4,120</b>
Deferred tax on share-based payment transactions	-	-	(629)	<b>(629)</b>
Shares exercised / lapsed during year	(6,036)	-	6,036	-
<b>At 31 December 2019</b>	6,632	4,000	(260,143)	<b>(249,511)</b>
Loss for the financial year	-	-	(22,459)	<b>(22,459)</b>
<b>Total comprehensive expense for the year</b>	-	-	<b>(22,459)</b>	<b>(22,459)</b>
Share-based payment transactions	3,300	-	-	<b>3,300</b>
Deferred tax on share-based payment transactions	-	-	141	<b>141</b>
Shares exercised / lapsed during year	(4,172)	-	4,172	-
<b>At 31 December 2020</b>	<b>5,760</b>	<b>4,000</b>	<b>(278,289)</b>	<b>(268,529)</b>

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 2020**

**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 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)(v) 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 2020**

No new standards were adopted in 2020.

*Change of accounting policy: Amendments to IFRS 16*

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

A number of other new pronouncements are also effective from 1 January 2020 but they do not have a material impact on the financial statements. Additional disclosure has been given where relevant.

*Standards, interpretations and amendments to published standards that are not yet effective*

A number of other new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. None of these is expected to have a material impact on the financial statements.

**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.

## Pearson Management Services Limited

### NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

1

#### Accounting policies (continued)

##### Going concern

Following the global outbreak of COVID-19 and actions taken by the government in March 2020 and subsequently to contain and treat the disease, the directors have considered the impact of the COVID-19 pandemic on its businesses in 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 foreseeable future. The Pearson plc group has also reassessed its funding requirements considering the impact of the COVID-19 pandemic on the business. The impact has been modelled under several scenarios to ensure that the likelihood of a prolonged period of disruption has been appropriately considered in assessing the availability of funding to the group and the ability of the group to comply with its banking covenants. Based on this modelling and a review of historical trends in working capital requirements and forecast balance sheets for the next 12 months, the group believes that it will comply with its banking covenants and has sufficient funds available for the group's present requirements. Therefore the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and 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 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 first whether control passes over time and if not, then 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 2020**

**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.

**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.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2020**

**1**

**Accounting policies (continued)**

**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.

**Share capital**

Ordinary shares are classified as equity.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended:**

**31 December 2020**

**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 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.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**3**

**Turnover**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Continuing operations		
Provision of services	<b>105,897</b>	<b>125,466</b>
	<b>105,897</b>	<b>125,466</b>

No revenue was derived from exchanges of goods or services (2019: £nil).

Turnover by geographical market is as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
United Kingdom	<b>49,315</b>	<b>71,142</b>
North America	<b>50,785</b>	<b>48,943</b>
Rest of world	<b>5,797</b>	<b>5,381</b>
	<b>105,897</b>	<b>125,466</b>

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**4**

**Operating loss**

Operating loss is stated after charging/(crediting):	2020	2019
	£'000	£'000
Staff costs	38,857	49,840
Depreciation of tangible fixed assets (excluding right of use assets):		
- Owned	2,685	2,680
Depreciation of right of use assets	6,382	5,965
Amortisation of intangible assets included in other operating expenses	17,980	22,371
Exceptional administrative expenses	-	3,000
Net foreign exchange gains	-	(2,695)
Other operating income	(2,467)	(2,141)
Charitable donations	177	742

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. This provision was fully utilised in the year ended 31 December 2019, being offset against the relevant right-of-use asset on adoption of IFRS 16. No further provision is recognised in respect of this in the year ended 31 December 2020.

	2020	2019
	£'000	£'000
Onerous lease provision recognised	-	3,000
	-	3,000



**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

For the year ended :

31 December 2020

5

**Staff costs**

	2020	2019
	£'000	£'000
<b>Ordinary staff costs</b>		
Wages and salaries	29,067	40,365
Social security costs	4,161	4,543
Other pension costs	2,716	1,670
Share-based payment costs	3,300	4,120
Medical Insurance	(530)	(1,050)
Other employment costs	143	192
	<b>38,857</b>	<b>49,840</b>

	2020	2019
<b>Average monthly number of persons employed by the company during the year</b>	<b>Number</b>	<b>Number</b>
Administration	416	490
	<b>416</b>	<b>490</b>

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :  
31 December 2020**

**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 :

31 December 2020

7

Interest

	2020	2019
	£'000	£'000
<b>Interest receivable</b>		
Bank interest receivable	-	37
<b>Interest receivable and similar income</b>	-	37
	2020	2019
	£'000	£'000
<b>Interest payable</b>		
Interest on lease liabilities	(11,055)	(11,271)
Interest payable to group companies	(6,439)	(6,246)
<b>Interest payable and similar expenses</b>	(17,494)	(17,517)

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2020

8

Taxation

	2020	2019
	£'000	£'000
<b>Current tax</b>		
UK corporation tax credit on losses for the year	(10,136)	(9,476)
Adjustments in respect of prior years	(504)	(4,740)
<b>Total current tax</b>	<b>(10,640)</b>	<b>(14,216)</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	1,150	(861)
Impact of change in tax laws and rates	(1,881)	-
Deferred tax on share-based payments	(316)	704
In respect of defined benefit schemes	2,089	2,088
Adjustments in respect of prior years	(5,475)	(1,966)
<b>Total deferred tax</b>	<b>(4,433)</b>	<b>(35)</b>
<b>Total tax on loss</b>	<b>(15,073)</b>	<b>(14,251)</b>
<b>UK standard effective rate of corporation tax (%)</b>	<b>19</b>	<b>19</b>

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

	2020	2019
	£'000	£'000
<b>Loss before tax</b>	<b>(37,532)</b>	<b>(40,956)</b>
Tax on loss at standard UK corporation tax rate of 19% (2019: 19%)	(7,131)	(7,782)
Effects of:		
Expenses not deductible for tax purposes	123	470
Income not taxable for tax purposes	-	(338)
Adjustments in respect of prior years	(5,978)	(6,706)
Change in tax laws and rates	(1,881)	(144)
Share-based payments	(206)	249
<b>Total tax credit for the year</b>	<b>(15,073)</b>	<b>(14,251)</b>

The current rate of corporation tax is 19%. It had been expected to reduce to 17% effective 1 April 2020. However, this was changed to 19% in the 2020 Budget and substantively enacted on 17 March 2020 and has therefore been reflected in these financial statements.

The 2021 Budget in March this year announced an increase in the corporation tax rate to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. As the change to 25% had not been substantively enacted at the reporting date, its effects are not included 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:

	2020	2019
	£'000	£'000
<b>Deferred tax</b>		
Deferred tax on share-based payment transactions	(141)	629
<b>Total income tax recognised directly in equity</b>	<b>(141)</b>	<b>629</b>

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2020

9

Intangible fixed assets

	Assets under construction	Software	Product development	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2020	59,224	5,473	154,803	219,500
Additions	14,793	-	33,906	48,699
Disposals	(2,585)	(2,568)	-	(5,153)
Transfers	(65)	65	-	-
<b>At 31 December 2020</b>	<b>71,367</b>	<b>2,970</b>	<b>188,709</b>	<b>263,046</b>
<b>Amortisation</b>				
At 1 January 2020	-	4,188	66,197	70,385
Charge for the year	-	126	17,854	17,980
Disposals	-	(2,568)	-	(2,568)
<b>At 31 December 2020</b>	<b>-</b>	<b>1,746</b>	<b>84,051</b>	<b>85,797</b>
<b>Net book value</b>				
At 31 December 2019	59,224	1,285	88,606	149,115
<b>At 31 December 2020</b>	<b>71,367</b>	<b>1,224</b>	<b>104,658</b>	<b>177,249</b>

**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 :

31 December 2020

10

**Tangible fixed assets**

	Right-of-use assets			Owned assets			Total
	Land & buildings	Plant & machinery	Assets under construction	Land & buildings	Plant & machinery	Fixtures & fittings	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>							
At 1 January 2020	133,895	70	1,119	45,135	1,019	2,667	183,905
Additions	1,513	-	3,905	5,983	-	-	11,401
Disposals	-	-	(184)	-	-	-	(184)
Transfers	-	-	(169)	5	-	164	-
<b>At 31 December 2020</b>	<b>135,408</b>	<b>70</b>	<b>4,671</b>	<b>51,123</b>	<b>1,019</b>	<b>2,831</b>	<b>195,122</b>
<b>Depreciation</b>							
At 1 January 2020	5,939	24	-	38,027	267	1,244	45,501
Charge for the year	6,358	24	-	2,390	103	192	9,067
<b>At 31 December 2020</b>	<b>12,297</b>	<b>48</b>	<b>-</b>	<b>40,417</b>	<b>370</b>	<b>1,436</b>	<b>54,568</b>
<b>Net book value</b>							
At 31 December 2019	127,956	46	1,119	7,108	752	1,423	138,404
<b>At 31 December 2020</b>	<b>123,111</b>	<b>22</b>	<b>4,671</b>	<b>10,706</b>	<b>649</b>	<b>1,395</b>	<b>140,554</b>

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2020

11

Investments

	Note	2020	2019
		£'000	£'000
Other		82	82
	11a	82	82

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :  
31 December 2020**

**11a**

**Other investments**

	<b>2020</b>	<b>2019</b>
	<b>£'000</b>	<b>£'000</b>
Other	<b>82</b>	<b>82</b>
	<b>82</b>	<b>82</b>

**Details of other investments :**

	<b>% owned</b>
Peter Rabbit Picture Letter written in 1893	<b>100</b>



**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**12**

**Debtors**

	Note	2020	2019
		£'000	£'000
<b>Amounts falling due within one year</b>			
Trade debtors		84	15
Amounts owed by group undertakings		4,086	10,436
Deferred taxation	15	15,865	11,291
Corporation tax		12,700	10,171
Other taxation		10,642	10,177
Other debtors		15,588	6,697
Prepayments and accrued income		6,637	5,922
		<b>65,602</b>	<b>54,709</b>

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2020

13

Creditors

	2020	2019
	£'000	£'000
<b>Amounts falling due within one year</b>		
Bank loans and overdrafts	-	(47)
Obligations under finance leases	(5,467)	(5,058)
Trade creditors	(10,631)	(6,040)
Amounts owed to group undertakings	(321,321)	(245,238)
Other creditors	(9,476)	(9,855)
Accruals and deferred income	(9,149)	(10,872)
	<b>(356,044)</b>	<b>(277,110)</b>
<b>Amounts falling due after more than one year</b>		
Obligations under finance leases	(293,732)	(304,457)
	<b>(293,732)</b>	<b>(304,457)</b>

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**14**

**Provisions**

	Restructuring	Post-Retirement Medical Benefit	Other Provisions	Total
	£'000	£'000	£'000	£'000
At 1 January 2020	(8,258)	(1,129)	(876)	(10,263)
(Charged)/credited to profit and loss account	(1,055)	594	-	(461)
Unused amounts reversed to profit and loss account	4,478	-	462	4,940
Utilisation of provision	3,179	-	-	3,179
<b>At 31 December 2020</b>	<b>(1,656)</b>	<b>(535)</b>	<b>(414)</b>	<b>(2,605)</b>

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

Pearson Management Services Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended :

31 December 2020

15

Deferred taxation

	Share schemes	Capital allowances	Other timing differences	Total
Assets/(Liabilities)	£'000	£'000	£'000	£'000
At 1 January 2020	776	(772)	11,287	11,291
Credited/(charged) to profit and loss	316	4,295	(178)	4,433
Credited to equity	141	-	-	141
<b>At 31 December 2020</b>	<b>1,233</b>	<b>3,523</b>	<b>11,109</b>	<b>15,865</b>
			2020	2019
			£'000	£'000
Deferred tax assets due after more than one year			15,865	11,291
<b>Total deferred taxation</b>			<b>15,865</b>	<b>11,291</b>

The company has an unprovided deferred tax asset relating to carried forward trading losses of £2,073,000 (2019: £1,090,000).

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

For the year ended :

31 December 2020

16

Called up share capital

	2020		2019	
	£'000		£'000	
<b>Total share capital</b>	<b>4,000</b>		<b>4,000</b>	
	2020	2019	2020	2019
<b>Ordinary shares £10 each</b>	<b>No '000s</b>	<b>No '000s</b>	<b>£'000</b>	<b>£'000</b>
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 :**

**31 December 2020**

**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 or five 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 savings period lapse unconditionally.

*Long-Term Incentive Plan*

The plan was first introduced in 2001, and renewed in 2006, 2011 and 2020. 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 2020 and May 2019 vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Other restricted shares awarded in 2020 and 2019 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 2019 Management Incentive Plan were granted in April 2020. Restricted shares awarded as part of the 2020 Management Incentive Plan were granted in April 2021.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**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 2020 was £2.7m (2019: £1.7m). 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 182 to 187 which are publicly available.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**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 2020 was £85,199,369 (2019: net cash position £47,364,372).

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 :**

**31 December 2020**

**20**

**Post balance sheet events**

In March 2021, the Group announced that it planned to simplify its property portfolio to occupy a significantly smaller square footage. The property simplification programme is ongoing. Decisions and actions have been taken in the post balance sheet period which will result in further impairments to the Group's right of use assets within the £130m estimate announced in March 2021. A right of use asset was impaired by £51.9m in April 2021 by Pearson Management Services Limited in respect of this.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**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.

**Pearson Management Services Limited**

**NOTES TO THE FINANCIAL STATEMENTS continued**

**For the year ended :**

**31 December 2020**

**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.