

Pearson plc

Annual Report and Accounts 2021

80 Strand
London
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Registered Number 53723 (England)





Adding life to a lifetime of learning

Annual report and accounts 2021

We are the world's leading learning company

Strategic report

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The strategic report, up to and including page 72, was approved for issue by the Board on 8 March 2022 and signed on its behalf by:

Sally Johnson

Sally Johnson

Chief Financial Officer

Experience Pearson online

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Use this QR code to visit our Pearson plc website where you can find the online version of this report.

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<https://plc.pearson.com/en-GB/investors/2021-annual-report-accounts>

Pearson is here to add life to a lifetime of learning

Each one of us is a work in progress. No matter how much we accomplish in life, there's always more to do, *more to be – now more than ever*. More sides of ourselves to discover, more chapters to add to our story. The minute we stop learning is the minute we stop fully living. And through it all, there's Pearson.

With us, learning isn't just something to get through; it's a chance for a breakthrough. A challenging, enriching experience you undertake knowing it's taking you forward and making an impact. For those who want progress, not just potential, Pearson is your partner in the moments that matter, proudly creating experiences that are full of life, so yours are too.

We are all works in progress. Luckily, knowing who to turn to in learning doesn't require a learning curve of its own. Partner with Pearson and realise the life you imagine.

Learn how ►

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2021 highlights

A year of strategic and operational progress

New purpose, mission, vision, values developed in 2021, and launched in Q1 2022

Add life to a lifetime of learning

Read more on page 4

Achieved underlying sales growth of 8% and adjusted operating profit growth of 33%, ahead of expectations*

Launched new learning service, Pearson+

► Read more on page 28
Read more on page 32

Launched new digital, consumer centric strategy and organisational design

► Read more on page 20

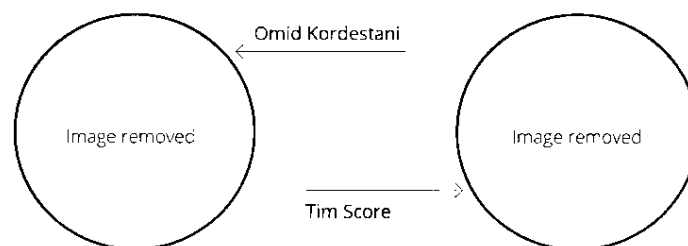
ESG framework refreshed, reaffirmed commitment to net zero by 2030

► Read more on pages 44-45

Rolled out a global remote working policy offering our people flexibility in how and where we work

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New Chair and Deputy Chair appointed



Dividend increased by 5%

Dividend per share 20.5p

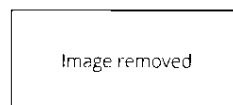
Strengthened management team, focus on talent development at all levels

Read more on pages 48-50

Acquisition of Faethm, the workforce AI and data analytics company



by Pearson



► Read more on page 37

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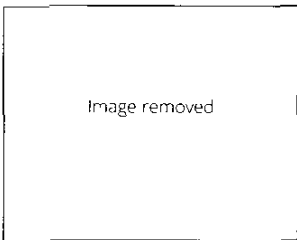
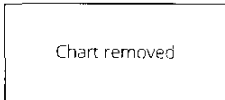
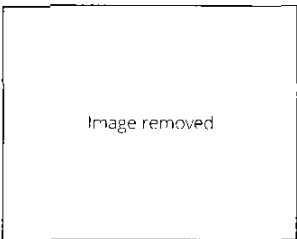
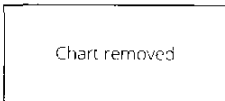
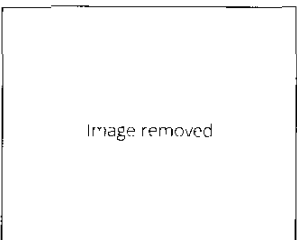
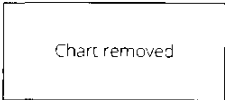
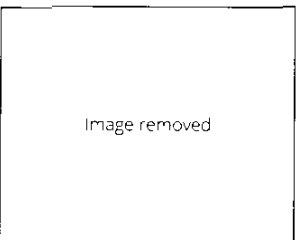
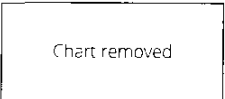
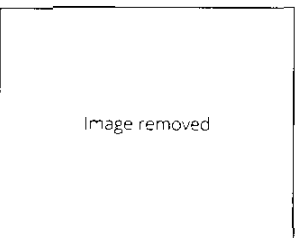
a) Growth rates are stated on an underlying basis throughout this report unless otherwise stated. Underlying growth rates exclude currency movements and portfolio changes. b) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year. c) The business performance measures are non-GAAP measures, and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on pages 224-228.

Our business at a glance

Designed to help everyone achieve their potential

Our businesses

2021 adjusted operating profit*

	Assessment & Qualifications As people upskill and reskill more often in their lives, they are increasingly looking to some form of certification to prove their achievement. Everything we do across our five divisions has the potential to lead to some form of assessment, qualification or certificate, ensuring this division is our largest business by revenue and consumer reach. ▶ Read more on page 30	
	Virtual Learning Our Virtual Learning division offers highly effective online learning for every age and stage of education. Users are able to learn where, when, and how they learn best, giving them a truly personalised experience. ▶ Read more on page 31	
	English Language Learning Over 1.5 billion people are learning English right now. Whether they're preparing to study abroad, move forward in their careers or live in an English speaking country, we have the courses and assessments to help them achieve their goals. We offer digital and blended English solutions to educational institutions in 163 countries around the world, as well as the flagship Pearson Test of English. We focus on serving the committed learner. ▶ Read more on page 34	
	Workforce Skills The world of work is changing fast. We help workers gain the skills they need to boost their employability and open up new job and career prospects. We also help employers understand, maintain and enhance the value of their most important asset – their people. Our acquisitions of workforce AI and predictive analytics company Faethm in 2021 and, more recently, the digital credentialing company Credly has boosted our capabilities in this high-growth, dynamic market. ▶ Read more on page 36	
	Higher Education We are a market leader in producing digital learning material for colleges and universities in the US and across other major markets. In 2021, we launched Pearson+, a direct to consumer subscription experience that gives students simple and affordable access to eBooks and study tools. Our high-quality digital content provides enriching experiences for more than 10 million students every year. ▶ Read more on page 38	

* The divisions listed on this page do not include businesses under strategic review but which are part of the group adjusted operating profit of £385m

Why we exist

Our purpose

We add life to a lifetime of learning

At Pearson, we add life to a lifetime of learning so everyone can realise the life they imagine. We do this through creating vibrant and enriching learning experiences designed for real-life impact.

Learning is usually the second largest component of GDP, after healthcare, and the market is expected to grow from £5 to £7 trillion by 2030. Every year, we bring the resources to learn, and the assessments and qualifications to prove achievements to millions of learners, worldwide. And in today's inter connected digital world, our learning ecosystem encompasses not only formal primary, secondary and higher education, but also, increasingly, workforce skills.

With us, learning isn't just something to get through; it's a chance for a breakthrough. A challenging, enriching experience you undertake knowing it's taking you forward and making an impact.

Our vision

Everyone can realise the life they imagine through learning

Our mission

Create vibrant and enriching learning experiences designed for real-life impact

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Our values

1. We ask why?

We challenge the status quo by challenging ourselves.

2. We ask what if?

We spark curiosity to innovate new possibilities for everyone

3. We earn trust.

We build credibility by acting with integrity every day

4. We deliver quality.

We hold our customers and consumers in the highest regard, and our work to the highest standards.

5. We make our mark.

We execute with speed and agility to leave a lasting impact on everyone we serve

Living our values

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<https://plc.pearson.com/en-GB/careers>

Asking why: "Pearson really invites its people to ask why because as a company it's been committed to transform itself...to stay relevant to its customers and to serve its community better"

Zerin

Technology Business Partner

Image removed

Asking what if: "If more people ask "What if?", it will help us grow and be a consumer-centric brand, a company that really matters to people"

Khoa

Director of Market Development

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Earning trust: "I want to make sure that I earn the trust of our candidates, and I'm going to my best to make their testing at Pearson the best moment of their life"

Dwyane

Test Centre Manager

Image removed

Delivering quality: "I give regular presentations to help other people in my field stay up to date on the things that are happening. These are things I do in order to ensure that we have quality in our field."

Keisha

Senior Research Director

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Making a mark: "It's important for me to work for a company that makes an impact like Pearson because I truly believe that all corporations should do good in the world."

Gemma

Director of Financial Communications

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Chair's note

This is a new Pearson

"The robust digital foundations for the next stage of Pearson's journey are now in place. This is a new Pearson, bringing new digital products and services to market at pace."

2021 dividend growth

5%

Return on capital in 2021

7.9%

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"It has truly been a privilege to serve as Chair and to oversee Pearson's transformation over the past six years. I am confident that this great company is well positioned to succeed."

Sidney Taurel, Chair

Dear shareholders,

As I come to the end of my time as Chair of Pearson, I want to share my reflections on the transformation that the company has been on over the last six years.

At the start of my tenure we accelerated the reshaping of Pearson in response to significant and rapid changes in our markets. This involved a simplification programme to modernise the company, create greater efficiencies and unlock cost savings. We strengthened our balance sheet through divesting non-core activities which did not align with the strategy, and we placed a moratorium on acquisitions. Our strong financial position enabled us to invest in technology and digitalisation, and it is now enabling us to expand and grow again.

As I reach the end of my tenure, we have realigned the business with what we see as one of the great market growth opportunities of the 21st Century – lifelong learning. We have for some time been articulating our vision of being the leading company for people who want to upskill or reskill at any point in their lives. Last year, we outlined a strategy to enable us to achieve that vision. The accelerated digitalisation in almost all aspects of our lives, only underlines the more digital, more direct to consumer model that we are pursuing under our senior leadership team.

The robust digital foundations for the next stage of Pearson's journey are now in place. This is a new Pearson, bringing new digital products and services to market at pace.

I am proud of all that we have achieved, and hand over to my successor confident in Pearson's prospects. Pearson has a strong strategy, a strong Board and executive team, and is in a strong financial position.

Most importantly, Pearson is a business with a clear and important purpose – to add life to a lifetime of learning – and is organised around and driven by this purpose. As Pearson realises its vision, to help everyone realise the life they imagine through learning, we transform lives, livelihoods and societies while also thriving as a business.

Strategic progress and performance in 2021

I am delighted that in Andy Bird, we have a Chief Executive with the skills to develop and implement a strategy to enable us to achieve our vision. That strategy, developed closely with the Board and unveiled in March 2021, is based around establishing a lifelong, direct relationship with consumers.

We reorganised along five global business divisions: Assessment & Qualifications, Virtual Learning, English Language Learning, Workforce Skills, and Higher Education. All of these are underpinned by a drive towards more delivery of services direct to consumers. The successful launch of Pearson+ marked an important milestone along our journey to become the premier digital platform for learning, and our acquisition of Faethm represented a landmark for our deployment of artificial intelligence in the workforce arena. We have also made progress in separating non-core businesses following a strategic review of the Group.

Operationally, 2021 was a good year. Pearson rebounded strongly from the pandemic-related impacts on our business in 2020 while also making substantial underlying progress. There is significant potential for sustainable long-term growth across all of our divisions.

Capitalising on trends already underway – such as rapidly growing demand for professional certification – we have enjoyed growth in our online businesses and made progress in English Language Learning and in Workforce Skills. We are also seeing signs of stabilisation in US Higher Education Courseware despite the drop in enrolments in the US in 2021.

Building on our ESG priorities: our sustainable business pillars

Alongside the strategic changes made under Andy's stewardship, the Board and management have together directed effort towards updating our values and culture, bringing them to serve the achievement of our new vision and mission (see page 4 for more on this). They also support the evolution of our sustainable business strategy. Our evolved framework, which you can read more about on page 40, prioritises the potential that Pearson has, as the world's leading learning company, to make the biggest positive impact on our society, people and planet.

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Chair's note *continued*

We have put increasing emphasis on the role of our people, as they are our greatest asset. The drive to upskill and embed continual learning throughout an employee's time at Pearson, combined with our ongoing focus on Diversity, Equality and Inclusion (DE&I) at all levels of the company continue apace. Employee upskilling is a key offering for our customers and we are working to ensure that our own employees can also access upskilling and reskilling themselves as we connect our strategy internally and externally. See Sustainability 'Investing in Talent' section on pages 48-50 for more on our approach.

We are working towards a better gender and ethnic mix throughout the company. We accelerated our progress in this area and this remains a priority for us. You can find more details on Board diversity in the Governance Report starting on page 76.

From an environmental perspective we are focused on cutting emissions through our supply chain and through digital transformation. We are on track to be a net zero carbon business by 2030, which you can read more about on pages 44-45.

Financial strength

The strength of our financial position enabled us in 2020 to maintain our dividend notwithstanding the many pressures from the external environment. Thanks to the strong performance of the business and our good cash management in 2021, we have further strengthened our financial position and have been able to grow our dividend, in line with our progressive dividend policy.

We have also been able to use our balance sheet in support of our strategy, acquiring AI company Feathr in 2021 as well as making other smaller acquisitions. Most recently we announced the acquisition of Credly, the market leader in digital credentials and certifications for the workforce.

Stakeholder engagement

The continuing COVID-19 pandemic remained an obstacle to in-person stakeholder engagement in 2021. However, the Board was active in its virtual engagements with a broad range of stakeholders. As Pearson progresses its direct to consumer strategy, it was particularly helpful for the Board to receive focus group feedback on Pearson+ from customers.

The Board also engaged extensively with shareholders following our 2021 AGM, and it engaged with our workforce, through a new cohort of colleagues joining the company's Employee Engagement Network. You can read more about such engagement in the Governance Report from page 87.

Evolution of the Board

Following the announcement at the AGM of my intention to retire, a thorough process was conducted to appoint a successor, led by our Senior Independent Director, Tim Score. This culminated in the announcement in December of Omid Kordestani as new Chair designate. As part of this process, Tim was elevated to Deputy Chair designate.

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Our approach to capital allocation

Underpinning all of this is our solid balance sheet,

investment grade credit rating and compelling capital allocation approach:

- We continue to **invest in the business** for organic growth
- We look at **value enhancing acquisitions** with a focused and disciplined approach to drive future returns
- We are committed to a progressive and sustainable **dividend**
- We will **return surplus cash** to shareholders via buybacks or special dividends as and when appropriate

Omid brings significant experience of leading and advising some of the world's best-known consumer technology brands, which will further Pearson's ambition to accelerate its digital, lifelong learning strategy. Equally, I am delighted that Tim will support Omid as Deputy Chair. His wealth of experience in UK plc, combined with Omid's deep tech knowledge makes them a formidable team.

I believe that this, together with the wider succession work undertaken by the Board this past year, will help accelerate progress in delivering on our strategy whilst being reflective of our strong commitment to good governance. You can find more detail about the Board recruitment process for Omid and Board succession planning generally in the Governance Report starting on page 73.

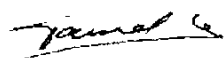
It has truly been a privilege to serve as Chair and to oversee Pearson's transformation over the past six years. I am confident that this great company is well positioned to succeed. I am delighted to welcome Omid as my successor as he joins the Board at a very exciting time, congratulate Tim upon his elevation as Deputy Chair, and wish both of them and the whole company every success going forward.

Outlook

Pearson's transition to a digital and direct to consumer future is progressing well, the heavy lifting behind the scenes has now been done, and the business is well aligned with the compelling market opportunities we have identified. The foundations are in place that will enable the business to grow in a sustainable manner over the long-term.

I believe our new business shape gives us enormous potential. Our Workforce Skills and English Language Learning divisions each represent significant growth opportunities and there are major synergies between them. In this digital age, Virtual Learning is set for ongoing expansion, while I expect to see continued growth in demand for Assessment & Qualifications in the US, where our Higher Education business is focused. I believe that the personalised, digital learning experiences we are creating for higher education and college students are absolutely in tune with the way the market is moving, especially as higher education blurs into lifelong learning. Hybrid learning, provided direct to consumers, as well as through educational institutions, is the future of learning.

Finally, I would like to thank all of our employees and all our stakeholders who have worked with us to help deliver our purpose of adding life to a lifetime of learning for people all around the world. I have every confidence that with your help and with its incredibly talented leadership team, Pearson will continue to grow and prosper in the years to come. I wish Omid, Andy and the team at Pearson well as they take this very special company forward on its new growth-orientated path.



Sidney Taurel

Chair

Introducing Pearson's new Chair

Pearson has appointed Omid Kordestani as a Non-Executive Director and Chair Designate. He joined the Board on 1 March 2022, succeeding Sidney Taurel as Non-Executive Chair at the 2022 AGM.

Omid brings significant experience of leading and advising some of the world's best-known consumer technology brands, which will help further Pearson's ambition to accelerate its digital, lifelong learning strategy. Over his 30 years in Silicon Valley, Omid has played key roles in the growth and success of internet pioneers Netscape, Google and Twitter. Most recently, Omid spent five years as the Executive Chair of Twitter, Inc. and continues to sit on its Board.

Omid said: "I believe Pearson has a tremendous opportunity to help everybody achieve a lifetime of learning. I'm excited to combine my background in leading tech businesses with Pearson's strong sense of purpose in my role as the new Non-Executive Chair. Together with Tim and the Board, I look forward to forming a strong partnership with Andy and his leadership team to help capture the company's enormous growth potential, and to capitalise on the significant opportunities in digital learning."

Chief Executive's review

A year of strong strategic, operational and financial progress

"We have redefined Pearson's purpose to meet this moment in our world – a moment where learning is becoming more fluid and exists inside and outside of formal education. That purpose – to add life to a lifetime of learning – sits at the heart of everything we do."

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Underlying sales growth
in 2021

8%

Adjusted operating profit
growth in 2021

33%

"Pearson is refocused and reorganised to capitalise on this new wave of learning. No other company has the breadth of skills, the expertise, or the resources to compete in the way that Pearson does."

Andy Bird, Chief Executive

Dear shareholders,

I am delighted to report to you on a year of strong strategic, operational and financial progress at Pearson, achieved against the background of a still challenging and uncertain environment.

We have redefined Pearson's purpose to meet this moment in our world – a moment where learning is becoming more fluid and exists inside *and* outside of formal education. That purpose – to add life to a lifetime of learning – sits at the heart of everything we do.

A purpose – and a strategy – are nothing without the employees who bring those to life. Over the last 12 months, our employees have shown the dedication, perseverance, and commitment to drive Pearson forward. Everyone at Pearson *has been and will continue to be* relentlessly focused on execution. That is reflected in our strong financial performance in 2021, where – in a very complex environment – we delivered ahead of expectations, with 8% underlying sales growth, a 33% increase in adjusted operating profit to £385m and cash conversion of over 100%.

Set for sustainable profitable growth

The management team is aligned and focused on growth, managing their businesses well, and delivering results. Today, you see a new Pearson, streamlined, well-organised, and focused on working together as an agile and interconnected company.

I'm more excited than ever about our opportunity to make a positive impact through our products and our people. We continue to evolve our sustainable business strategy to align with our company strategy and purpose. Our digital growth and product development are parts of our effort to drive learning for everyone. We've also placed renewed energy into building our talent and our innovation culture, so our people can make a difference at scale. As we become more digital, we're providing products with a smaller carbon footprint, along with products and services that meet the demands of a green economy and content that influences action. As such, we are on track with our goal to make Pearson a net zero carbon business by 2030.

The success of Pearson and the work we do has never been more important. The world is changing, and the very definition of learning is expanding. We no longer move only in a linear fashion through school, into higher education, and then on to employment. All of us are learning all of the time. Pearson has refocused and reorganised to capitalise on this new wave of learning. No other company has the breadth of skills, the expertise, or the resources to compete in the way that Pearson does.

In March 2021, I set out a strategy around a lifetime of learning. My priorities continue to centre on building a company that is digital first, puts the consumer at its heart, and delivers high quality learning products to more people at scale than ever before. To do that, we have created a new organisational structure with five core divisions and supplemented that with a dedicated direct to consumer team that successfully launched Pearson+.

The leaders of those divisions have spent significant time crafting their strategies to execute on our plan. There is much work underway across all of Pearson's divisions and you can read more about it in the segmental review in this report. Pearson+ is growing with over 2.75 million registered users at the end of 2021 and an ever-expanding set of student friendly features.

Learning is no longer a stage of life, it's a lifelong journey. The need to upskill and reskill has never been more urgent. So, while we'll continue to work with long standing partners such as schools, universities, and colleges, we are also increasingly working with employers. Companies now play a critical role in that learning life cycle, and we have an opportunity to help individuals *and* employers turn the great resignation into the great re-engagement. The recent acquisitions of Faethm, and Credly in our Workforce Skills division signal the direction of travel you can expect from us, including the expansion into data as a service for employers *and* into credentialing for workers.

A direct to consumer learning ecosystem

All of this means that you should start to think about Pearson, not as a collection of individual businesses, but, increasingly, as a highly interconnected company, with capabilities that work together to help people learn at multiple points in their lives. Pearson has the potential to greatly accelerate our growth when we leverage our businesses in a coordinated fashion across the entire spectrum of learning.

Increasingly, we are building direct relationships with consumers, which allows us to better understand their needs, adapt our products and keep a dynamic approach in a constantly changing market. We provide products and services for tens of millions of people around the world, and every day we are working to learn *about* them and *from* them, so we can continue to improve the experience we provide *for* them. Those insights, along with our broad portfolio, provide a significant advantage as we move forward.

As I said when we launched Pearson+ in July 2021, I've always felt that higher education was just the starting point for a broader consumer offering. Pearson+ will be at the heart of our connected consumer and commercial strategy.

There are three reasons why Pearson will win in this new environment:

1

We are the world's leading learning company, with an unmatched scope and scale; and the deep expertise of thousands of employees who deliver high quality, trusted learning solutions every day.

2

We have a great foundation with established, market leading businesses that are well managed, cash generative and underpin the company financially.

3

We are bringing together multiple facets of our expertise to deliver innovative digital learning products through a more connected commercial and consumer strategy.

Chief Executive's review *continued*

We're building Pearson+ as the premier digital ecosystem for lifelong learning – whether through school, university, work, languages, or life skills – not just for the tens of million people we serve today, but for a growing addressable market globally. Pearson+ will become the core digital offering for this company, which I believe has the potential to address multiple demographics and create a meaningful business on a global scale.

Consumers need a way to discover, learn, build skills, and show credentials *and* they want a great user experience. We can deliver that with our broader Pearson+ vision. That's possible by drawing on the current assets of the company including our recent acquisitions, *and* through new investment. We will leverage our growing relationships with students, consumers, and enterprises, and target their specific needs through a robust data infrastructure.

The possibilities are vast when we can connect all of this into one experience to meet consumer-led learning where it happens. From diagnostics and skill development, to content, assessment and credentials, only Pearson+ has the ability and scale to succeed. And that's what we're going to do.

There is great foundational strength in our core businesses, and we will be relentless in pursuing the significant opportunities that are available to them over the coming years. But this broader Pearson+ strategy has the potential to drive growth beyond that. This gives a sense of where we are heading. It's exciting, offering great potential for growth and is the company's "North Star".

While we focus on executing today, we're working hard across the company to deliver a bright tomorrow, one that is focused on where the market is going, a future that plays to our strengths, that focuses on the opportunity for growth for shareholders and the consumer; that takes *all* parts of this company and makes us one, to drive growth for investors and learners alike.

Looking forwards with confidence

Last year, I laid out a strategy for this new Pearson+. It has been a year of remarkable progress and significant delivery, and I truly believe that we have reached a pivotal and important inflection point in our evolution. As we move into 2022, my priorities are clear:

- Deliver sales and profit growth
- Continue the focus on execution, quality, and trust
- Further embed customer and consumer insights – and the total focus on the consumer – across the company
- Progress and scale Pearson+

As we further integrate and connect our businesses, the Pearson+ learning ecosystem will evolve and thrive, reinforcing our position as the natural destination for lifelong learners. In realising our purpose – to add life to a lifetime of learning – I am confident that we will grow and deliver value for all of our stakeholders, in 2022 and over the longer term.



Andy Bird

Chief Executive

Priorities for 2022

I have four key priorities for the year ahead:



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Investment case

Why invest in us?

Our purpose at Pearson is to add life to a lifetime of learning for people around the globe. Learning is one of the greatest drivers of human progress, so as we fulfil our purpose, we help transform lives, livelihoods, and societies. We are the global experts in learning.

Pearson is ideally placed to serve and to benefit from three big global demand-led areas of opportunity:



Pearson's unique strengths that enable us to win include:

The pedigree of the Pearson learning brand

The expertise and dedication of our people

The excellence of our relationships with educators and authors

The breadth of our offering

The high quality of our learning content

The strength and flexibility of our digital offerings

The recognition of the accreditations and certifications we award

The market opportunity for Pearson

The market we operate in is large. It is estimated to be worth around £5 trillion today – and it is expected to grow to £7 trillion by 2030. There are two main drivers of this growth: the increasing numbers of learners progressing through formal education, and the increasing demand for lifelong and informal learning, particularly for reskilling and upskilling.

Pearson provides the digital content, learning experiences, assessments, qualifications and data to take advantage of these opportunities. We are increasingly adapting our business model to go direct to consumers to meet our customers at the point of their learning need. This creates a more sustainable business with ESG integrated into our strategy. That is good for Pearson and all our stakeholders.

Five reasons to invest in Pearson:

Market opportunity

Competitive advantage

Growth strategy

Strong financials

Purpose driven

Market context

Trends in our markets

The learning ecosystem is flourishing. Although formal education still represents three quarters of the market, workplace skills and non-academic learning are increasingly in demand.

- 1 Post-pandemic, many consumers are turning to digital first learning
- 2 Higher education is broadening beyond formal learning to incorporate workplace learning
- 3 Opportunity for the 'great reengagement' rather than the 'great resignation'
- 4 Learning becoming ingrained across a lifetime, with new skills being acquired to match longer careers and changing lifestyles
- 5 Growing importance of certification as the natural conclusion of any learning activity

The global learning opportunity

£7tn

expected size of the learning market by 2030

2nd

largest component of GDP in most countries

+1bn

we expect over a billion learners to have moved through formal education by 2030

Image removed

The growing global learning market

4.4%

CAGR

Lifelong learning

Corporate

+75%

Formal primary, secondary and tertiary education market

Chart removed

<https://www.holonio.com/2030/10-trillion-global-education-market/>

Global Learner Survey

In its third year, Pearson's Global Learner Survey, based on the views of thousands of people across the world, identified how the pandemic has reshaped society. People are re-evaluating their careers, there is increasing interest in social justice and more faith in the education system.

Image removed

Learn more
online.

<https://plc.pearson.com/en-GB/future-learning/global-learner-survey>

Image removed

Women in the workforce

4/5

Four in five women surveyed are using the pandemic to reconsider their careers.

3/4

74% of women believe bias and discrimination are still making it difficult to find new career opportunities.

4/5

Four in five people want to educate themselves about social justice, diversity or gender equality.

9/10

Nearly 9/10 women looking for work want to improve their professional skills.

Importance of a quality education

2/3

Nearly two people in three trust their current education system to provide a quality education for all – up from 54% in 2019 and 59% in 2020.

9/10

parents plan to involve themselves more in their children's education.

Climate change

9/10

88% of respondents believe schools have a responsibility to teach students about climate and environmental issues.

9/10

89% believe the education system in their country needs to do more to equip students with skills for green jobs.

See the Sustainability section starting on page 40 for more on how we respond to these trends.

Stakeholder engagement

Adapting our business to meet the needs of our stakeholders

The world of learning has had to adapt and evolve due to the pandemic. Recognising that learners' interests have to be put first, different stakeholder groups have been rallying together in collaboration across the sector. This has led to a deepening of relationships for Pearson that we believe will have an enduring, positive impact on our business. You can see examples of this below in relation to our eight key stakeholder groups: consumers; employees; shareholders; educational institutions and educators; employers; government and regulators; business partners; and our communities – the local economies in which our businesses operate.

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Consumers

The pandemic brought to the forefront the major issues of learning loss and the digital divide.

Many students were moved to emergency remote learning, where our virtual schools programme, the Connections Academy, came into its own.

In Virtual Schools, student wellbeing, parent and student satisfaction and student achievement are key engagement metrics for Pearson, reported through annual parent and student satisfaction surveys and analysis of student performance compared with national benchmarks. The satisfaction surveys show that 93% of parents were satisfied with their Connections Academy school overall, and 92% of parents gave teachers high marks, noting teacher support and responsiveness. 90% of parents were satisfied with the school's curriculum. Most compellingly, three out of four parents said their child's attitude toward learning had improved at Connections Academy.

Some students, however, were unable to access the internet during the pandemic and continue to be unable to do so. This has created inequality that Pearson is helping address, for example through including a drive to give laptops to school children in the UK affected by the pandemic (see case study on page 33 for more).

We are also working hard with consumers to ensure that diversity is fully taken into account, both in texts and in assessments. For example, to address the lack of diversity within existing curricula, we are taking a learner-centred approach to product development by partnering with students from a school in South London. They are helping us to design new online learning content and qualification routes, enabling students to explore more diverse narratives, histories and cultures.

In the UK we launched a joint initiative with Penguin Random House, 'Lit in Colour', to become the first UK exam board to make changes to our qualifications and improve the diversity of our student texts. We also provide professional development and resources to ensure schools have everything they need to teach the new diverse texts.

Early in 2021, we launched our new Student Diversity Ambassador Programme, enrolling a mixed group of learners between the ages of 14 and 17 to help us ensure the products and services we create truly reflect the diverse needs of the learners we serve. In appreciation, we offer mentoring to Student Ambassadors and opportunities to develop their skills and work experience.

We also work with Pearson Campus Ambassadors, a group of students who share with us authentic insights from Generation Z students. We also provide them with internships and offer them business insights to help enrich their studies and career prospects.

For more on our approach to engaging with consumers please see the Global Editorial and Content Policy and the DE&I section of the Sustainability report on page 47.

Image removed

Employees

People are our greatest asset. So, to enable Pearson to be the world's pre-eminent learning company, we constantly seek to help employees realise their potential by building the company's culture, talent and skills.

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Reflecting the importance of our employees in delivering our purpose we added a People based pillar to our ESG sustainable business pillar priorities. Read more on page 48. ESG measures are also included in the Annual Incentive Plans of 11,000 employees, which is overseen by the Remuneration Committee. Read more in the Remuneration report starting on page 113.

We know that employees want to understand company strategy and be clear about how they can support it. They also want a flexible workplace culture that fosters collaboration, creativity and connectivity. And they want to be rewarded and recognised for their contributions and see opportunities to grow in their careers.

To help achieve this, we engage with our people through:

- **Leadership:** Not only do leaders keep employees informed, but they also listen to what they say. As stewards of our strategy, they act as role models, bringing business priorities to life through their own contributions. Read more on our approach through the Capabilities/Mentoring programme starting on page 48.
- **Manager Communications:** Employees turn to their own direct managers as the most trusted source of company news. To ensure clear and consistent communications, we run a *Managers' Corner* community and bi-monthly newsletter, so that managers are well equipped to keep their teams informed and answer their questions.
- **Global Engagement:** Through the *We are Pearson* virtual community, we ensure employees are up to date on important topics and themes, such as product and service development. To support their well-being and foster a sense of community, we share *People of Pearson* stories globally. And we host virtual engagement events on key topics as they arise.
- **Employee Engagement Network:** Our Board regularly engages with our employees, through a new cohort of colleagues joining the company's Employee Engagement Network. You can read more about such engagement in the Governance Report, from page 74.

To check how well this is working, we measure engagement statistics, we conduct a global quarterly employee pulse survey, and we take qualitative feedback from global coffee and conversation sessions to validate quantitative feedback.

We invest in creating a culture where people love the work they do and the people they work with. So it's encouraging that, time and again, our people say they come here for the purpose and stay here for the people.

Shareholders

We communicate with our shareholders regularly, including at our financial results, our AGM and at investor meetings and conferences. We held 45+ meetings with 206 institutions over the course of 2021, both virtually and in person. We discuss financial, operational and strategic matters, including progress against our new direct to consumer strategy announced in March 2021. Our shareholders welcomed the strategy and we received favourable feedback as to the opportunities that exist in the direct to consumer, lifelong learning market.

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We launched a new, dedicated website for investors, www.pearsonplc.com and evolved our financial communications at our results presentations, aiming to make our communications more interactive and engaging, with heightened use of video, photography and social assets.

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Educational institutions and educators

Our priority in 2021 was to support teachers and students through what was another difficult year. The concerns of educational institutions and educators cover a broad range of issues from the workload placed on teachers and faculty and the future role of assessment in measuring outcomes effectively, to ensuring learners can recover from any learning loss caused by the pandemic. We engage with them to share insights, best practice and professional development opportunities and to learn from their feedback.

In our US Higher Education Courseware division, we trained a core team of active faculty members to advise colleagues on best practice in specific subject disciplines and classroom topics, including online learning, inclusive teaching, product usage and efficacy. To help with professional development, especially in the world of hybrid learning, we host and sponsor a variety of faculty conferences in the US to help members develop their skills and grow their network. We also conduct focus groups among faculty Advisory Boards to help us better understand how to develop our content and product offerings to meet their needs.

In the UK we employ thousands of current or former teachers to help deliver our products and services, enabling us to bring a wealth of knowledge from the teaching profession to benefit learners. We also actively engage with teaching unions and representative bodies to understand the challenges their members face, and to ensure we have a well-rounded view on what's happening in schools. Following the cancellation of exams in the UK in 2021, we passed back £31m to schools and colleges for general qualifications.

In Virtual Schools, each year school leaders and other administrators are invited to join their fellow online educators at Pearson-facilitated conferences to discuss, collaborate and learn from each other – all to support quality online education and best practices. This year, these leadership conferences drew over 500 attendees. Pearson's Lead Director of Schools was recognised as a Champion of Equity by the American Consortium for Equity in Education, and our experts speak regularly at conferences like the Digital Learning Collaborative's annual conference and ASU-GSV.

Stakeholder engagement *continued*

Business partners

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We consider our suppliers, channel partners, venture partners and authors as an extension of our workforce, and fostering effective relationships with them is critical to accelerating our business strategy. This was particularly important in developing our digital strategy, including Pearson+. We have seen many of our relationships grow

in mutually beneficial ways, with some suppliers procuring and acting as channel partners for Pearson's products – a trend we expect to continue.

We hold regular business reviews with our partners, sharing information on performance, business updates, risk, diversity, innovation, sustainability and overall relationship health. In March 2021, we hosted over 100 of our top partners at a virtual partner forum to share our new organisational structure and strategy, and to introduce our Responsible Procurement programme, to which our suppliers have been extremely receptive.

In 2021, we assessed suppliers against industry leading practices to reduce risk in Pearson's supply chain. Our focus was on high-risk suppliers and those in Tier 1, i.e. with whom we spend more than £1m per annum, a very important group considering that over £1 billion — 73% of Pearson's third party spend — is with them. Having gained insight from this process, we created plans to overcome any weaknesses identified and will continue to invest in partnerships, technology and processes to develop broader and deeper risk review capabilities going forward.

Over 55% of Pearson's carbon footprint is embedded in our supply chain and our partners therefore have a critical role to play in helping us achieve our carbon reduction targets. We collaborate with them to help reduce their emissions, enabling us to meet our Scope 3 carbon commitments. Read more on our carbon reduction efforts in the Sustainability section. See pages 44-45.

Through these efforts, our ecosystem of business partners is now more connected and provides greater opportunity to create sustainable competitive advantage than at any point in the past.

Image removed

Business partner case study:

Our authors

Pearson works with thousands of talented authors to create content. Following a survey of all our authors by our US Higher Education Courseware division, we introduced several new engagement initiatives.

We created a new web presence dedicated to authors that provides FAQs on Pearson+, our EDI standards, and other product and market information. We also created a new page to highlight, celebrate and promote our author talent.

We are planning next to develop a password-protected page that will give Pearson authors market insights and product previews. This will serve as a place for authors to communicate with Pearson executives directly and to view content from our executives, students and other academic experts.

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Employers

The world faces a fast-growing skills gap, and future demand will further widen that gap. To help meet current and future reskilling needs, we curate the 'Employer Partnership for Learning' group of global corporates to help build bridges and create opportunities for better skills development across organisations and industries.

We are members of the CBI in the UK and other similar organisations around the world, helping to facilitate relationships and conversations with employers. We also work closely with employers on the design and implementation of our qualifications, such as BTECs, to ensure they remain at the forefront of skills and vocational-based learning.

We acquired the ground-breaking workforce AI and predictive analytics company Faethm in September 2021. We will use its sophisticated AI to model how technological change will disrupt jobs so that we can map the skills needed and build and curate appropriate content to fill the gaps. This will enable us to move into new and incremental product areas and drive growth.

Communities

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No single organisation, or sector, can tackle global education challenges alone. We work in partnership with international non-governmental organisations (NGOs), governments and our local communities to make progress toward reaching the UN Sustainable Development Goals as

they relate to educational issues – i.e. providing access to quality education, decent work and economic growth, and reducing inequalities.

As an example of our approach, in 2021 we worked in partnership to tackle the digital divide in the UK, donating over 250 Pearson laptops via the Mail Force charity and making a financial donation.

Our global volunteering policy enables all our employees to take up to five paid volunteer days off to donate their time to what matters most to them and their local communities.

In these ways, we strive to make a positive and meaningful impact in the communities in which we operate.

Government and regulators

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In the first phase of the pandemic, the priority for governments and education systems was to sustain learning by providing the resources for online participation. This was followed by an emphasis on economic recovery, where it has been important to assess how much learning loss has been suffered and by whom, and to identify which interventions will be most effective in closing skills gaps.

Using our expertise on issues related to all facets of education, we have helped to inform political and educational leaders around the world as they develop policy in these areas. For example, we have helped identify which programmes have proved most successful, such as e-rate funding in the US to increase access to broadband.

We've also developed new products and services to meet the demands of learners and national education systems arising from the pandemic, including becoming an approved partner in the National Tutoring Programme in the UK.

Directors' duties statement

In accordance with Section 172 of the Companies Act 2006 (see below right), the Directors fulfil their duties to promote the success of the company through a well-established governance framework. Typically, in large and complex businesses such as Pearson, this framework includes delegation of day-to-day decision-making to employees of the Group.

This governance framework, summarised throughout this document, is far more than a simple delegation of financial authority, and includes the values and behaviours expected of our employees and business partners, including the standards to which they must adhere; how we engage with stakeholders, including understanding and taking into account their views and concerns, and how the Board looks to ensure that we have a robust system of control and assurance processes in place.

In this annual report we provide examples of how the Directors promote the success of Pearson while taking into account the consequences of decisions in the long term, building relationships with stakeholders (including our eight key stakeholder groups, as mentioned previously), and ensuring that business is conducted ethically and responsibly.

While there are many parts of this annual report which illustrate how the Directors do this, with the support of the wider business, the following sections in particular are relevant:

- Adapting our business to meet the needs of our stakeholders (pages 16-19), which outlines:
 - how we serve and engage with each of our eight key stakeholder groups, listen to their key concerns and provide our responses
 - how we have adapted our business to meet their needs
- Understanding our Stakeholders (pages 86-88), which summarises:
 - how Directors have engaged with employees and had regard to employees' interests
 - how the Directors have had regard to the need to foster the company's business relationships with Consumers, Educational Institutions and Educators, Employers, Business Partners and shareholders
- Sustainability (pages 40-50), which describes:
 - The latest step in the evolution of our sustainable business strategy, and elevating "Empowering our People" as a key pillar in our framework

- the ways in which we engage in respect of the social, environmental and economic issues that will influence learning
- initiatives through which we strive to improve the access and affordability of our products and services to drive learning for everyone, no matter what their status or background
- our commitment to leading responsibly and creating a culture that prioritises our impact on climate change, human rights, our employees, DE&I, and socially responsible sourcing
- how we align with widely accepted ESG reporting frameworks including GRI, SASB and TCFD. For further details on TCFD reporting, please see page 70.

A continued understanding of the key issues affecting stakeholders is an integral part of the Board's decision-making process, and the insights that the Board gains through the engagement mechanisms it has in place form an important part of the context for all the Board's discussions and decision-making processes. However, while the Board recognises this, direct engagement with stakeholders during 2021 has continued to be a challenge, given lockdown and travel restrictions. For an insight into how the Board has taken into account the interests of various stakeholders when making a key strategic decision, and what matters the Directors considered when trying to align and mitigate opposing views, please see our case study on the acquisition of Fastm on page 88.

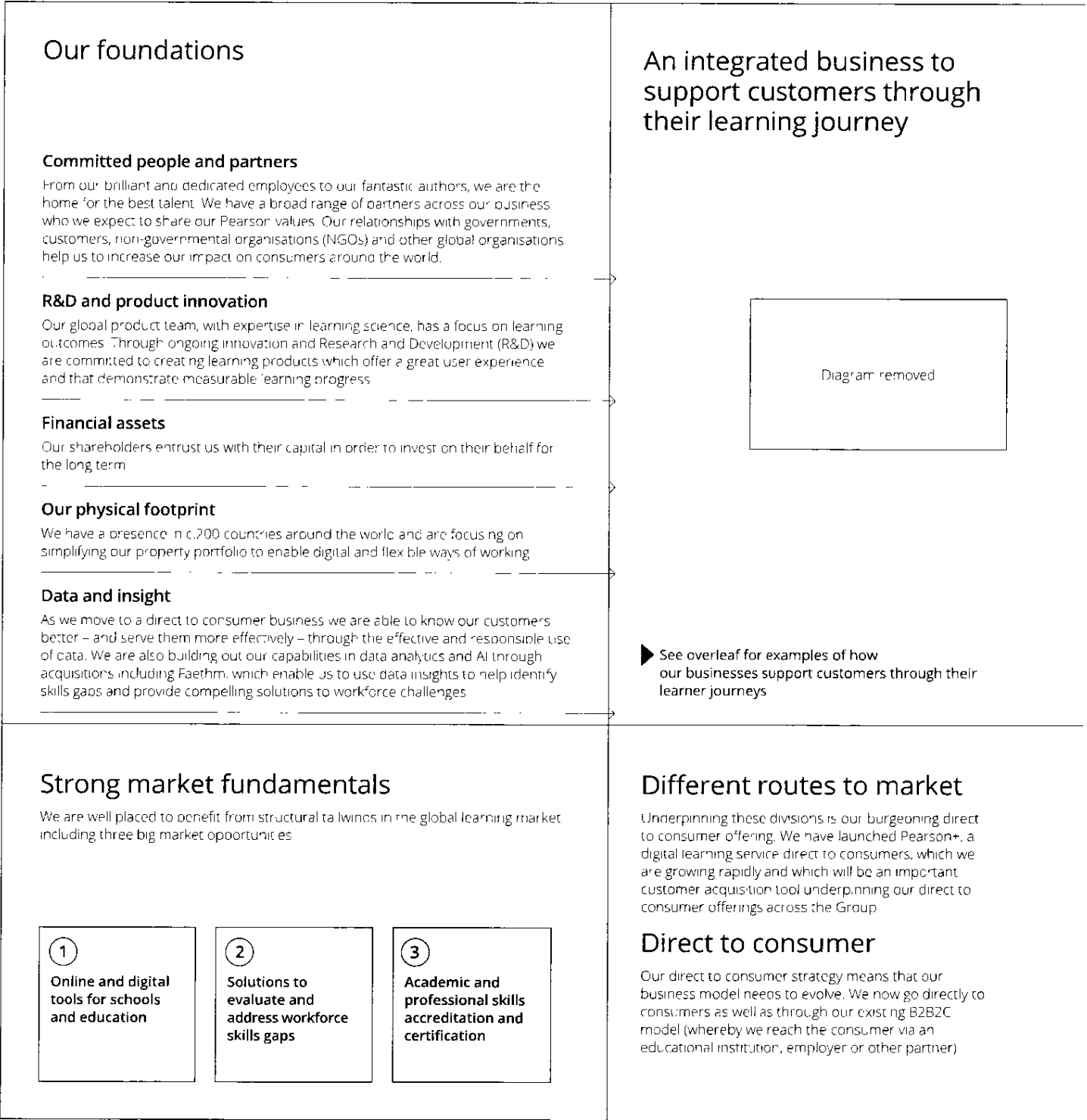
Section 172 of the Companies Act

In summary, as required by Section 172 of the Companies Act 2006, a Director of a company must act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its shareholders as a whole. In doing this, the Director must have regard, among other matters, to:

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

Our business model

A blueprint for value creation



Our competitive advantage is the integration of our digital content, learning experiences, assessments, qualifications and data across our five divisions. Each division is well placed to benefit from the market opportunities we see.

Assessment & Qualifications

Our Assessment & Qualifications business is at the centre of the Pearson ecosystem as the natural conclusion of any learning activity.

Virtual Learning

We have a long track record of delivery of high quality, affordable and accessible online learning in our Virtual Learning division.

English Language Learning

Our vision is to become the world's leading destination for committed learners to learn and prove their English proficiency.

Workforce Skills

We are transitioning to a new business model and new go-to-market strategy as a strategic solutions provider for workforce skills.

Higher Education

Our digital first strategy in Higher Education is continuing to gather momentum.



Partners and support functions

Technology is enabling consumers to learn virtually and learning materials to be delivered digitally. This means we can reach a larger market at a lower cost, and be at the forefront of the evolving learning marketplace. This gives us the ability to reach our ambition to be a digital media learning company that will occupy a place at the heart of the global learning ecosystem.

How we create long-term stakeholder value

Consumers

We provide superior learning products and services to meet the needs of consumers all over the world.

Employees

We intend to maximise the value of Pearson's own human capital, by giving our people as many opportunities to learn as possible, engaging our employees to grow, develop and succeed.

Employers

Our aim is to partner with more employers to create shared success and to ensure more people succeed in the future world of work.

Educators

We work with teachers, instructors, faculty and institutions across all stages of education to improve outcomes, grow and succeed together.

Governments

We partner with governments at a local, federal and national level to create learning solutions for people around the world.

Shareholders

We aim to provide long-term shareholder value creation.

Business partners

Our long-term business partnerships are built on shared values, deep relationships and mutual trust.

Communities

Education plays a crucial role in society and Pearson is a driving force behind the evolving education market, as we look to meet the changing need of today's learners, not just in this moment but for the foreseeable future.

Sustainable business pillars (see page 41)

We have a roadmap to become net carbon zero and we continue to enhance our reporting structures, reporting according to TCFD, SASB and GRI principles (see page 70 and pages 230-241). Our unique business model will enable us to reach our purpose at Pearson which is to add life to a lifetime of learning for people around the globe. Learning is one of the greatest drivers of human progress, so as we fulfil our purpose, we help transform lives, livelihoods, and societies.

Measuring progress

We measure our progress against six non-financial KPIs:

Digital Growth

Consumer Engagement

Product Effectiveness

Investing in Talent

Inclusion & Diversity

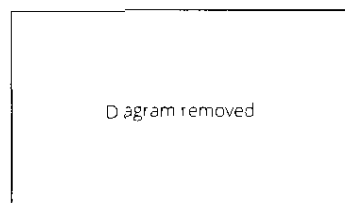
Sustainability Strategy

See pages 24-25 for more on this

Expanded consumer journey

A learning journey is for life

We are building out our offering to be able to support consumers across a full lifetime of learning.



Taylor

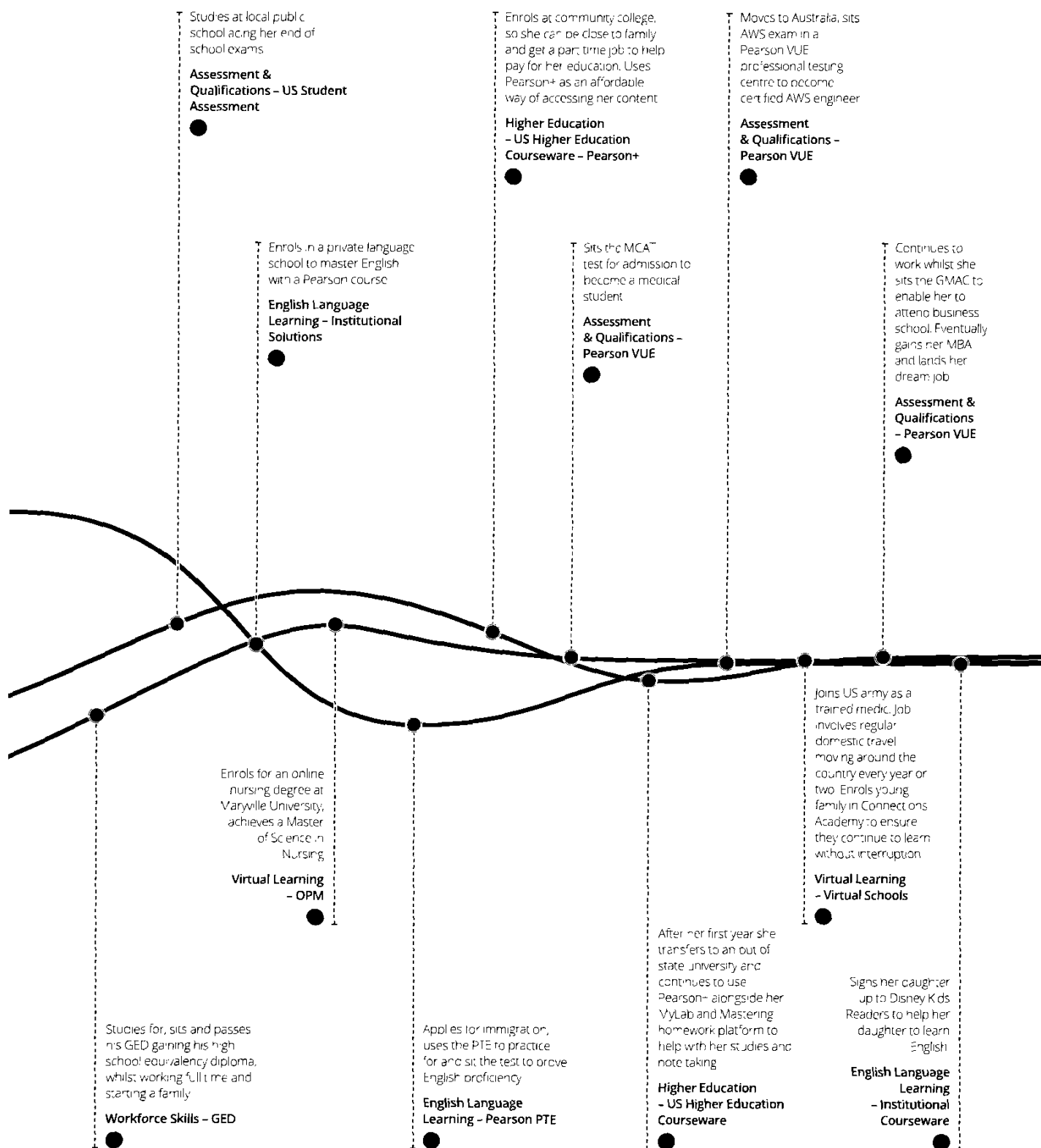
Comes from a military background
He enjoyed school but did not
complete his studies first time around.
He remains determined to pursue
his dream of becoming a medic in
the military

Maisy

Aspires to be the first in her
family to go to college. She has dreams
of working in the city but needs to
self-finance her way through
college and help look after her
parents whilst she does so.

Supriya

Lives in India and speaks rudimentary
English. Her dream is to move with her
family to join relatives in Australia and
become a software engineer.



Our strategy

Monitoring progress

We introduced new non-financial KPIs for the business in 2021 and we are committed to reporting on these key measures going forward. These KPIs align with and drive our strategy. They also drive the outcomes of our ESG strategy – you can read more on this in the Sustainability section starting on page 40.

Strategic pillar	Why it's important	Progress in 2021
Digital Growth Objective: Drive digital revenue growth	<ul style="list-style-type: none"> Increases revenue by meeting increasing demand for digital products and services and eliminating secondary markets. Improves margin through reduced cost of delivery. 	<ul style="list-style-type: none"> Good growth in digital and digitally-enabled sales Growth in Virtual Schools US enrolments. Growth in OPM enrolments OnVUE volumes higher than expected due to tests rescheduled from 2020 carrying over to 2021. We expect stable to modest growth in 2022. PTE volumes grew as test centres reopened. In Higher Education, digital registrations dipped due to lower enrolments and more on-campus instruction.
Consumer Engagement Objective: Create engaging and personalised consumer experiences	<ul style="list-style-type: none"> As we execute on our direct to consumer strategy, we are focused on creating best-in-class learning experiences, products and services to meet the consumer at the point of need. This increases our serviceable markets and drives revenue growth. 	<ul style="list-style-type: none"> In Virtual Schools, work completed to commission differentiated value proposition and continue improving the student experience. PTE NPS of +56 is slightly less than prior year. We have seen fluctuations in NPS during the pandemic. Pearson – product successfully launched in time for Fall back to school, 2021. Total registrations at 2.75m by the end of 2021.
Product Effectiveness Objective: Improve the effectiveness of our products to deliver better outcomes	<ul style="list-style-type: none"> We succeed when our customers succeed. That's why we are focused on demonstrating the improved learning outcomes of our products and services. This improves retention, driving revenue growth. 	<ul style="list-style-type: none"> Strong performance in PTE, lowered test score return times from 15 days to 12 days In VUE we continued to support customers as they emerged from COVID-19 related testing disruptions VUE test volumes rose from 12.9m to 16.8m
Investing in Talent Objective: Enhance the employee experience and help our employees progress through learning	<ul style="list-style-type: none"> Our people are our greatest asset and their ongoing growth and development drives the success of our business and helps equip them for the future world of work. Understanding our employee experience and gathering feedback helps us understand what's working and what can be improved 	<ul style="list-style-type: none"> We saw improvement in levels of self-reported upskilling/reskilling vs the previous year We identified skill needs in a more consistent way across the company Our NPS score reduced, we believe due to pandemic restrictions to the working environment. Surveys show strong positive correlation between sentiment and upskilling/reskilling opportunities.
Inclusion & Diversity Objective: Build an inclusive culture and increase diverse representation	<ul style="list-style-type: none"> Success on planning builds the internal talent bench and ability for the company to retain and promote diverse talent. Leadership development programmes and succession planning are proven actions to advance diverse representation. Product differentiation increases the TAM and competitiveness, driving revenue growth. 	<ul style="list-style-type: none"> Pearson exceeded succession plan objectives with 72% of plans including a women successor and 24% of plans including people of colour (target >50% women, >20% people of colour)
Sustainability Strategy Objective: Achieve net zero carbon status by 2030	<ul style="list-style-type: none"> To play our part in limiting the global temperature rise, we aim to achieve a 50% reduction in our emissions, against a 2018 baseline. This target was approved by the Science Based Targets initiative (SBTi). Improves financial performance through engagement of various stakeholder groups, and mitigates potential risks from climate change. 	<ul style="list-style-type: none"> This year we surpassed our targets achieving a 26% reduction in emissions against a 2018 baseline compared to a 25% reduction against a 2018 baseline in 2020* We also achieved a 1% reduction vs 2020 despite a bounce back in operations following COVID-19.

* Figures have been restated to reflect relevant disposals

Priorities for 2022

- In Virtual Schools, improve retention rates, mitigate school withdrawal risk, and work towards three new school openings.
- Achieve further enrolment growth in OPM
- Expect operational efficiencies, improved candidate experience and accessibility in OnVUE
- In Higher Education, grow share and monetisation across digital
- Further modest volume growth in PTE.

- Continued emphasis on parent/student satisfaction in Virtual Schools
- Deliver enhancements to the customer journey in PTE
- Scale Pearson+ volumes through channel and product expansion.

- Continue strong position in PTE
- Maintain high customer retention in VUE
- Grow text units in Higher Education as recapture secondary market volume

- Continue to focus on applying our expertise in learning to support our people's growth and career development.
- Focus on improving employee engagement with new company purpose as key to this

- Determine enterprise percentage increase target for manager and above roles based on five year modelling with annualised focus

- Revisit business travel policies
- Consider remaining footprint of print vs digital products
- Analyse the carbon impact of our flexible working policy.

How we measure success

- Group digital sales.
- Virtual Schools US enrolments.
- OPM student enrolments
- OnVUE test volumes.
- Higher Education US digital registrations.
- PTE volume

- NPS for Connections Academy
- NPS for PTE
- Pearson+ registered users

- PTE speed of score return.
- VUE test volumes
- VUE partner retention
- Higher Education product usage – text units

- Number of employees upskilling or reskilling
- Employee NPS.

- % of diverse candidates in leadership succession plans
- % of diverse candidates in leadership development and mentoring programmes

- Progress against achieving net zero carbon by 2030, as measured through the percentage of carbon reduction

How it impacts risks

- Our digital growth statistics help monitor the relative strength of our businesses and the Competitive Marketplace risk.

- This KPI helps to monitor our success at managing our Customer Expectations risk

- Product effectiveness helps monitor our success at managing our Customer Expectations risk

- Enhancing our talent helps to reduce our Capability risk

- Building a more diverse and inclusive workforce helps to reduce Capability, Reputation and Responsibility, Customer Expectations and Competitive Marketplace risks

- Successfully executing on our net zero carbon strategy is important for managing our Reputation and Responsibility risks.

Key performance indicators

Monitoring progress

Non-financial measures

Digital Growth Objective: Drive digital revenue growth	Digital sales* <div> <div>Underlying growth in Group digital and digital-enabled sales</div> <div>9%</div> <div>(2020: (2)%)</div> </div> <div>Diagram removed</div> <div> <div>Virtual Schools US enrolments</div> <div>111k</div> <div>(2020: 109k)</div> </div> <div> <div>Higher Education US digital registrations</div> <div>11.4m</div> <div>(2020: 12.3m)</div> </div> <div> <div>OPM student enrolments</div> <div>275k</div> <div>(2020: 245k)</div> </div> <div> <div>OnVUE volumes</div> <div>3.0m</div> <div>(2020: 2.1)</div> </div> <div> <div>PTE volume</div> <div>436k</div> <div>(2020: 350k)</div> </div>
Consumer Engagement Objective: Create engaging and personalised consumer experiences	<div> <div>NPS: Connections Academy</div> <div>+62</div> <div>(2020: +60)</div> </div> <div> <div>NPS: The Pearson Test of English</div> <div>+56</div> <div>(2020: +60)</div> </div> <div> <div>Pearson+ Registered users</div> <div>2.75m</div> </div>
Product Effectiveness Objective: Improve the effectiveness of our products to deliver better outcomes	<div> <div>PTE speed of score return</div> <div>1.2 days</div> <div>(2020: 1.5 days)</div> </div> <div> <div>VUE partner retention</div> <div>99%</div> <div>(2020: 96%)</div> </div> <div> <div>Higher Education product usage – text units</div> <div>5.4m</div> <div>(2020: 5.4m)</div> </div> <div> <div>VUE test volumes</div> <div>16.8m</div> <div>(2020: 12.9m)</div> </div>
Investing in Talent Objective: Enhance our employee experience and help employees progress through learning	<div> <div>Number of employees reskilling or upskilling</div> <div>71%</div> <div>(2020: 63%)</div> </div> <div> <div>Employee NPS</div> <div>+8</div> <div>(2020: +17)</div> </div>
Inclusion & Diversity Objective: Build an inclusive culture and increase diverse representation	<div> <div>% of diverse candidates in leadership succession plans</div> <div>72%</div> <div>BIPOC/BAME: 24%</div> </div> <div> <div>% of diverse candidates in leadership development and mentoring programmes</div> <div>100% of programmes have a minimum diversity level of 50%</div> </div>
Sustainability Strategy Objective: Achieve net zero carbon by 2030	<div> <div>Reduction in total tCO₂ in 2021</div> <div>26%</div> <div>vs 2018 base**</div> </div> <div> <div>Reduction in total tCO₂ in 2020</div> <div>25%</div> <div>vs 2018 base**</div> </div>

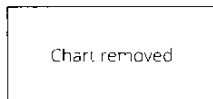
* Historical figures restated to exclude CEDL, Wall Street English and US K-12 Courseware (sold in 2017, 2018, and 2019 respectively)

** Figures have been restated to reflect relevant disposals

Financial measures

Sales

£3,428m

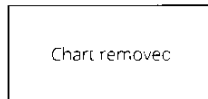


This is our revenue as reported in our income statement



Adjusted operating profit¹

£385m

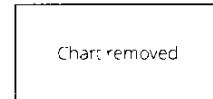


A non-GAAP financial measure that enables management to consistently track the underlying operational performance of the Group



Net debt¹

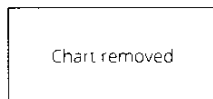
£350m



This is a non-GAAP financial measure and is used by management to assess the Group's cash position

Adjusted earnings per share¹

34.9p



A non-GAAP financial measure used to evaluate performance.



Operating profit²

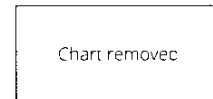
£183m



This is our operating profit as reported in our income statement.

Basic earnings per share²

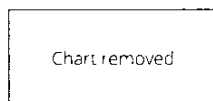
21.1p



A measure of the amount of profit that can be allocated to one share of our common stock.

Operating cash flow and cash conversion¹

£388m (101)%

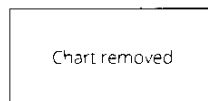


Operating cash flow is an adjusted measure and is presented in order to align the cash flows with corresponding adjusted operating profit measures



Net cash generated from operations²

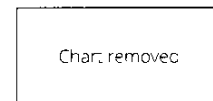
£570m



This is our net cash generated from operations as reported in our cash flow statement

Dividend per share

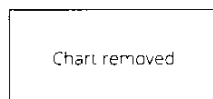
20.5p



This is the proposed full year dividend. Our dividend policy is to be progressive and sustainable

Total shareholder returns³

(7.57)%

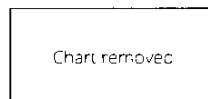


This is a measure of financial performance of shares over time.



Return on Capital^{1,4}

7.9%



A non-GAAP measure of how efficiently we are generating returns from our asset base

¹ See page 224 for an explanation of these alternative performance measures

² Equivalent statutory measure

³ Source: Bloomberg

⁴ This is a new measurement

Note: See page 224 for full reconciliation of the alternative performance measures to the equivalent statutory measure

Note: IFRS 15 and IFRS 9 adopted in 2018 and IFRS 16 in 2019 – no KPIs have been restated for historical accounting adjustments

See how this aligns strategy to management reward: page 113

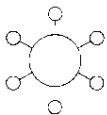
Pearson+ represents an exciting future and is about much more than Higher Education.

We are creating the premier digital learning ecosystem for life – a connected consumer and commercial strategy relevant for learners everywhere, providing a growing global addressable market.

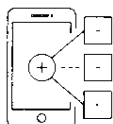
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2.75m
registered users



133K
subscriptions



1,600+
titles



4.8
Apple store rating*

This broader Pearson+ vision will underpin digital growth across the entire company

We will deliver content and channels for everything from language learning to life skills

We will leverage our growing relationships with students, consumers, and enterprises, and target their specific needs through a robust data infrastructure

Pearson+ is the digital future of the company

* Rating accurate as of February 2022

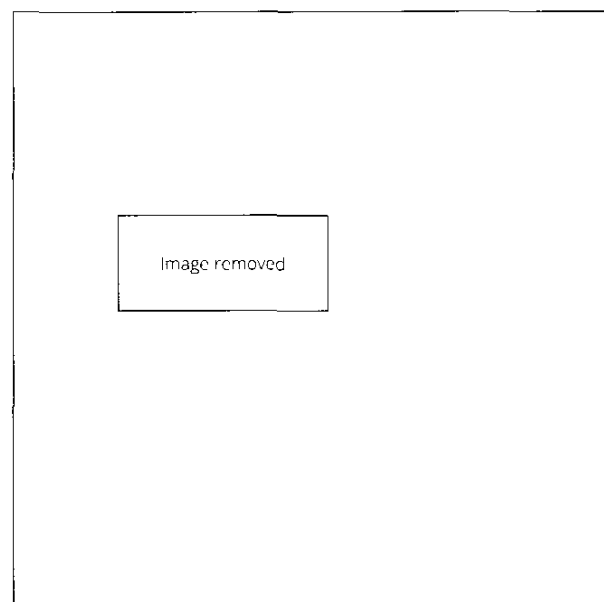
Pearson Ventures & corporate development

Learning innovation

We continue to foster global innovation and learn from the edtech start-up ecosystem through Pearson Ventures. Pearson Ventures was launched in 2019 to invest in early-stage learning and adjacent companies that align with Pearson's long-term strategy. It seeks out the next generation of category-defining businesses with an emphasis on disruptive digital transformation, increasing access to education, and improving educational and employability outcomes.

Pearson Ventures' portfolio includes career and competency focused businesses such as Springboard, a leading online bootcamp preparing learners for jobs in high-demand fields like data science and design, and Smashcut, a digital learning platform and content studio built to scale collaborative, online education for the visual and media arts.

As a strategic investor, Pearson Ventures leverages its expertise, reach, and network to support the growth of its portfolio companies. There is potential for some investments to become part of the group, such as Faethm, which was fully acquired from a 9% investment in 2021. Ventures had an active 2021, closing three additional investments, including the Academy of Pop, and bringing its portfolio to 12 companies.



The Academy of Pop

The Academy of Pop combines our global expertise in education with Simon Fuller's proven track record of identifying and enabling world-class talent. That talent includes the Spice Girls, who Simon was well-known for managing in the 1990s, as well as TikTok sensation, The Future X, among others. The Academy of Pop is designed to open greater access to performing arts education and its aim is to become a unique and inclusive platform that will help young people around the world develop their talent.

The mental and social benefits of the performing arts have never been more relevant. As many schools struggle to fund arts education, aspiring performers need a new way to build their skills and unlock their passion.

"The Academy of Pop will merge entertainment and learning in a new approach to performing arts education. Not only will it provide teaching live to small classes of students, starting in Hollywood in 2022, but also it will be possible for students to follow the daily acting, dance, music, and musical theatre lessons in real time online."

A proprietary Academy of Pop online platform is in development and further physical locations around the world are scheduled to open over the next 24 months.

With a whole generation searching for new ways to express themselves and find joy, Simon Fuller, says the Academy of Pop "will provide an inclusive, immersive, safe platform for performers to develop their skills and find validation with world-renowned instructors."

It's a great example of how to make innovative coaching accessible to consumers worldwide using the latest technology and creativity.

Assessment & Qualifications

Assessments are powerful tools that will only increase in importance as people upskill and reskill more often in their lives. Assessment and qualification is the critical point at which learners realise the value of what they have learned.

Our Assessment & Qualifications division is our largest business by revenue and consumer reach. It provides the assessments, qualifications, certifications and licences that enable people to demonstrate their knowledge, skills and aptitude across a lifetime of learning, from school to professional careers. The learning we offer in all our other divisions has the potential to lead to some form of assessment, qualification, certification or licence, and this continues to be a significant opportunity for us.

Our partners include major multinational employers, governments, schools and professional bodies, and our services are used in some of the fastest growing institutions and industries in the world, such as K-12 (primary/secondary) schools in the US, healthcare, cloud computing and IT. The division operates through four business units: Pearson VUE, US Student Assessment, UK & International Qualifications, and Clinical Assessment.

Through Pearson VUE, learners validate what they have learned in order to gain a certificate or licence. Learners take nearly 17 million exams through Pearson VUE each year in more than 200 countries. To best serve customers and help people advance in their careers during the pandemic, Pearson VUE enabled millions of people to test remotely from their home, emerging as a large player in online invigilation.

Pearson's US Student Assessment division acts as a partner with states, districts and educators to help K-12 students advance at an appropriate pace in their schooling. UK & International Qualifications develops highly sought after academic and vocational qualifications.

Clinical Assessment provides psychological assessment in health and education. The business produces hundreds of scientifically backed products and solutions designed to help experts understand how people learn. The team brings together innovation with quality test design to develop effective tools for children and adults, educators and clinicians.

Throughout this section, growth rates are stated on an underlying basis unless otherwise stated. Underlying growth rates exclude currency movements and portfolio changes. The business performance measures are non-GAAP measures, and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section starting on page 224.

Key performance indicators

2021 financial KPIs

Sales

£1,204m

(2020: £1,082m)

(+18% underlying)

Adjusted operating profit

£216m

(2020: £147m)

(+59% underlying)

2021 non-financial KPIs

VUE test volumes

16.8m (+30%)

OnVUE test volumes

3m (+43%)

VUE customer retention

99% (+3%)

Growth drivers



Long term contracts with high renewal rates



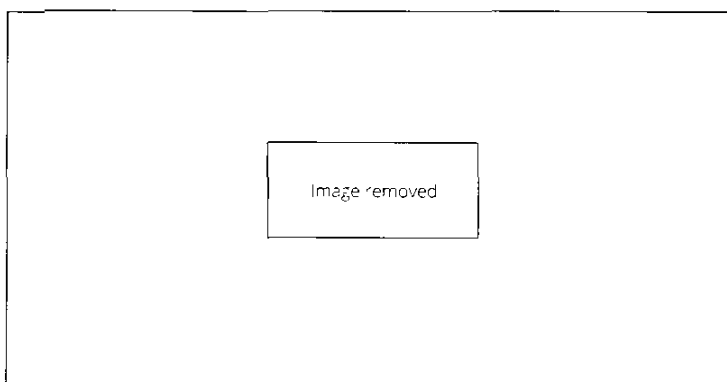
Large scope and scale of business



Well placed to serve increasing demand for upskilling & reskilling

Group synergies especially English Language Learning & Workforce Skills

Segment	2021 Revenue (£m)	Margin 2021	2022 expectations		Revenue CAGR 2022 to 2025	Margin 2025
			Revenue	Margin		
Assessment & Qualifications	1,204	18%	Low to mid-single digit	Maintained	Low to mid-single digit	Maintained
Pearson VUE	526		Flat		Low to mid-single digit	
US Student Assessment	278		High-single digit		Flat	
Clinical Assessment	225		Slightly down		Low to mid-single digit	
UK & International	175		Exams resume		Growth	



Lit in Colour

Lit in Colour is an inclusive reading campaign launched by Penguin Random House and The Runnymede Trust to address the fact that fewer than 1% of learners study a text by a writer of colour for a GCSE set text. We were the first exam board to join the campaign and soon launched the 'Lit in Colour Pioneers Programme', providing solutions for barriers that schools experience when changing set texts.

We gave students free access to diverse texts and provided training and support to teaching staff, leading to the teaching of our diverse text offering to nearly 2,000 students at GCSE and A level. We're now working on a research programme with Oxford University to measure the effects of a more diverse curriculum through the teaching of our GCSE English Literature specification. This is a sustainable initiative that is good for Pearson's business.

Virtual Learning

Online and virtual learning is here to stay. There's a growing demand for virtual learning, partly down to advances in technology, but also accelerated by the recent pandemic.

Our Virtual Learning division offers highly effective online learning for every age and stage of education. Users are able to learn where, when, and how they learn best, giving them a truly personalised experience. It's designed to be smart, flexible, and inspiring education that propels people forward in their lives and careers.

Students in grades K-12 in the US (equivalent to primary and secondary school in the UK) can enrol in full-time online public or private school programs offered by Pearson Virtual Schools. Fully accredited and staffed with specially trained teachers, these online schools have been providing high quality alternatives to the traditional classroom experience for over 20 years. Students are prepared to be adaptable, equipped with the academic and life skills they need to thrive today and in an ever-changing world.

K-12 online school options include Connections Academy (US-based public schools), Pearson Online Academies (international private schools), and programs for school districts across the US.

Adult learners, universities and employers rely on Pearson for exclusive online higher education programs and Online Program Management (OPM) services, including degrees, certificates and short courses. Students gain access to convenient, compelling online learning to boost employability and advance in their careers, while higher education institutions extend their reach and provide the flexible online options their students want.

For employers, our OPM business delivers vital upskilling and reskilling to keep pace with the future of work. This business operates in the US and internationally.

Key performance indicators

2021 financial KPIs

Sales

£713m
(2020: £692m)

(+11% underlying)

Adjusted operating profit

£32m
(2020: £29m)

(+28% underlying)

2021 non-financial KPIs

Virtual Schools enrolment growth

2%
(2020: +43%)

OPM underlying course enrolment growth

7%
(2020: +20%)

NPS: Connections Academy

+62
(2020: +60)

Growth drivers



Secular growth trends towards virtual learning



Virtual Schools strong market position, 1 of 2 US national players



20 years of expertise and experience



Group synergies

Segment	2021 revenue (£m)	Margin 2021	2022 expectations		Revenue CAGR 2022 to 2025	Margin 2025
			Revenue	Margin		
Virtual Learning	713	4%	Low to mid-single digit	Incremental improvement in Virtual Learning due to OPM efficiencies	Mid-high single digit	Low-double digit
Virtual Schools	449		Low-single digit		Mid-single digit	
OPM	264		High-single digit		High-single digit	

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Helping children in the UK to learn online during the COVID-19 pandemic

During the national lockdown at the beginning of 2021, Pearson took action to donate 250 laptops and 500 tablets alongside a £50,000 donation to UK schools via a campaign driven by the charity Mail Force, set up in 2020 to help tackle PPE shortages and featuring in the Daily Mail, a UK national media outlet. The donations were used to help school children in lockdown get online. Pearson's CEO, Andy Bird said: "We are proud to support the campaign to provide laptops to children most in need across the UK. Every child should be able to continue learning throughout this lockdown, and technology plays an increasingly vital role in achieving this with most learning now taking place virtually at home. We need to act quickly to ensure no one is missing out. We are determined to play our part in ensuring that the most vulnerable children have the tools they need to succeed and to ensure they are not unfairly disadvantaged."

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English Language Learning

Over 1.5 billion people are learning English right now. Whether they're preparing to study abroad, move forward in their careers or live in an English-speaking country – we have the courses and assessments to help them achieve their goals.

English is a gateway to the world. It's a mandatory requirement in more than 140 national curricula, and there are over 1.5 billion people worldwide learning English today. We aim to be the world's leading destination for committed English language learners – people willing to dedicate time and money to their English learning. We want to work with those committed learners to help them achieve their full potential in life through improved English proficiency.

We have a set of strong, unique assets to support our English learners. The Global Scale of English, a leading global measurement standard, enables people to gauge and track their

progress in English. The Pearson Test of English is a digital test with AI scoring that provides fast, accurate, secure, and unbiased results. We are widely available in 118 countries, thanks to our network of 389 Pearson VUE test centres. It is a trusted brand for entry into higher education and a gateway to immigration recognised by regulators in the main receiving countries.

We also offer digital and blended English solutions to academic institutions and private language schools in 163 countries around the world, bringing together courseware and assessment with teacher support and learning platforms.

Key performance indicators

2021 financial KPIs

Sales

£238m

(2020: £218m)

(+17% underlying)

Adjusted operating profit

£15m

(2020: £1m)

2021 non-financial KPIs

PTE Score Return

1.2 days

(improvement vs 1.5 days PY)

PTE Volume

436k tests

(+25% vs PY)

NPS for PTE

+56

(2020: +60)

Growth drivers – PTE



Highly differentiated value proposition



Digital, secure, computer based; AI powered



Available in 118 countries via 389 test centres



Fastest score results at 1.2 days



Leading share position in Australia



UK market in 2021: +42% YoY growth in tests taken

Segment	2021 revenue (£m)	Margin 2021	2022 expectations		Revenue CAGR 2022 to 2025	Margin 2025
			Revenue	Margin		
English Language Learning	238	6%	Mid-single digit	Improvement versus 2021	Mid-high single digit	Mid-teens

Pearson and Disney: Discover the magic of stories

Nearly 20 years ago, Pearson and Disney came together to change the way thousands of children around the world learn English. We have joined up once again in 2021 by rolling out:

Disney Kids Readers – 36 new Kids Readers books introduced which encourage young learners to read for pleasure and for learning. They are created to be used both at school as well as at home and to help young learners expand their reading in a fun and motivating way.

We have made these Kids Readers free to all Pearson employees as part of a wider initiative to open up English language learning opportunities internally.

Marvel Cinematic Readers – designed for teenage and young adult learners, 14 books bursting with action-packed stories and film stills of the world's greatest superheroes.

Each book includes audiobook, eBook, teacher's notes, and activities.

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Workforce Skills

The world of work is changing fast. In fact, it's changing faster than most people can keep up with, so there's a need for constant upskilling and reskilling, both from organisations looking to support their employees, and from individuals looking to make changes in their careers.

In our Workforce Skills division, we are creating a world where everyone is prepared for the future of work, and where success is no longer only about what you've done but what you can do.

The global talent market has never been more important than it is today, and we are positioned to meet the needs of employees and employers in a changing global economy. We help employers understand labour market dynamics and how best to futureproof their workforces at scale, while helping workers gain the skills

they need to boost their employability and open up new job and career prospects.

Our unique offer uses workforce analysis, personalised learning, assessment and verified skills credentials to close skills gaps, realise untapped potential and mobilise talent. We help employers understand, maintain and enhance the value of their most important asset – their people – and help employees make important breakthroughs in their careers.

Our unique offering helps employers diagnose and fill skills gaps and employees gain and verify skills.

**Diagnose future skills
training needs**

**Skills-based Learning
and Assessment**

Verify individuals' skills

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Key performance indicators

2021 financial KPIs

Sales

£172m

(2020: £163m)

(+6% underlying)

Adjusted operating profit

£27m

(2020: £26m)

(+8% underlying)

2021 non-financial KPIs

KPIs were not in place for Workforce Skills in 2021. Forward looking KPIs include:

Total number of enterprise customers

Enterprise customer net retention rate

Number of Workforce Skills registered users

Growth drivers



End-to-end solution in one integrated ecosystem



Trusted portfolio of products & services



Opportunity to lead in labour & talent data market

Segment	2021 revenue (£m)	Margin 2021	2022 expectations		Revenue CAGR 2022 to 2025	Margin 2025
			Revenue	Margin		
Workforce	172	16%	Existing business: mid-high single digit >40% for Faethm and Credly	Break-even	2025 revenue more than double vs 2021	Low double digit

Leveraging artificial intelligence

We have made digital innovation a high priority for some time. Following an initial investment by Pearson Ventures in July 2020, we acquired the ground-breaking workforce AI and predictive analytics company, Faethm, in September 2021. Faethm, one of Australia's highest-profile tech companies, helps customers predict and identify the skills their workforce needs.

Faethm's sophisticated AI and analytics services help governments, companies, and workers understand the dynamic forces shaping the labour market – from technological disruption to economic shocks such as COVID-19 and climate change. Armed with these insights, customers can make data-driven decisions to navigate those changes and upskill or reskill their workforce.

Faethm now sits at the heart of our Workforce Skills division. Its market-leading data, insights, and AI capabilities will power the next generation of Pearson's lifelong learning products, which are focused on meeting the rapidly changing needs of today's workforce and bridging the global skills gap.

The acquisition represents another building block in our strategy to help learners develop their talent and skills at every life stage, from school through to work.

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Higher Education

We create personalised, digital learning experiences for higher education and college students and believe that the future of learning and our US Higher Education Courseware business is increasingly digitally driven.

Pearson is the leader in producing higher education learning media in North America, as well as reaching into other major markets around the world. We offer vibrant digital content with enriching experiences that lead to positive learning outcomes for more than 10 million higher education students every year.

We partner with thousands of expert authors to create content in more than 100 academic disciplines. We are leaders in science, technology, engineering and maths (STEM), as well as IT, among other disciplines. Our leading content is delivered through digital eBooks and popular interactive multimedia on platforms such as MyLab, including new Interactive Labs, Mastering, Revel, and Pearson+

In July 2021, we launched Pearson+, a direct to consumer subscription experience that gives students simple and affordable access to eBooks and study tools. Pearson+ was designed with input from authors and students and is winning praise from students, faculty, and authors.

In addition to helping build stronger student relationships, Pearson+ will shift commerce away from secondary market sellers to our owned sites and apps. This gives students a reliable e-commerce experience and access to the most current learning content and study tools.

Our higher education products are guided by professional insights from educators and by preferences expressed by faculties. They are supported by technology that is stable, secure and accessible. We are committed to ensuring that diversity, equality, and inclusion are integral to our products so that everyone can realise the life they imagine through learning, whatever their background or abilities.

Key performance indicators

2021 financial KPIs

Sales

£849m
(2020: £956m)

(-5%
underlying)

Adjusted operating profit

£73m
(2020: £93m)

(-15%
underlying)

2021 non-financial KPIs

US Higher Education digital registrations

11.4m
(2020: 12.3m)

US Higher Education product usage - text units

5.4m
(2020: 5.4m)

Pearson+ registered users

2.75m

Growth drivers

There are three factors that will underpin our planned growth in Higher Education.



Enhance our core products

Invest in our platform products to make them more reliable, responsive to customer needs, easy to access, and to support business stability and growth



Secondary recapture

We will drive recapture by continuing to reduce secondary supply and shift delivery to Inclusive Access and Pearson+

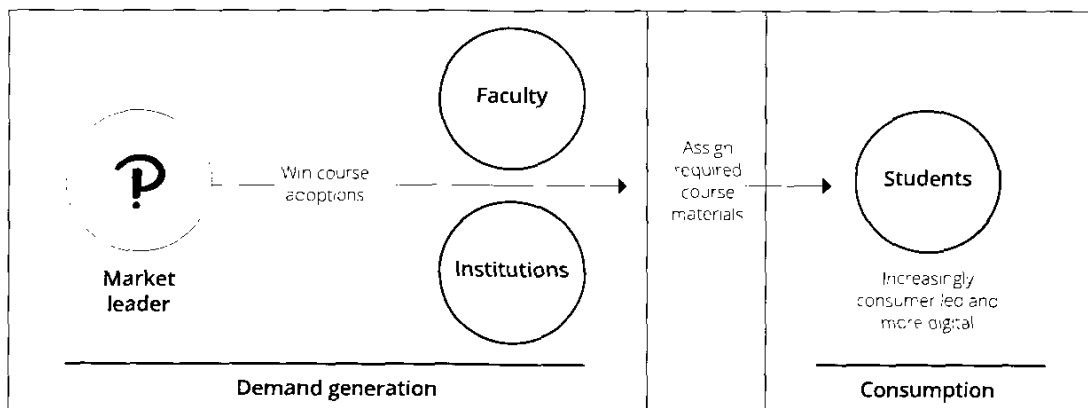


Positive momentum for Pearson+

Positive momentum from current performance. International roll-out in 2023. Student-centric feature expansion being introduced in Pearson+ Channels & Social.

Segment	2021 revenue (£m)	Margin 2021	2022 expectations		Revenue CAGR 2022 to 2025	Margin 2025
			Revenue	Margin		
Higher Education	849	9%	Down less than 2021	Stabilisation	Low-to mid-single digit	Mid-teens

The Higher Education market



Sustainable business strategy

Add life to a lifetime of learning

Learning and acquiring new skills are some of the greatest drivers of positive social mobility, the provision of which Pearson takes very seriously. Today, Pearson has more opportunity than ever to make a positive difference. The pandemic has continued to impact people across the globe, some of whom are facing increased inequality in access to essential services, including education – especially in more disadvantaged communities. Pearson has a significant role to play in enabling and encouraging people to harness trends in digitalisation and a heightened focus on the global energy transition.

Our approach to sustainability is evolving to further increase the alignment between our corporate and sustainable business strategies. In 2021 we introduced a selection of new non-financial KPIs (see page 24 of this annual report) to help us measure progression of our strategy, achieve all our ambitions and drive behavioural change. Pearson will only succeed as a business if all our stakeholders also succeed, and this notion is central to how we run our operations.

“Through our sustainable business pillars, Pearson strives to help people create a better life for themselves and a better world for society.”

“We’re proud to be a signatory in the UN Global Compact since 2000, and are committed to supporting the SDGs and UNGC principles through our sustainable business pillars.”

Cinthia Nespoli

Chief Legal Officer and Executive Leader for ESG

Pearson's Sustainable Business Pillars

The latest step in the evolution of our sustainable business strategy is to introduce three pillars that represent the environmental, social and governance (ESG) areas where Pearson can make the biggest positive impact. They have also been selected as the most influential in helping Pearson succeed as a business. These pillars have a clear, natural link to our non-financial KPIs, reflecting the common goal of alignment between our corporate and sustainable business strategy. They also contribute to advancing the UN SDGs we have prioritised – numbers 4, 8 and 10 relating to education and learning.

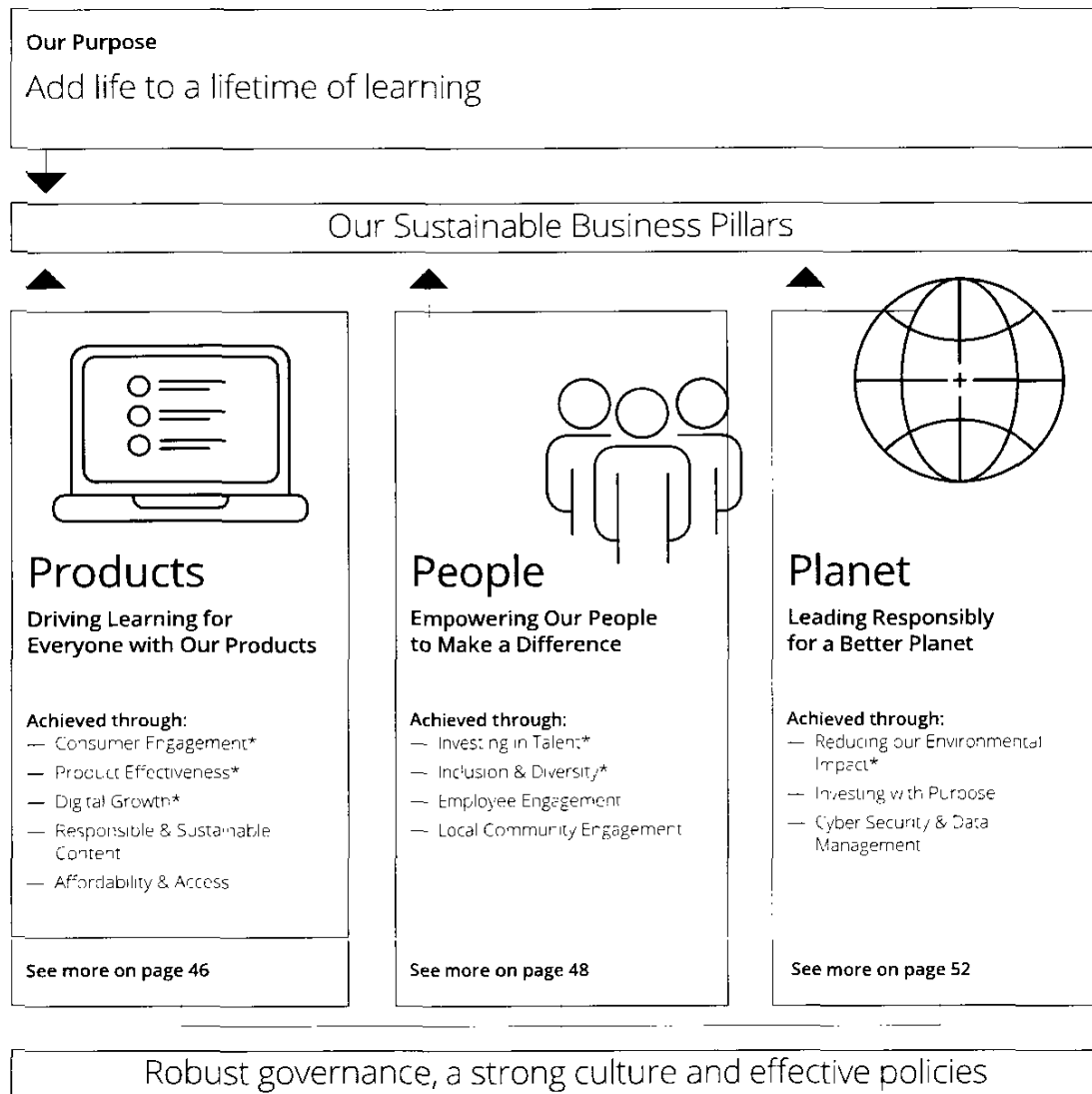
The three pillars build upon the focus areas of our Sustainable Business Plan 2030, and introduce a greater emphasis on our people with a new pillar, ‘Empowering Our People to Make a Difference’, in recognition that they are our greatest asset to influence society and succeed in our business goals. As Pearson builds out its plans for each pillar, a small number of additional targets will be considered alongside our existing carbon reduction target and environmental commitments.

Underpinning our three pillars is Pearson's robust corporate governance, strong corporate culture and a range of effective policies to ensure we achieve our ambitions.

We want our products and services to help more people make better progress – regardless of their income level, the way they learn or their background.

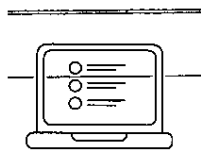
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Our ESG framework



* See our non-financial KPI section for more on how these link to our strategy

Products



Driving Learning for Everyone with Our Products

The pillar reflects our goal to increase access to learning for more people across the world.

Learning is critical to enable everyone to achieve their potential.

Three of our non-financial KPIs – Consumer Engagement, Product Effectiveness and Digital Growth – are metrics central to achieving highly effective learning and positive outcomes. Through these KPIs we can deliver content that is engaging and stimulating to consumers, helping everyone achieve their potential and making our products more widely available.

We believe lowering the barriers to learning and maximising accessibility for all consumers, including those with limited resources, is where Pearson can make the most positive societal impact, and we have initiatives and policies in place to drive real change.

Pearson also has a clear role to play in creating products and services that harness the major environmental and societal issues of our time, through, for example, developing new sustainable courses and qualifications. Growth in this area will enhance our revenue opportunity as well as promote Pearson's provision of responsible and sustainable content.

People



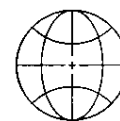
Empowering Our People to Make a Difference

This pillar drives our aim to inspire all our employees to fulfil their potential and help Pearson succeed.

Our success as a business and our ability to make a positive impact is highly dependent upon our employees.

Our aim is to ensure our diverse talent have the skills and knowledge for both today's and tomorrow's challenges. We are creating a culture of belonging for everyone, where more voices are heard and valued. We focus on employee engagement as a key lever in delivering a performance and purpose-led culture. We encourage our employees to create a better world through positive social and environmental action.

Planet



Leading Responsibly for a Better Planet

It is imperative for the long-term viability of our business that we lead responsibly in all areas.

At Pearson we focus on driving positive change while limiting our own impact on the world's scarce resources.

Our goal is to become a net zero carbon business by 2030 (a non-financial KPI) and to minimise the environmental impact of our products as we transition to being a digital business.

Prudent management of data privacy and cyber security are also fundamental to our future success and to build trust with our customers. Pearson's data processes and governance are developing quickly as the business evolves. You can read more about our approach on page 68 of this annual report.

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Our sustainable business pillars are underpinned by robust governance, a strong culture and effective policies. At Pearson we focus on driving positive change while limiting our own impact on the world's scarce resources.

Pearson's **corporate governance** approach underpins our overall corporate and sustainable business strategies. You can read in detail about governance on page 73 of this annual report.

We have a strong governance structure to ensure our sustainable business strategy meets its objectives and evolves appropriately over time.

- Pearson's Reputation and Responsibility Committee (RRC) is a formal committee of the Board and oversees its implementation while Cinthia Nespoli, Group CLO has direct responsibility for the development, monitoring and execution of Pearson's ESG strategy.
- Many of our employees have ESG measures included in their Annual Incentive Plans, which is overseen by the Remuneration Committee.

- The Audit Committee and the Pearson Executive Management team have reviewed and approved the Group's Carbon Emissions Re-baselining Policy and will continue to oversee its delivery. 2022 will be the first year of reporting in full alignment under the Taskforce for Climate-related Financial Disclosures (TCFD) framework (see page 70 of this annual report). This is a particular area of focus for the Board and RRC this year.
- Our Sustainability team is responsible for supporting all parts of our business as they identify Pearson's potential to make impactful environmental and social decisions and take action where opportunities arise.

A **strong corporate** culture, where every employee of Pearson lives and breathes the company values, is essential in achieving long-term success and meeting our sustainable business strategy goals. On page 5 of this annual report you can read about how Pearson's culture is evolving in line with its business goals.

Policies and business ethics

Pearson has a wide range of appropriate and effective policies that support the three sustainable business pillars. They are listed on our corporate website <https://plc.pearson.com/en-GB/corporate-policies>.

Human rights

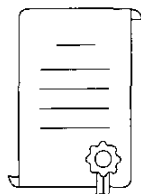
We respect the rights of our employees to freedom of association and representation through trade unions, works councils or any other appropriate forum wherever local laws allow. We have policies and procedures to prevent discriminatory, illegal and inhumane labour practices, including child labour, forced labour, slavery and human trafficking in our operations and supply chains, as well as to address violations when they occur.

We support the right to unionise in the UK. We maintain our accreditation by the Living Wage Foundation and have committed to paying employees and regularly contracted staff working in our buildings across the UK and in London the real Living Wage.

We use our influence with our suppliers to improve standards for their employees and commit to ensuring all supplier employees who work for, or on behalf of, Pearson have the ability to report any discrimination or ethics concerns.

Our Human Rights Statement outlines the priority human rights risks and opportunities for Pearson that our programme is taking steps to address. Our approach to human rights covers five areas: customers (page 6), content (page 47), employees (page 48), partnerships (page 48) and privacy and data (page 6).

Recognition



Bloomberg Gender Equality Index (for 2022)
— Pearson was recognised for investing in women in the workplace, the supply chain, and in the communities in which we operate.

Participant in the Workforce Disclosure Initiative (WDI) – We're part of the companies taking part in this since 2018.

Stonewall WEI – Pearson is recognised as a Stonewall Top 100 company for LGBT+ inclusion. For 2022, we are ranked 19.

Disability:IN – Pearson was recognised as a Best Place to Work for Disability Inclusion in the US.

Among the largest 200 public companies ranked by clean economy revenue on the Clean200.

We were added to the list this year, as more than 10% of our total revenues are from clean sources.

The 100 most transparent companies in the world per the Transparency Index – Pearson was added to the Transparency Index, formed by the top 100 transparent companies in the world according to Transparency Invest.

Corporate Knights World's 100 Most Sustainable Companies – This year, we are ranked 96 overall and #1 within our UK HQ peer group.

Human Rights Campaign – Pearson received 100% on the Human Rights Campaign Foundation's Corporate Equality (CEI) Index for 2020, for LGBTQ workplace inclusion.

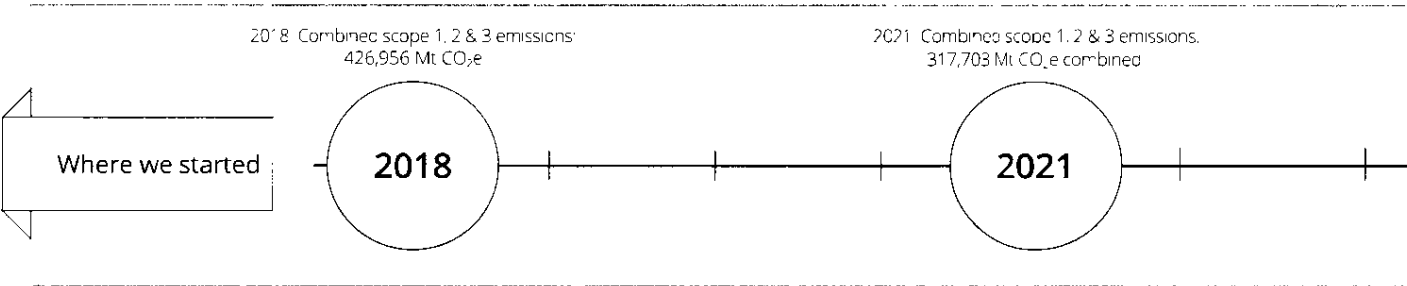
Pearson is a member of the FTSE4 Good and the Dow Jones Sustainability Indexes.

Reducing our carbon footprint

A long way in a short time... but more to do.

We are making good progress towards our target.

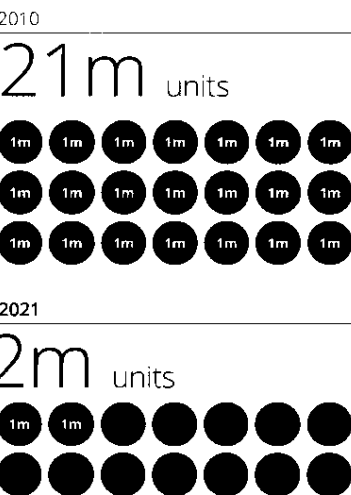
Many factors have contributed to reaching this point in the journey, the COVID-19 pandemic has had a big impact. However, our strategy for digitisation has also sped up the transition. There are many factors which will impact the remainder of our journey to net zero, significantly, the rate of change of our suppliers' own transition has an impact on ours. While we may have made good progress quickly, we anticipate an increasingly challenging journey over the next eight years to address our Scope 3 emissions.



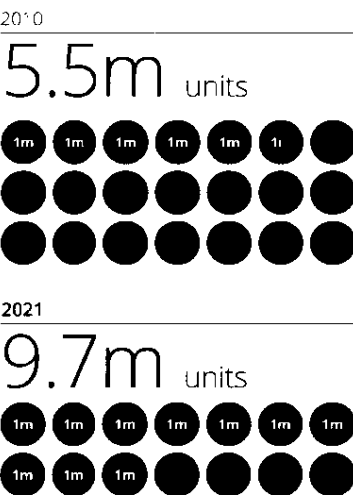
Our ongoing journey in reducing our carbon footprint is highlighted through the shift from print to digital in US Higher Education Courseware over the last decade since the launch of the strategy.

Our strategy in US Higher Education Courseware is to pivot from printed learning material to fully digital solutions – good for learner access, affordability and outcomes – and also playing a significant role in our carbon reduction.

Since 2010, print units* have decreased...



...digital units** have almost doubled...



* Print units include print and packages. Rental excluded
** Digital units include e-text, platform and Pearson+

Icon removed

01

Further digitisation and re-organisation of our print supply chain (e.g. print on demand)

02

Engaging our wider supply chain to deliver their own GHG reductions

03

Adopting flexible working policies that reduce emissions from business travel, commuting and offices

Our aspiration

By 2030, we will reduce scope 1, 2 & 3 emissions by 50% against a 2018 baseline as approved by the Science-Based Targets initiative

We will be net zero across scope 1, 2 & 3 by 2030

2021

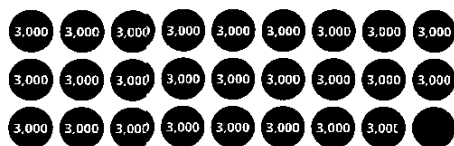
2030

2030

As a result of our digitisation in Higher Education, related emissions have reduced by

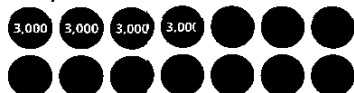
2010

77,571 CO₂ tonnes



2021

9,200 CO₂ tonnes



90%

This digitisation strategy means that higher education content in the US is becoming more affordable...

2010

c.\$100
for a print textbook

2021

c.\$50
for an eBook

c.\$75
for a platform product

Pearson+

With Pearson+ content is now

\$9.99
a month*

Estimates and assumptions

- In this illustration, product footprint excludes any product development emissions associated with people and office activity
- Print emissions are based on internal footprint per textbook and include manufacturing, print and distribution to customer
- Digital emissions are based on internal footprint tool and as the tool becomes more accurate, we will make adjustments to calculations as appropriate
- The illustration excludes the emissions associated with data centres. Further work will be undertaken to better understand the footprint of digital products

* Pearson+ \$9.99 is for Single Subscriber

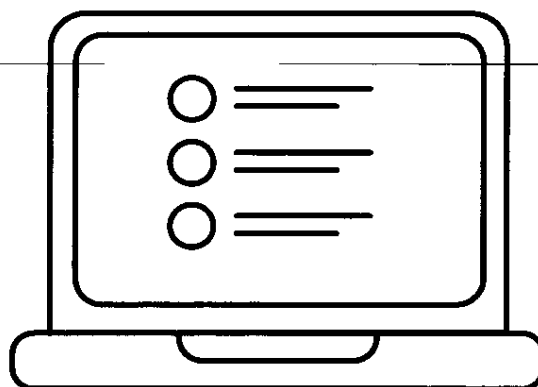
2021 progress and 2022 aspirations

2021 marked a year of strengthened commitment and progress on our sustainable business strategy alongside the development of our sustainable business pillars. On the following pages we describe what was achieved in 2021 and what our aspirations are for 2022 and beyond.

Pillar one:

Products

Driving learning for everyone with our products



2021 Progress on key initiatives

- Continued allocation of Social Bond proceeds in alignment with Pearson's Social Bond Framework
- Defined sustainable skills and careers competencies, and initiated development of sustainable courses and partnerships.
- Enhanced and launched Global Content and Editorial Policy and training to ensure representation in content and suppliers
- Invested in Braille printing facility.

2022 Aspirations

- Pearson+ product and channel expansion to reach and engage more consumers
- Continue to develop knowledge and skills related to sustainability through products and services.
- Deeply integrate diversity, equity and inclusion into learning design and approaches to impact measurement to account for diverse learners and their needs

Image removed

The three non-financial KPIs of Digital Growth, Consumer Engagement and Product Effectiveness relate closely to our potential to drive learning for everyone. You can read more about our progress against these KPIs on page 24 and about the launch of Pearson+ on page 28. Below we describe other core initiatives that are focused on increasing access and affordability of our products and services.

Social Bond Investment

The primary objective of Pearson's £350m Social Bond was to advance the UN Sustainable Development Goals (SDG) #4 – Quality Education. During 2021 we reported that we had deployed £240m of the Social Bond during 2020 to our Connections Academy virtual schools network via our Partner Schools and District Partnerships. This 'full-time virtual schools' programme provides high quality education to all, and is free to the user. During 2022 we will report on the allocation of proceeds for 2021.

Bond proceeds

£240m

allocated to our Connections Academy

Global Content and Editorial Policy

In 2021 we updated the Global Content and Editorial Policy with editorial guidelines for our products and services. These are:

- To respect human rights and strive to create content that is free from discrimination and bias
- To develop content that embeds our commitments to diversity, equity and inclusion
- To provide support for learning that is based on evidence and facts
- To create content that is ethical and adheres to legal requirements

These collectively held principles shape the way we think, work and behave. They are reflected in our content and in our interactions with all our stakeholders.

We continued to promote our online portal so consumers and educators can communicate directly with us about potential bias in our products.

Braille Printing Facility

In support of our Pearson's commitment to accessibility for all students we are excited to introduce Pearson Braille Services. We are in the final phase of construction and build out of a new facility in the Houston, Texas area. The location was selected because of the availability of experienced management, development, and production personnel who previously worked for Region 4 Braille Solutions. We are currently training our workforce to operate our state-of-the-art Braille production line. In autumn 2021, we began to develop Braille assessment materials and full production and distribution services began in Q1 2022.

BTEC Award on Sustainability

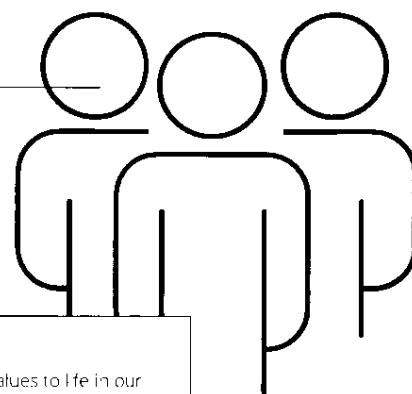
Research has shown that there is a gap in accessible education on sustainable issues in the national curriculum. Pearson is positively addressing this by working collaboratively with experts and young people to develop vocational qualifications that broaden the available curriculum.

We have developed a brand new Level 1/2 BTEC Tech Award in Sustainability that encourages learners to look at solutions to global and local issues and to consider solutions found internationally. The course will encourage learners to think creatively and in a diverse way, looking for connections between environmental impact and human activity. The Tech Award in Sustainability will be available in schools to be taught alongside core GCSE qualifications to help prepare learners to progress to studies in A Levels and BTEC Level 3.

Looking ahead, we are developing a Level 3 suite of Sustainability qualifications that will support progression to the growing number of relevant degree courses that look at the climate challenge as well as wider economic and social issues.

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2021 Progress and 2022 aspirations



People

Empowering our people to make a difference

2021 Progress on key initiatives

- Focussed on employee engagement during business transformation
- Identified the career aspirations and skills needed to drive the ongoing transformation of the company for 100% of our SVPs, VPs and Directors in alignment with the Pearson Capabilities Framework (identifying skills gaps to close is part of our talent review)
- Launched DE&I Strategy and associated governance council.

2022 Aspirations

- Bring the purpose and values to life in our employee experiences across the key moments that matter in the employee lifecycle. In 2022 our focus will be on developing the capabilities of our people managers to help build high-performing engaged cultures.
- Develop priority Core Business and Leadership skills from the Pearson Capabilities Framework aligned to the strategy to drive performance of business and employee growth, e.g., Core Business – data literacy and Leadership, working with our Workforce Skills division to test commercial offerings internally
- Continue to improve diverse representation at leadership levels and run an inclusive learning experience to build an inclusive culture

Pearson's people are its greatest asset. Our success as a business and our ability to make a positive impact is highly dependent upon our employees. At Pearson we focus on learning and our colleagues' wellbeing, growth and development throughout their time with us. As the business continues its transition to a digitally led consumer-facing company, our priorities to upskill and provide opportunities for continuous learning and growth in an environment free from bias are crucial to our future success. This is why, in 2021 our non-financial KPIs include Investing in Talent and Inclusion & Diversity.

We track a wide range of internal outcomes and metrics to measure our progress (for example, employee experience – Net Promoter Score (NPS), employee learning & development – upskilling levels, employee retention – staff turnover).

We supplement our tracking of quantitative metrics by collecting qualitative insights. We run a quarterly Pulse survey which includes open-ended responses to questions which are analysed at the divisional and company level to support ongoing improvements. In addition, Pearson's Employee Engagement Network is the key feedback mechanism between the Board and the workforce, enabling the Board to hear directly from employees and creating additional insight on how to enhance employee satisfaction and engagement levels. You can read more about the Board's engagement with our employees on page 87 of this annual report.

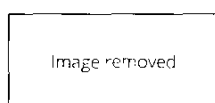
Investing in our talent

Talent and learning

The skills and experiences of our workforce need to reflect the rapidly evolving requirements of the learning and education industry to ensure Pearson is best placed to serve it. In 2020, we began encouraging managers to enable 40 hours of learning per employee per annum. We advise that this is made up of a combination of formal, social (peer-to-peer) and experiential (on-the-job) learning. While tracking hours provides line of sight into inputs to training and learning, we are focused on measuring outcomes from learning. We are helping our managers evolve their skillset to enable this environment, provide growth-oriented feedback to their team members and encourage a perpetual culture of learning and development. Ultimately, this will help Pearson retain talent, help colleagues develop their skills, share their knowledge across the international breadth of our company and continue to drive creativity to produce excellent products and services for our customers. In support of this, in 2021 we continued to develop the Pearson Capabilities Framework. It's designed to support employees to identify and develop the core business and leadership capabilities that are transferable across the business, coupled with technical skills specific to a given role.

In 2021, Pearson employees demonstrated their commitment to adopting this new method of personal learning, and the Learning & Development plan and our Capability framework were each accessed by 15,000+ unique users through our global employee community platform, Neo Open Sesame, our Digital Content Library with supplementary training and self-directed learning content in these areas saw usage by employees double between January and December 2021. On average, 8,300 employees utilise the library every month.

Our second annual Global Learning at Work Week focused on the development of core business, leadership and technical capabilities with more than 11,000 hours of live learning clocked up by our staff in this week alone, with 10,000 hours on demand. We aim to continue to evolve this learning experience in the future in alignment with our upskilling priorities for 2022.



2021 also saw a particular focus on mentoring and coaching. Pearson launched a Global hub for each area on Neo working with Pearson author talent to create expert mentor and mentee guidance in short-form video snippets available on the Global Mentoring Hub and hosted live group sessions where our subject matter experts guided employees through practice scenarios. 1,300 employees currently access the hub.

In addition, we deepened our 2021 Talent Review to include both senior leaders (SVPs and VPs) and Directors. We supported open, transparent conversations between managers and employees at each of these career levels across five dimensions: readiness to grow and take on more, risk of loss/impact of loss, DE&I, learning and succession. As part of this process, 100% of SVP, VPs and Directors identified priority skills to focus on developing, in order to support the achievement of business and career goals.

Investing in Talent KPI – upskill/reskill

On average these global initiatives, coupled with divisional activities led to 72% of employees self-reporting via the Pulse survey they had conversations with their managers about business goals and learning. In addition, on average 71% self-reported upskilling and reskilling each quarter. This compares to 63% during 2020. This is a metric we report on within our Investing in Talent non-financial KPI.

Investing in Talent KPI – employee NPS

Our investment in employee upskilling, employee wellbeing, benefits, and our employee engagement efforts during a period of business transformation and a global pandemic contributed to a Net Promoter Score of +8.

Diversity Equity and Inclusion (DE&I)

Ensuring Pearson provides an environment free from bias and one that is conducive to employees leveraging all their capabilities is essential to reaching our goals and serving our customers to the best of our ability. The DE&I Council, comprising business leaders across Pearson, oversees our activities and has a mandate to engage leaders to make progress towards gaining representation at management levels that reflects the racial, ethnic and gender diversity of the geographies where we operate.

Our activity is divided into four parts: recruitment and promotion; retention; inclusive culture; and social impact. In each category, we have planned activities over a five-year timeframe. Each division and corporate function has also developed functional plans that reflect DE&I ambitions and help us operationalise organisational goals.

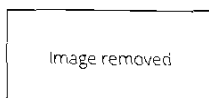
In **recruitment and promotion**, we started working with myGwork, a business community for LGBT+ professionals, students and inclusive employers to help Pearson create a more diverse and inclusive workforce. We have recruited over 690 people through the platform since September 2020. We continued to develop external mentoring to potential candidates with diverse backgrounds.

Within **retention** during 2021 we ran 12 global accelerated learning experiences for specific pools of talent. Our priority talent pools were diverse talent at all career levels and future leaders at manager level and below. Focus areas included leading with purpose and business and management skills, among others. More than 50% of participants were female, UK BAME or US BIPOC.

In 2020, we registered our first cohort to The McKinsey Manager Accelerator Programme. This is aimed at early-to-mid-career Black leaders. We selected Bold and Prime ERG leaders who are driving our DE&I agenda and would benefit from the programme. Since its launch, we have added cohorts for our Asian and Latinx population.

Global Inclusion Week (GIW) is a key resource to further our **inclusive culture**, providing employees with opportunities to learn about and discuss diversity and inclusion in action at Pearson. In 2021, under the theme Pearson Together, Strength in Difference, we offered sessions on topics such as developing empathy and emotional intelligence, and promoting a culture of respect among others.

In **social impact** in 2021, we began, in partnership with Career Accelerator, an LGBT+ Youth Mentoring Programme, connecting with young people from underrepresented backgrounds. We will build on this in 2022. We also expanded our Corporate Disability Mentoring Programme which matches Pearson employees with differently-abled US college students and young adults.



Diversity and Inclusion non-financial KPI

The percentage of diverse candidates in a leadership role and succession planning for leadership roles are key measures of our non-financial KPI of building an inclusive culture and increasing diverse representation.

Pearson exceeded succession plan objectives with 72% of plans including a women successor and 24% of plans including people of colour (target 50% women; 20% people of colour). Please read more on our response to the Hampton-Alexander and Parker reviews on page 96.

Health and safety

Our overall approach to health and safety is based on ISO 45001, for which we continue to be certificated. We are currently updating our Health and Safety Policy & Standards to fully align to activities carried out in our new operating divisions.

During the pandemic, our testing centres and product delivery sites have continued to operate successfully, with measures in place to minimise the risk of occupational exposure to COVID-19. We have supported employees to work remotely where possible and enabled safe access to our offices and other commercial activities where required to meet business needs.

Gender Pay Gap

Work towards pay equity across Pearson is an ongoing effort. The UK Gender Pay Gap Report <https://plc.pearson.com/sites/pearson-corp/files/pearson/pearson-gpg-2020-aw-260321.pdf> provides an annual summary of progress as we continue to evolve compensation practices and include evaluation of non-UK pay status.

Employee benefits

It is vital for Pearson to retain and incentivise its staff, and we offer highly competitive and attractive benefit programmes to support our employees. Our programmes vary globally and include health insurance, parental leave, disability coverage, retirement savings, employee share purchase options, commuter benefits, tuition reimbursement and programmes that support wellbeing and work-life balance.

We established a Global Remote Working Policy to promote work-life balance and a more flexible way of working for all on-payroll Pearson employees where their jobs allow for remote work or a hybrid arrangement.

In the US, we expanded bereavement leave to include pregnancy loss, created a Pregnancy Loss and Infertility Support Policy, and increased Financial Aid for Adoption and Surrogacy by 50%.

9 employee resource groups (ERGs) support leadership to champion inclusive efforts and promote collaboration and community across all Pearson people.

Employee Resource Group	Focus
Generation Pearson	Generational-based differences
Pearson Able	People with disabilities
Pearson Bold	People of Black and/or African ancestry
Pearson Latino Network	Pearson's LatinX community
Pearson Family	Pearson families, parents and caregivers
Pearson PRIME	People Representing the Interests of Minority Ethnicities
Pearson Spectrum	Pearson's lesbian, gay, bisexual, transgender, queer, questioning, intersex people and allies
Pearson Veterans	Pearson's veterans and military personnel
Women in Learning & Leadership (WILL)	Women at Pearson

2021 Progress and 2022 aspirations

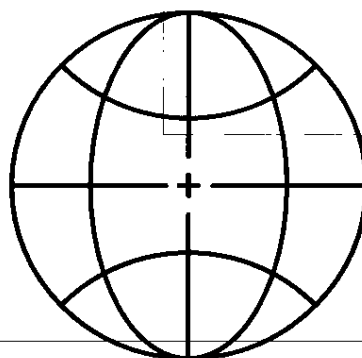
Pillar three:

Planet

Leading responsibly for a better planet

2021 Progress on key initiatives

- We reduced our combined Scope 1, 2 and 3 emissions by 26% from our 2018 baseline that was adjusted for business disposals. The ongoing work we have undertaken to digitise our business and reduce our physical footprint has been a key driver of the reduction. The impact of COVID-19 will also have had an impact due to international mobility restrictions and office closures, however it has accelerated the changes in how we do business and the shift to digital. We are pleased with the progress we have made in digitising our business and we are continuing to focus on this as a priority
- Progress on supplier baselining and data models
- Introduced seven data security and privacy principles as foundation for cyber security policies



2022 Aspirations

- Consider remaining footprint of print products and plan additional actions to reduce emissions further
- Better understand the carbon impact of our flexible working policy, and identify actions to tackle emissions from employee travel
- Better understand the footprint of our key digital products and services.

Pearson needs to contribute more to the planet than it takes out. Our priorities are to achieve material carbon reductions and to reduce our environmental footprint. We also strive to use our capabilities to educate through responsible content and partnerships

Journey to net zero

We are taking responsibility in our own operations to reduce carbon emissions – aiming for net zero by 2030. This is one of our Group non-financial KPIs

We aim to reduce our Scope 1, 2 and 3 emissions by 50% by 2030 against a 2018 baseline, this was approved by the Science Based Targets initiative (SBTi), to which we were an early signatory

We have already taken many steps to reduce our Scope 1 and 2 emissions, such as shifting to 99% renewable energy, and we will continue to drive further Scope 1 and 2 emission savings. The key to achieving our net zero ambitions will be through Scope 3 reductions given they represent more than 95% of our total GHG emissions

We are focusing our efforts on tackling emissions in our business and in our supply chain, engaging our employees in better understanding their own carbon footprint and working to better understand the carbon footprint of our key digital products and services

Our progress

This year, we've rebased our emissions to reflect business divestitures and have reviewed the progress we need to make across our business to meet our net zero targets adjusting for

COVID-19 where appropriate. We reduced our combined Scope 1, 2 and 3 emissions by 26% from our 2018 baseline, and 1% against 2020. The annual reduction was driven by a combination of our continued shift from print to digital; reduction in business travel and employee commuting, but offset by increased activity in our indirect spend

Responsible procurement

We are working with our suppliers to reduce the carbon emissions from the products and services we buy

Our suppliers represent 57% of Pearson's Scope 3 emissions. Thirty-one suppliers contribute 50% of this total, and these are our focus. Alignment with our GHG strategy is a requirement of doing business with us. Many of our biggest suppliers have already set net zero commitments, and we are working with our middle-tier suppliers to ensure they set clear reduction targets. We are using EcoVadis to track supplier performance, and our focus is on joint collaboration to improve global standards. We engaged on these areas at a global supplier forum held in March 2021

Resource use and waste

Printed books represented 24% of our CO₂ emissions in 2021 (2018: 30%). The carbon emissions on a digital product are significantly less than the printed output. Our digital transformation has already made a material contribution to cutting emissions and this will continue. As we further shift to low-carbon paper and print suppliers, printing on demand, and by being closer to the long tail of the market, we expect these additional steps to deliver a further reductions in our emissions

Recognising the increasing significance of digital in all aspects of our business, we joined the DIMPACT project, an industry collaboration which helps us understand, measure and reduce the carbon associated with digital products.

While we have a growing digital supply chain, our traditional paper-based products remain a significant area of impact. In 2021, we purchased 29,000 tonnes of paper globally (2020: over 37,000 tonnes). Pearson has a long-standing responsible paper sourcing policy that sets out our preference for papers that are sourced responsibly (FSC, PEFC and recognised national schemes such as CSA and SFI).

We have also been working to identify what happens to our books at the end of their useful life and what prevents them from being

recycled. We are using the findings to set our new internal guidance to ensure our books are designed to be recycled.

Business practices

Changes in business practices initially brought about by COVID-19 have contributed to emissions reductions. Business travel and commuting reduced as people worked from home. Emissions from business travel fell by 51% in 2021. In 2021, we estimated emissions from working from home and captured these in our reporting (see ESG Performance Data on page 233).

We will continue remote working practices where it makes sense. We may see some increase in emissions from a recovery in travel as a new normal takes hold, and we will closely monitor the effects.

Our emissions data

Following Greenhouse Gas Protocol guidance, we have now retrospectively excluded emissions from relevant disposals in our base year and historical years. Restatements for the relevant disposals is based on actual data where available, such as removal of property emissions and impact of reduced employees and where applicable, paper tonnage. This enables meaningful comparison of emissions on a like-for-like basis over a long period. Both recalculated and reported emissions are disclosed in the table below. For a full set of data and methodology, please refer to our ESG performance table on pages 230-241.

CO ₂ e	2018 Previously Reported	2018*	2019*	2020*	2021*
Scope 1	13,057	12,209	12,500	6,534	8,396
Scope 2 (Location based)	49,920	41,586	38,298	28,385	23,333
Scope 2 (Market based)	4,583	4,583	418	529	440
Scope 3	596,740	410,164	410,322	313,738	308,866
Total – Location based	659,717	463,959	461,120	348,657	340,595
Total – Market based	614,380	426,956	423,239	320,801	317,703
Intensity ratios					
tCO ₂ e per employee (scope 1,2 market and 3)	25.3	17.6	18.6	15.0	14.9
tCO ₂ e / sales (scope 1,2 market and 3)	148.8	113.5	111.6	95.0	92.7

This data was subject to external independent assurance by Corporate Citizenship. The scope of the assurance covers our energy consumption, Scope 1, 2 and 3 GHG emissions and renewable electricity claims. See our assurance statement at: pic.pearson.com/en-GB/purpose/esg-reporting

* All relevant Scope 3 categories as defined by the GHG protocol have been assessed. For 10 of our key markets, we buy renewable energy through green energy tariffs or renewable energy certificates (RECs) in the country of consumption. This accounts for 99% of our electricity use. Methodology: We have reported on all of the emission sources required under the Companies Act 2006. The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the Scope 2 dual reporting methodology, together with the latest emission factors from recognised public sources, including, but not limited to, the UK Department for Business, Energy & Industrial Strategy, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change. The data in the table above has been independently verified by Corporate Citizenship. Energy use includes gas and electricity consumption in MWh and vehicle fuel use converted from mileage into MWh using BLS conversion factor.

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Non-financial information statement

The following table outlines where the key contents requirements of the non-financial information statement (as required by sections 414CA and 414CB of the Companies Act 2006) can be found in this document

Visit our website at plc.pearson.com/en-GB/corporate-policies for a complete set of relevant environmental, social and governance policies. Our disclosures are aligned to globally recognised reporting standards such as SASB (see page 236), TCFD (see page 70), Global Reporting Initiative (see page 237), Carbon Disclosure Project (CDP), UN Global Compact and Sustainable Development Goals

Reporting requirement	Pearson policies and procedures	Section of annual report
Environmental matters	Environmental Policy Paper sourcing Policy	Sustainable Business Strategy: pages 40-45, pages 52-53; pages 230-231 TCFD Report: pages 70-72
Employees	Code of Conduct Human Rights Statement Raising Concerns and Anti-Retaliation Policy Health & Safety Policy Diversity, Equity & Inclusion Statement	Our People: pages 4-5, pages 40-43, pages 48-51 Diversity and Inclusion: pages 4-5, pages 40-43; pages 48-51
Human rights	Business Partner Code of Conduct Human Rights Statement Global Content and Editorial Policy Modern Slavery Statement Safeguarding Principles	Human rights: page 43 Our customers: pages 60-69, pages 73-111 Our People: pages 4-5; pages 40-43; pages 48-51
Social matters	Human Rights Statement	Sustainable business strategy: pages 40-54
Anti-corruption and bribery	Code of Conduct Anti-Bribery and Corruption (ABC) Policy Raising Concerns and Anti-retaliation Policy Gifts and Hospitality Policy	Governance: pages 101-111
Policy embedding, due diligence and outcomes		Risk Governance: pages 60-69 Sustainable business strategy: pages 40-54
Description of principal risks and impact of business activity		Risk Governance: pages 60-69 TCFD Report: pages 70-72
Description of business model		Our business model: pages 20-21 Our stakeholders: pages 16-19
Non-financial key performance indicators		ESG Performance Data: pages 230-241

Financial review

Strong financial performance and building growth momentum

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"We delivered a strong Group performance in 2021, with 8% underlying sales growth and adjusted operating profit of £385m. With a lower interest charge than previously expected of £57m and a tax rate of 20% we delivered an adjusted EPS of 34.9p, up 22%."

Sally Johnson, Chief Financial Officer

Financial summary

Business performance

£ millions	2021	2020	Headline growth	CFR growth	Underlying growth
Sales	3,428	3,397	1%	7%	8%
Adjusted operating profit	385	313	23%	33%	33%
Operating cash flow	388	315			
Adjusted earnings per share	34.9p	28.7p			
Net debt	(350)	(463)			

Statutory results

£ millions	2021	2020	Headline growth	CFR growth	Underlying growth
Sales	3,428	3,397	1%	7%	8%
Operating profit	183	411			
Profit for the year	160	310			
Cash generated from operations	570	450			
Basic earnings per share	21.1p	41.0p			
Dividend per share	20.5p	19.5p			

Throughout this section: a) Growth rates are stated on an underlying basis unless otherwise stated. Underlying growth rates exclude currency movements and portfolio changes. b) The business performance measures are non-GAAP measures, and reconciliations to the equivalent statutory heading under IFRS are included in the financial key performance indicators section on pages 224-228. c) Constant exchange rates are calculated by assuming the average FX in the prior year prevailed through the current year.

Financial review *continued*

Operating results

Sales increased on a headline basis by £31m or 1% from £3,397m in 2020 to £3,428m in 2021 and adjusted operating profit increased by £72m or 23% from £313m in 2020 to £385m in 2021.

The headline basis simply compares the reported results for 2021 with those for 2020. We also present sales and profits on an underlying basis which exclude the effects of exchange, the effect of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Our portfolio change is calculated by taking account of the contribution from acquisitions and by excluding sales and profits made by businesses disposed in either 2020 or 2021. Portfolio changes mainly relate to the sale of the Pearson Institute of Higher Education (PIHE) in 2021, the sale of the K12 Sistemias business in Brazil in 2021 and the sale of our remaining interest in Penguin Random House in the first half of 2020. Acquisitions, including Spotlight and Faethm in 2021, had only a small impact on reported sales and profits.

Underlying sales for the full year 2021 on a divisional basis were up 18% in Assessment & Qualifications driven by the strength of Pearson VUE, Clinical Assessment and US Student Assessment, following a recovery from COVID-19. Underlying sales grew 11% in Virtual Learning due to strong enrolment growth in Virtual Schools in the prior academic year (2020-21). English Language Learning underlying sales grew 17% for the full year due to COVID-19 recovery in both international courseware and PTE, where volumes grew compared to 2020. Workforce Skills underlying sales grew 6% with strong growth in GED and TalentLens and growth in BTEC and Apprenticeships. Higher Education underlying sales were down 5% for the full year. Growth in Canadian and UK Higher Education Courseware were more than offset by a 6% decline in US Higher Education Courseware driven by a decline in enrolments and courses per enrolment combined, as well as price pressure due to the mix shift from print and bundles to e-text and platform, and lower monetisation.

All figures in £ millions	2021	2020
Operating profit	183	411
Add back: Cost of major restructuring	214	-
Add back: Intangible charges	51	80
Add back: Other net gains and losses	(63)	(178)
Adjusted operating profit	385	313

On an underlying basis, sales increased by 8% in 2021 compared to 2020 and adjusted operating profit increased by 33%. Currency movements decreased sales by £206m and decreased adjusted operating profit by £30m. Portfolio changes decreased sales by £27m and decreased adjusted operating profit by £1m. There were no new accounting standards adopted in 2021 that impacted sales or profits.

Adjusted operating profit includes the results from discontinued operations when relevant but excludes intangible charges for amortisation and impairment, acquisition related costs, gains and losses arising from acquisitions and disposals and the cost of major restructuring. A summary of these adjustments is included below:

In March 2021, the Group announced a major restructuring programme to run primarily in 2021. The programme includes the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio. The restructuring costs in 2021 of £214m mainly relate to the impairment of right of use property assets, the write-down of product development assets and staff redundancies. There were no costs of major restructuring in 2020.

Intangible amortisation charges in 2021 were £51m compared to a charge of £80m in 2020. This reduction is due to a decrease in acquisition activity in recent years and additional intangible charges which were recorded in 2020 and are not repeated in 2021.

Other net gains and losses in 2021 largely relate to gains from the disposal of PIHE and the K12 Sistemias business in Brazil offset by costs related to the acquisition of Faethm and the wind down of certain strategic review businesses. In 2020, other net gains and losses largely relate to the sale of the remaining interest in Penguin Random House.

The statutory operating profit of £183m in 2021 compares to a profit of £411m in 2020. The decrease in 2021 is mainly due to the gain on sale of Penguin Random House recognised in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals.

Net finance costs

Net interest payable reflected in adjusted earnings in 2021 was £57m, compared to £61m in 2020. The decrease is mainly due to a reduction in interest payable on lease liabilities following the disposal of PIHE.

Net finance income relating to retirement benefits has been excluded from our adjusted earnings as we believe the income statement presentation does not reflect the economic substance of the underlying assets and liabilities. Also included in the statutory definition of net finance costs (but not in our adjusted measure) are interest costs relating to acquisition or disposal transactions, foreign exchange and other gains and losses on derivatives. Interest relating to acquisition or disposal transactions is excluded from adjusted earnings as it is considered part of the acquisition cost or disposal proceeds rather than being reflective of the underlying financing costs of the Group. Foreign exchange and other gains and losses are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. Other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity.

In 2021, the total of these items excluded from adjusted earnings was income of £31m compared to income of £4m in 2020. Net finance income relating to retirement benefits decreased from £6m in 2020 to £4m in 2021 reflecting the comparative funding position of the plans at the beginning of each year and higher prevailing discount rates. In 2021, finance income of £6m relating to the revaluation of the US K12 disposal proceeds was recorded and there were gains on long-term interest rate hedges and foreign exchange gains on unhedged inter-company loans and cash and cash equivalents in 2021 compared to 2020.

£ millions	2021	2020
Net interest payable	(57)	(61)
Finance income in respect of retirement benefits	4	6
Fair value remeasurement of disposal proceeds	6	26
Other net finance costs	21	(28)
Net finance costs	(26)	(57)

Taxation

The effective tax rate on adjusted earnings in 2021 was a charge of 19.5% compared to an effective tax rate charge of 13.7% in 2020. The increase in the effective rate is mainly due to a benefit from the release of tax provisions due to the expiry of the relevant statute of limitation which was recorded in 2020 and is not repeated in 2021.

The reported tax charge on a statutory basis in 2021 was a credit of £3m (1.8%) compared to a charge of £44m (12.5%) in 2020. The principal reasons for reduction in the tax charge are the benefit received from the revaluation of deferred tax assets following the increase in the UK tax rate from 19% to 25% together with a benefit from a change in Italian tax law.

The Budget in March 2021 announced an increase in the UK corporation tax rate to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. The UK corporation tax rate increase has resulted in an increase of £27m in the UK deferred tax liability associated with the UK Group pension plan asset position, which has been recognised in other comprehensive income, together with a £25m increase in UK deferred tax assets, which has been recognised in the income statement. The UK corporation tax rate change is beneficial to the Group's statutory tax as it increases the value of certain UK tax attributes of the Group such as tax losses and as noted above, reduces the overall statutory tax charge.

Operating tax paid in 2021 was £60m (2020: £10m). In 2020, tax paid was impacted by refunds received in the US and UK relating to historical periods. Non-operating tax paid was £117m in 2021 (2020: refund £12m) of which £97m relates to the ongoing EU Commission investigation into whether certain aspects of the UK tax system constituted State Aid (see note 34 to the financial statements for further details). The Group expects to recover the funds in due course. The £97m is recognised as a non-current tax asset.

A net deferred tax asset of £17m is recognised in 2021 compared to a net £30m deferred tax liability in 2020. The movement is primarily due to the unwind of deferred tax liabilities. The current tax creditor principally consists of provisions for tax uncertainties. There are contingent liabilities in relation to tax as outlined in note 34 to the financial statements.

Earnings per share

Adjusted earnings includes adjusted operating profit and adjusted finance and tax charges. The reconciling items between the statutory inputs to earnings per share and the adjusted inputs are discussed in the previous sections.

Adjusted earnings per share is 34.9p in 2021 compared to 28.7p in 2020. The increase is primarily driven by an increase in adjusted operating profit, a reduction in net finance costs offset by an increase in the adjusted effective tax rate.

Statutory earnings per share is 21.1p in 2021 compared to 41.0p in 2020. The decrease in 2021 is mainly due to a reduction in the statutory profit as a result of the gain on sale of Penguin Random House recognised in 2020 and restructuring costs in 2021 offset by improved trading profits, reduced intangible charges and gains on the 2021 business disposals. In addition there were increased finance costs and tax charges in 2020.

2022 outlook

We are confident of further Group revenue growth, with adjusted operating profit, interest and tax expected to be in line with current market expectations. On a divisional basis we expect:

- Assessment & Qualifications revenue growth of low to mid-single digits with strong margins maintained
- Growth in Virtual Learning revenue with low-single digit growth in Virtual Schools and high-single digit growth in Online Program Management (OPM) with further margin expansion through operational efficiency improvements in OPM
- English Language Learning revenue growth of mid-single digits. This division continues to recover from COVID-19 with further margin improvement expected
- Significant revenue growth in Workforce Skills underpinned by the acquisitions of Faethm and Credly. Margins will be break-even as we invest to accelerate growth.
- Higher Education revenue to decline, but by less than last year, with margin stabilisation reflecting cost efficiencies. We expect enrolments to decline, but at a lower rate than in 2021, although that could improve. We also expect pricing pressure to continue due to the shift from print to eBooks and Pearson+, and from bundles to digital only, offset by recapture of the secondary market.

In the longer term we expect the Group to achieve mid-single digit revenue CAGR from 2022 to 2025 and for margins to remain relatively stable in the near term, as we invest to drive growth, improving by 2025 to mid-teens.

The table below shows our financial expectations for 2022 and beyond by division.

Financial expectations

Segment	2021 revenue (£m)	Margins 2021*	2022 expectations Revenue	2022 expectations Margins*	Revenue CAGR 2022 to 2025	Margins 2025*
Assessment & Qualifications	1,204	18%	Low to mid-single digit	Maintained	Low to mid-single digit	Maintained
Virtual Learning	713	4%	Low to mid-single digit	Incremental improvement in Virtual Learning due to OPM efficiencies	Mid-high single digit	Low double digit
English Language Learning	238	6%	Mid-single digital	Improvement versus 2021	Mid-high single digit	Mid-teens
Workforce Skills	172	16%	Existing business Mid-high single digit >40% for Faethm and Credly	Break-even	2025 revenues more than double 2021	Low double digit
Higher Education	849	9%	Down less than 2021	Stabilisation	Low to mid-single digit	Mid-teens
Strategic review	252	9%				
Group	3,428	11%	Growth	In line with market expectations	Mid-single digit	Mid-teens

* Adjusted operating profit margins

Financial review *continued*

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £6m in 2021 compares to a loss in 2020 of £109m. The loss in 2021 arises due to the strengthening of the US dollar being offset by the weakening of other currencies used by the Group. A significant proportion of the Group's operations are based in the US and the US dollar strengthened in 2021 from an opening rate of £1 \$1.37 to a closing rate at the end of 2021 of £1 \$1.35. At the end of 2020, the US dollar had weakened from an opening rate of £1 \$1.32 to a closing rate of £1 \$1.37 and this movement was the main reason for the loss in 2020.

Also included in other comprehensive income in 2021 is an actuarial gain of £149m in relation to retirement benefit obligations of the Group. The gain arises from the favourable impact of changes in the assumptions used to value the liabilities in the plans and in particular movements in the discount rate. The actuarial gain in 2021 of £149m compares to an actuarial loss in 2020 of £23m. There is a £61m tax charge related to retirement benefit obligations recognised in other comprehensive income, which is primarily driven by the change in the UK corporation tax rate from 19% to 25% in 2023 increasing the deferred tax liability held on the balance sheet.

Fair value gains of £24m have been recognised in other comprehensive income and relate to movements in the value of investments in unlisted securities held at fair value through other comprehensive income. In 2020, fair value gains of £14m were recognised in other comprehensive income.

In 2021, £4m was recycled from the currency translation reserve to the income statement in relation to businesses disposed. In 2020, a loss of £70m was recycled from the currency translation reserve to the income statement in relation to the disposal of Penguin Random House.

Cash flow and working capital

Our operating cash flow measure is an adjusted measure used to align cash flows with our adjusted profit measures (see note 33 to the financial statements). Operating cash inflow increased on a headline basis by £73m from £315m in 2020 to £388m in 2021. The increase is largely explained by the drop-through of increased operating profits and an improvement in net working capital (including product development) offset by an increase in capital expenditure.

The equivalent statutory measure, net cash generated from operations, was £570m in 2021 compared to £450m in 2020. Compared to operating cash flow, this measure includes restructuring costs but does not include regular dividends from associates. It also excludes capital expenditure on property, plant, equipment and software, and additions to right of use assets as well as disposal proceeds from the sale of property, plant, equipment and right of use assets (including the impacts of transfers to/from investment in finance lease receivable). In 2021, restructuring cash outflow was £24m compared to £38m in 2020.

In 2021, there was an overall £176m decrease in cash and cash equivalents compared to an increase of £679m in 2020. The decrease in 2021 is primarily due to repayments of borrowings of £167m, dividends paid of £149m, tax paid of £177m, interest payments of £67m, capital expenditure of £176m, acquisitions of £69m and repayments of lease liabilities of £88m. These were offset by the cash inflow from operations of £570m and proceeds from disposals of businesses and investments of £131m.

Working capital provisions continue to be an area of focus for the Group in the light of the impact of COVID-19 on trading, in particular the adequacy of inventory and bad debt provisions. Reductions in the total level of inventory held by the Group are driven by the digital first strategy and the resulting reduction in physical product. The increase in trade and other liabilities held by the Group is driven by timing differences which have increased deferred income, an increase in

accruals related to severance and the recognition of deferred consideration in relation to acquisitions made in 2021. The increase in trade and other receivables held by the Group is driven by revenue growth which has increased debtors despite strong collections and an overall reduction in the bad debt provision.

£ millions	2021	2020
Net cash generated from operations	570	450
Dividends from joint ventures and associates	-	4
Capital expenditure on PPE and software	(206)	(195)
Proceeds from sale of PPE (incl disposal and transfer of leased assets)	-	18
Add back: costs paid for major restructuring projects	24	38
Operating cash flow	388	315

Liquidity and capital resources

The Group's net debt reduced from £463m at the end of 2020 to £350m at the end of 2021. The decrease is largely due to positive operating cash flow and proceeds from disposals of businesses partially offset by tax, interest and dividend payments. Tax payments in 2021 include amounts related to State Aid which the Group expects to recover in due course.

In May 2021, the Group repaid the remaining €195m of its €500m Euro 1.85% notes. In June 2020, the Group completed the issuance of £350m guaranteed notes maturing 4 June 2030.

Net debt

£ millions	2021	2020
Cash and cash equivalents	937	1,116
Investment in finance leases	115	130
Derivative financial instruments	(2)	11
Bank loans and overdrafts	-	(3)
Bonds	(767)	(965)
Lease liabilities	(633)	(752)
Net debt	(350)	(463)

At 31 December 2021, the Group had available liquidity of c£1.6bn, comprising central cash balances and its undrawn \$1.19bn Revolving Credit Facility (RCF). In February 2022, the Group renegotiated its RCF, extending the maturity of \$1bn of the facility by one year to February 2026.

In assessing the Group's viability for the five years to December 2026, the Board analysed a variety of downside scenarios including a severe but plausible scenario where the Group is impacted by all principal risks from 2022 as well as reverse stress testing to identify what would be required to either breach covenants or run out of liquidity. The severe but plausible scenario modelled an impact from risks which in aggregate were significantly greater than anything seen in 2021 continuing throughout the five-year period.

Even under a severe downside case, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment even before modelling the mitigating effect of actions that management would take in the event that these downside risks were to crystallise. The downside scenarios assume that the RCF will be available throughout the period to 31 December 2026.

At 31 December 2021, the Group was rated BBB- (stable outlook) with Fitch and Baa3 (stable outlook) with Moody's.

Post-retirement benefits

Pearson operates a variety of pension and post-retirement plans. Our UK Group pens on plan has by far the largest defined benefit section. We have some smaller defined benefit sections in the US and Canada but, outside the UK, most of our companies operate defined contribution plans.

The charge to profit in respect of worldwide pensions and post-retirement benefits amounted to £58m in 2021 (2020: £54m), of which a charge of £62m (2020: £60m) was reported in adjusted operating profit and income of £4m (2020: £6m) was reported in other net finance costs. The slight increase in the operating charge in 2021 is mainly explained by curtailments recognised in 2020 which are not repeated in 2021.

The overall surplus on UK Group pension plans of £410m at the end of 2020 has increased to a surplus of £537m at the end of 2021. The increase has arisen principally due to actuarial gains which arise from the favourable impact of changes in the assumptions used to value the liabilities in the plans and in particular movements in the discount rate. In total, our worldwide net position in respect of pensions and other post-retirement benefits increased from a net asset of £325m at the end of 2020 to a net asset of £471m at the end of 2021.

Businesses acquired and businesses disposed

In September 2021, the Group completed the acquisition of 100% of the share capital of Faethm Holdings Pty Limited (Faethm), having already held 9% of the share capital previously. Total consideration for the acquisition was £65m comprising cash consideration of £49m, £6m related to the Group's existing interest in Faethm and £10m of contingent consideration payable in two years. Net assets acquired of £27m have been recognised on the Group's balance sheet including £21m of acquired intangible assets. Goodwill of £38m has also been recognised in relation to the acquisition.

In 2021, the Group also made two smaller acquisitions for total consideration of £11m and acquired interests in two associates, Smashtut and Academy of Pop, for total consideration of £17m. There were no significant acquisitions in 2020.

The cash outflow in 2021 relating to acquisitions of subsidiaries is £55m. In addition, there is a cash outflow relating to the acquisition of associates of £70m and investments of £4m. In 2020, the cash outflow in relation to acquisition of subsidiaries was £6m which related to prior year acquisitions, and the cash outflow in relation to acquisition of investments was £6m.

In March 2021, the Group announced the sale of its interests in K12 Sistemas in Brazil. The sale completed on 1 October 2021 for R\$789m realising a gain on disposal of £84m in 2021.

In March 2021, the Group announced that it was launching a strategic review of its international courseware local publishing businesses. The strategic review is progressing in line with plan. The related assets have been assessed in light of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and they do not meet the criteria to be classified as held for sale.

In November 2020, the Group announced the sale of its interests in PIHE in South Africa. At the end of December 2020, the assets and liabilities of PIHE were classified as held for sale on the balance sheet. The sale completed on 5 February 2021 for nominal consideration realising a loss on disposal of £5m in 2021.

In December 2019, the Group announced the sale of its remaining 75% interest in Penguin Random House. The business was sold at the beginning of April 2020 for \$675m realising a profit of £180m.

The cash inflow in 2021 relating to the disposal of businesses of £83m mainly relates to the disposal of the K12 Sistemas business and deferred proceeds from the US K12 Courseware sale in 2019.

offset by cash disposed with PIHE and other disposal costs. In addition, in 2021 there is a cash inflow of £48m relating to the disposal of certain investments held at fair value through other comprehensive income. The cash inflow in 2020 of £631m mainly relates to the disposal of Penguin Random House and the deferred proceeds from US K12.

Dividends

The dividend accounted for in our 2021 financial statements totalling £149m represents the final dividend in respect of 2020 (13.5p) and the interim dividend for 2021 (6.3p). We are proposing a final dividend for 2021 of 14.7p bringing the total paid and payable in respect of 2021 to 20.5p. This final 2021 dividend which was approved by the Board in February 2022, is subject to approval at the forthcoming AGM and will be charged against 2022 profits. For 2021, the dividend is covered 1.7 times by adjusted earnings.

Share buyback

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme will commence in 2022. The shares bought back will be cancelled and the nominal value of the shares will be transferred to the capital redemption reserve.

In 2020, approximately 30m shares were bought back and cancelled at a cost of £176m. The nominal value of these shares, £7m, was transferred to the capital redemption reserve.

Climate change

The Group has assessed the impacts of climate change on the Group's financial statements. The assessment did not identify any material impact on the Group's significant judgements or estimates, the recoverability of the Group's assets at 31 December 2021 or the assessment of going concern for the period to June 2023.

Post balance sheet events

On 28 January 2022, the Group acquired 100% of the share capital in Credly Inc, having previously held a 19.9% interest in the company. Total consideration is c\$200m comprising upfront cash consideration of c\$142m, Pearson's existing interest valued at c\$42m and c\$16m of deferred consideration. Net assets acquired will mainly comprise of acquired intangible assets.

In January 2022, the Group received \$117m in relation to full and final payment of the remaining receivable balance which arose on the disposal of the US K-12 business in 2019.

In February 2022, the Group renegotiated its revolving credit facility, extending the maturity of \$1bn of the facility by one year to February 2026.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme will commence in 2022.

Risk

Risk Governance

Effective risk management is essential to effectively executing our strategy, achieving sustainable shareholder value, protecting our brand, and ensuring good governance.




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The table below sets out the Group's governance structure for risk.

<p>Plc Board (Oversight)</p> <ul style="list-style-type: none"> — Responsible for the Group's strategy — Approves the annual budget and 5 year plans — Determines risk appetite in line with Group strategy — Conducts targeted reviews on key risks 	
<p>Audit Committee (Oversight)</p> <ul style="list-style-type: none"> — Provides oversight and assurance to the Board concerning the integrity of the company's procedures for identifying, assessing, managing, and reporting on risk — Monitors and evaluates the Group's compliance and risk management processes and control programmes — Approves the Group Risk Management Framework — Approves Internal audit plans 	<p>Reputation and Responsibility Committee (Oversight)</p> <ul style="list-style-type: none"> — Considers the company's impact on society and the communities in which Pearson operates, including ensuring that risk management processes are in place to manage relevant risks
<p>Executive Leadership (Assessment and Mitigation)</p> <ul style="list-style-type: none"> — Comprises the CEO, CFO, divisional presidents and functional heads (including finance, strategy and technology, Direct to Consumer, legal and HR) — Accountable for ensuring that risks are mitigated in line with risk appetite — Responsible for the execution of the Group's strategy — Responsible for reviewing and approving the principal risks, mitigation plans and controls 	
<p>Group Risk Function (Support and Report)</p> <ul style="list-style-type: none"> — Prepare the risk management framework — Maintain the Group risk register and the list of principal risks — Review risks with divisions to assess and monitor risk exposures — Prepare a consolidated risk view for the Executive Leadership — Provide oversight over group risk management activity — Report to the Audit Committee on risks 	
<p>Senior Leadership (Identify, Assess and Mitigate)</p> <ul style="list-style-type: none"> — Senior leadership within each business will be responsible for implementing the risk mitigations and reporting on the net risk — Risk committees within each division assess the principal risks and implement further sub-committees as appropriate for division-specific exposures 	<p>Technical specialists (Identify, Assess and Mitigate)</p> <ul style="list-style-type: none"> — Functional leaders are supported by technical specialists who are responsible for risks that require corporate oversight — Divisions are supported by expert risk management teams that provide operational support, guidance, policy, advice
<p>Risk Management Experts (Mitigation and Assurance)</p> <ul style="list-style-type: none"> — Financial Functions, Compliance, Controls, Legal 	
<p>Personnel across the company are trained in risk management to identify, assess, mitigate and escalate</p>	

The internal audit function (Assurance)

The internal audit function is responsible for providing independent assurance to management and the Audit Committee on the design and effectiveness of internal controls, to mitigate strategic, financial, operational and compliance risks

The Board is ultimately responsible for reviewing management's assessment of the Group's principal risks and setting the Group's risk appetite.

Risk continued

The Audit Committee has the delegated responsibility for reviewing the effectiveness of the Group's procedures for the identification, assessment, management, and reporting of risk.

Risks are managed at a divisional level. Divisional Presidents, supported by technical experts either within their division or operating in one of the central centres of expertise, are ultimately responsible for their division's risks.

Each division's leadership team regularly reviews its risks and conducts rigorous risk reviews when commissioning new products and services. Risk reports are shared with key stakeholders, including the Enterprise Risk Management team, and are discussed at Pearson Executive Management team meetings.

Each division is expected to present an overview of its risk register to the Audit Committee at least annually and to provide a deep dive on key risks, supported by central risk team experts as required. Deep dive sessions are also held with enterprise-wide functions such as tax, treasury and cyber security.

The Audit Committee uses these deep dive sessions to understand the rigour of management's risk scanning and to challenge any judgements being made in response to risks.

The Internal Audit team provides independent assurance to the Audit Committee on the effectiveness of internal controls. It plans internal audits aligned to Pearson's greatest areas of identified risk, and the Audit Committee conducts a review of any issues and risks that arise.

Risk environment

The Group operates in markets in content, assessments and qualifications where it has held leading positions over several years and where the businesses and markets have progressively become more digital. Growth in the Group's Virtual Learning offering will come mainly from Online Program Management, but also due to increased demand for Virtual Schools driven by a strong national brand and significant scale.

The strategy for English Language Learning and Workforce Skills sees each significantly expand in scale and scope beyond the current offerings. For English, while we further build our direct to consumer strategy, the keys to our success will come from winning in our other segments, especially high stakes assessments. For Workforce Skills, success will be contingent on our ability to provide employers with an end-to-end solution, powered by our ability to assess and verify skills.

Factors affecting the markets in which the Group operates include: increasing choice among digital learning providers; technological change, and the level of education tuition fees. The Group seeks to maximise the opportunities from changing market conditions while balancing these with appropriate monitoring and understanding of associated risks.

Risk identification and monitoring

Our risk identification processes follow a dual approach. Firstly, a top-down view which considers strategic risks relevant across the whole of Pearson. Secondly, a bottom-up approach at a divisional level, which identifies all risks faced by a division; these are highlighted in management reporting and in each division's five-year plan.

Detailed interviews are conducted twice a year with each division to assist with risk assessment and management. Risks are then ranked according to their likely impact as principal risks, significant near-term risks, emerging risks, or other risks.

Classification as principal risks, significant near-term risks, and emerging risks

We define our principal risks as those which could have a significant and ongoing effect on the Group's valuation by reducing the demand or profitability of its products and services. Effective management of these risks is essential to executing our strategy, achieving sustainable shareholder value, maintaining our reputation, and ensuring good

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governance. They do not comprise all the risks associated with our business and are not set out in priority order. Additional risks not known to management, or currently deemed to be less material, may also have an adverse effect on our business.

Significant near-term risks are risks which could have a significant near-term cash impact or affect the Group's short-term results but would not be expected to have a significant additional ongoing effect on company valuation.

Emerging risks are risks which we believe are well mitigated in the short term but may represent a significant future opportunity or threat. These include company-specific risks and risks affecting the macro-economy.

Principal risks

During 2021, the Board of Directors undertook a robust assessment of the current risks facing Pearson, in accordance with provision 28 of the 2018 UK Corporate Governance Code. These identified the following as Principal Risks, as well as a number of Emerging Risks and risks which while more modest could have a Significant Near-term Impact. For each of our principal risks, the tables below identify:

- the change in the risk over the last 12 months
- movement and outlook for that risk
- management actions
- the link between the risk and the Group strategy
- our risk tolerance
- examples of the risk
- risk 'contagion', i.e. the extent to which issues in one area could in turn increase the risk in other areas
- risk 'velocity', i.e. an indication of the speed at which a risk could materially impact the Group

Accreditation Risk

Description	Termination of accreditation due to policy changes or failure to maintain the accreditation of our courses and assessments from states, countries, and professional associations reducing their eligibility for funding or attractiveness for learners
Movement and outlook	The risk has increased to a moderate level, primarily resulting from external factors, particularly increased global political risk and some anti-testing sentiment. The risk is expected to remain at a similar level for the next 12 months as governments review their practices in the wake of COVID-19 and populist political pressure remains in key markets
Management actions	<ol style="list-style-type: none"> 1. Continue to evolve and enhance security, data and governance standards to preserve trust 2. Extend our interim offering (Transcend) to be a K-12 assessment system; complementary acquisitions (MZD and Spotlight) to support movement into district partnership market 3. Continue to grow full-service offering, including on-screen capabilities tutoring and online proctoring. This helps to ensure relevance by helping to shape change in response to consumers' needs in the global assessment market
Link to strategy	Ensuring we can participate in satisfying the growing need for accreditation and certification.
Risk tolerance	Low – Pearson seeks to operate in stable, well-regulated markets with known requirements to be accredited and then has a low tolerance for taking risks which may risk that accreditation.
Examples of risks	Political and regulatory
Risk contagion	Accreditation risks are likely to have a financial impact but have limited risk of contagion
Risk velocity	If there were to be major long-term changes in regulation, it is likely that these would occur over a longer period – more likely to impact in three-five years' time

Capability Risk

Description	Inability to meet our contractual obligations or to transform as required by our strategy due to infrastructure or organisational challenges
Movement and outlook	<p>The risk has increased over the last 12 months. This is due to increases in strategic risk and external factors: execution risk associated with delivering the Group's new strategy and increased competition for talent, especially in the technology space have increased the risk.</p> <p>The risk is expected to remain at a similar elevated level for the next 12 months as key new requirements of the new strategy are implemented.</p>
Management actions	<ol style="list-style-type: none"> 1. Each division conducts ongoing reviews of its key systems and implements updates and remedies where necessary. 2. The Group has been reorganised into five business divisions to provide greater autonomy and to allow the allocation of resources to the areas of greatest need 3. The Group monitors employee Net Promotion Scores through quarterly pulse surveys and has a significant focus on learning and development to help retain key talent 4. Acquisitions such as Faethm have been made to build the Group's capability in key strategic areas, such as Workforce Skills
Link to strategy	<p>Capability relates to the three priorities to unlock growth:</p> <ul style="list-style-type: none"> — Consumer-focused and data-led approach — Portfolio and organisational structure — Talent and culture
Risk tolerance	Medium – the Group aims to ensure it has the capability to deliver strategic objectives, requiring strong coordination and planning, but without stifling innovation or becoming too bureaucratic
Examples of risks	<ul style="list-style-type: none"> — Business Transformation and Change — Talent — IT Resilience
Risk contagion	Failures in capability could result in increased Reputation and Responsibility risk and failures to meet Customer Expectations
Risk velocity	Failures of capability could impact within a six-month period

Competitive Marketplace

Description	Significant changes in our target markets could make those markets less attractive. These could be due to significant changes in demand or in supply which impact the addressable market, market share and margins (e.g. changes in enrolments, insourcing of learning and assessment by customers, Open Educational Resources, shift from in person to virtual or vice versa)
Movement and outlook	The risk has increased in the last 12 months and is expected to stay at a similar level for the next 12 months. The increase is due to changes in strategy, particularly the decision to compete in new markets and by selling directly to the consumer. External factors such as the significant flow of funds into Edtech and changing consumer habits, have also increased the risk.
Management actions	<ol style="list-style-type: none"> 1. The new operating structure is designed to improve Pearson's ability to react to such competitive threats, as well as making the most of the substantial opportunities whilst retaining the benefits of scale. 2. Investment in online proctoring and digital first scoring. Building out complementary services helps to reduce the need for learners to leave the Pearson ecosystem. 3. Subscription product launches including Pearson+ to improve the customer value proposition.
Link to strategy	<p>We have identified three big global opportunities and associated marketplaces</p> <ul style="list-style-type: none"> — The rise in online and digital tools for schools and education — The workforce skills gap — The growing need for accreditation and certification
Risk tolerance	Medium – This is a strategic risk associated with successfully selecting attractive global opportunities and seizing them. Pearson seeks to lead the shift to digital ways of learning and consequently to maintain strong market positions.
Examples of risks	<ul style="list-style-type: none"> — Substitutes — Product differentiation — Consumer learning preferences
Risk contagion	Changes in the Competitive Marketplace could increase Portfolio Change
Risk velocity	The changes in the global learning market over a five-year period are expected to be significant. The pace of these changes is uncertain but could be rapid given the significant disruption and innovation since the initial spread of COVID-19.

Content and Channel Risk

Description	Provision of content and testing which are secure, provide high quality learning outcomes and are offered in ways which suit learners' individual learning styles.
Movement and outlook	The risk remains at a relatively high level, similar to 2020, and is expected to remain so. This is due to the increasing commoditisation of content, requiring continuing development of both content and the method of delivery to be able to provide differentiated products and services.
Management actions	<ol style="list-style-type: none"> 1. Increasing use of interactivity of multi-channel content 2. Actions to reduce piracy and to manage and enforce intellectual property rights 3. Investment in acquisitions offering new methods for testing or delivering content
Link to strategy	Managing content and channel risk helps achieve our guiding principles to offer high quality, affordable products which lead to better access and outcomes.
Risk tolerance	Medium – This is a strategic risk and Pearson should be rewarded for successfully developing and delivering products and services that consumers value. Some risk is accepted to ensure the consumer remains at the centre of what we do.
Examples of risks	<ul style="list-style-type: none"> — Intellectual Property Protection — Method of delivery — Balance of content creation vs content purchased
Risk contagion	Failure to deliver high quality and engaging products and services may have an impact on Reputation and Responsibility risks and on meeting Customer Expectations.
Risk velocity	Due to longer-term contracts or the time required for instructors, or consumers themselves, to learn how to use the new products and services, the impact of changes would have some short-term impact, but is more likely to be fully felt over the longer-term.

Customer Expectations

Description	Rising end-user expectations increase the need to offer differentiated value propositions, risking margin pressure to meet these expectations and potential loss of sales if not successful.
Movement and outlook	The risk is similar to 2020 with an expectation from consumers of an increasingly high quality and engaging user experience. The new strategy is designed to reduce the risk. The outlook is similar, with continuing modestly rising expectations in line with other industries.
Management actions	<ol style="list-style-type: none"> 1. Direct to Consumer Group to provide benchmark for consumer grade products and services 2. New generation products allow Pearson to obtain and make better use of data on learners' preferences 3. Acquisitions to provide capability to meet changing customer expectations
Link to strategy	Focus on Direct to Consumer will help to successfully meet customer expectations. Direct to Consumer underpins our five business divisions.
Risk tolerance	Medium – This is a strategic risk and Pearson should be rewarded for successfully developing and delivering products and services that consumers value. Some risk is accepted to ensure the consumer remains at the centre of what we do.
Examples of risks	<ul style="list-style-type: none"> — Customer experience — Data architecture and usage — Accessibility
Risk contagion	Failure to produce products and services meeting customer expectations could also impact Reputation and Responsibility risks.
Risk velocity	Typically, one-three years as long-term contracts run off

Portfolio Change

Description	Failure to effectively execute desired or required portfolio changes to promote scale, capability and increase focus on key divisional and geographic markets either due to execution failures or inability to secure transactions at appropriate valuations.
Movement and outlook	The risk has increased in the last 12 months as the Group has made key strategic acquisitions and looks to dispose of the international courseware local publishing businesses. External competition for digital education assets has also increased in the last 12 months. The risk is expected to remain high during 2022 as further transactions are executed and integrated.
Management actions	<ol style="list-style-type: none"> 1. Investment plans included in strategic plans, aligning requirements with divisional structure 2. An experienced Corporate Finance team to execute transactions, supported by the newly created post-deal operations team 3. Pearson Ventures allows Pearson to take stakes in early funding rounds supporting growth through innovation stages that could potentially be leveraged for the wider Group
Link to strategy	Portfolio and Organisational Structure to unlock growth
Risk tolerance	Medium – The Group seeks to balance carefully the opportunity to achieve growth through increasing capability and/or scale with the execution risk of Portfolio Change.
Examples of risks	<ul style="list-style-type: none"> — Identification of requirements — Achieving value on acquisitions/disposals — Integration of acquisitions
Risk contagion	Failures in managing Portfolio Change could impact Capability and the ability to meet Customer Expectations
Risk velocity	The speed of achieving the full benefits of an acquisition will vary depending on the size and scope of the acquisition, but typically from six months for a simple small acquisition to two years for a larger complex transaction.

Reputation and Responsibility

Description	The risk of serious reputational harm through failure to meet obligations to key stakeholders. These include legal and regulatory requirements, avoidance of serious unethical behaviour and serious breaches of customer trust
Movement and outlook	<p>The Group aims to maintain strong mitigations and a strategy to operate in a highly reputable and responsible manner. However, numerous threats exist including from those who seek to do harm to the Group or to its customers including nation state actors, organised criminal rings, and ransomware attackers, so constant vigilance is required.</p> <p>On 16 August 2021, the Group announced that it had reached a settlement with the Securities and Exchange Commission (SEC), including an obligation to pay a civil penalty of \$1 million, concerning a 2018 cyber security incident in connection with its AIMSweb 1.0 software. Since this security incident, a series of significant improvements have been made (such as shown in the case study on the following page "Improving our data privacy and cyber security maturity"). Despite these improvements, as a result of the SEC settlement, there is an increased risk to the Company's brand and reputation.</p>
Management actions	<ol style="list-style-type: none"> 1. Dedicated risk management teams throughout the organisation monitor key risks and report to the Reputation & Responsibility Committee 2. Strong financial controls are in place which are monitored by the controls steering committee and compliance teams as well as local management 3. Reviews to allow lessons to be learned and any remedial actions put in place
Link to strategy	Our reputation and behaving responsibly underpins our strategy to be a trusted partner for consumers, businesses and educators
Risk tolerance	Low – the Group seeks to be a highly trusted consumer learning brand. Any significant failures could negatively affect our relationship with consumers today and in the future.
Examples of risks	<ul style="list-style-type: none"> — Compliance with laws and regulations — Cyber security — Data privacy — Safeguarding — Test failure — Use of third-parties
Risk contagion	Significant failures in this area could impact Pearson's Capability, Accreditation and weaken our position in the Competitive Marketplace
Risk velocity	Reputational risks could impact within a six-month period

Image removed

Changes in and accountability for principal risks

For each of our principal risks (shown in bold), the table below provides the accountable Senior Executive(s) for each sub-risk. Since 2020, a number of additional sub-risks have been added to or removed from the principal risk hierarchy to reflect the Group's updated strategy and the significant market changes following the outbreak of COVID-19. Changes are indicated in the final column.

Risks	Accountability	Change since 2020?
Accreditation Risk		
Political and regulatory	SVP Government relations and Divisional Presidents	No
Capability		
Business resilience	Chief Financial Officer and Divisional Presidents	No
Business transformation and change	Divisional Presidents and Chief Executive Officer	No
IT resilience	Divisional Presidents and Chief Information Officer	No
Safety and Corporate Security	Chief Financial Officer and Divisional Presidents	No
Talent	Divisional Presidents and Chief Human Resources Officer	No
Competitive Marketplace		
Consumer learning preferences	Divisional Presidents	Yes
Market pricing	Divisional Presidents	Yes
Product differentiation	Divisional Presidents	Yes
Substitutes	Divisional Presidents	Yes
Content and Channel Risk		
Effective method of delivery (podcast, video, text, in person, online)	Divisional Presidents	Yes
Intellectual property protection	Chief Legal Officer and Divisional Presidents	No
Products and services – effective investment in own and third-party content	Divisional Presidents	No
Balance of content creation vs content purchased	Divisional Presidents	Yes
Customer Expectations		
Customer experience	Divisional Presidents	No
Accessibility	Divisional Presidents	Yes
Customer experience	Divisional Presidents and Chief Legal Officer	No
Data architecture and usage	Chief Data Officer and Divisional Presidents	No
Portfolio Change		
Achieving value on acquisitions/disposals	Chief Financial Officer and Chief Strategy Officer	Yes
Identification of requirements	Chief Executive Officer, Chief Financial Officer and Chief Strategy Officer	Yes
Integration of acquisitions	Chief Financial Officer	Yes
Responsibility and Reputation		
Compliance with laws and regulations	Chief Legal Officer and Divisional Presidents	No
Cyber security	Chief Information Officer	No
Safeguarding	Divisional Presidents	No
Test failure	Assessment & Qualifications, Workforce Skills and English Divisional Presidents	No
Data privacy	Chief Legal Officer and Divisional Presidents	No
Use of third parties	Chief Financial Officer and Divisional Presidents	Yes

Two principal risks applying in 2020 have been removed in 2021. The first was for Brexit, the impacts on inflation and supply chain are now included as new emerging risks. The other was for competition law, which is now included as part of compliance with laws and regulations.

Risk continued

Significant near-term and emerging risks

The main significant near-term and emerging risks we identified for 2021 are shown in the table below, which also notes accountabilities and where the risk represents a change since the previous year.

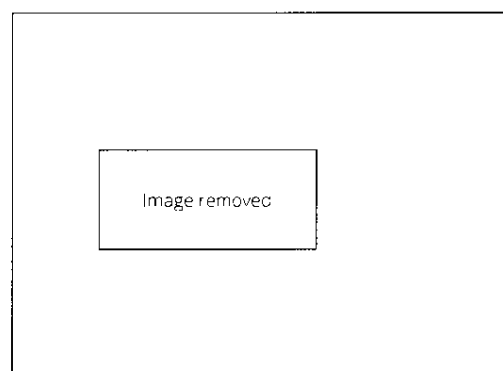
Risks	Description	Accountability	Classification and change since 2020?
Climate transition	Costs associated with offsetting carbon emissions which cannot be fully reduced may lead to increased costs	Chief Legal Officer and Divisional Presidents	New emerging risk
COVID-19	At the time of writing, the risk of sustained long term COVID-19-related lockdowns affecting multiple major markets appears to be subsiding. These markets appear to have high levels of acquired immunity and the political desire for lockdowns has reduced. Consequently, while the risk remains, it is seen as having the potential to have a significant one-off impact.	Chief Executive Officer	Significant near-term risk, previously classified as a principal risk
Inflation	Rising global inflation risks increasing the cost of production for Pearson which the Group may not be able to fully pass on	Chief Financial Officer and Divisional Presidents	New emerging risk
Supply chain	Disruption at ports globally and challenges for suppliers may lead to business interruption if not fully planned for and mitigated	Chief Financial Officer, SVP Procurement and Divisional Presidents	New emerging risk
Tax	The outcome of State Aid decisions and key decisions in the US could lead to significant one-off costs or benefits in the near term.	Chief Financial Officer	Significant near-term risk. Previously classified as a principal risk
War in Ukraine	On 24 February 2022, Russian troops entered Ukraine. This has resulted in sanctions being imposed on Russia by numerous countries. As Pearson's operations in Russia and Ukraine are small, the impact on Group sales, profits and cash is expected to be immaterial. However, an escalation of the conflict could lead to a material risk extended beyond those countries.	Chief Executive Officer	New emerging risk

Improving our data privacy and cyber security maturity

The governance and protection of our customers' information is of critical importance to us and, as part of our ongoing digital transformation, Pearson has continued to invest in both its talent and capabilities to enhance its cyber security and data privacy practices.

Pearson has established data security and privacy principles which form the foundation of our privacy and cyber security policies, and are used to design privacy and security into our products and platforms.

Learning is one of our most important principles, with our people participating in mandatory data privacy and cyber security training that is tailored to their job roles. These principles are being embedded throughout the organisation. An independent assessment of Pearson's cyber security maturity, based on the latest international standards, is performed annually to check progress.



Marykay Wells, Pearson's CIO says:
 "No company in these times can provide a guarantee. We continue to take a risk-based approach to our cyber security efforts to minimise the business impact of cyberattacks in an ever-changing threat landscape."

Risk assessment of prospects and viability

Corporate planning process

The Board assessed the prospects of the company over a five-year period, longer than the minimum 12 months of the annual going concern review, to consider viability. The five-year period corresponds with Pearson's strategic planning process which is discussed by the board at least annually and represents the time over which the company can reasonably predict market dynamics and the impact of additions to the product portfolio. The Strategic Plan takes account of a range of factors including market conditions, the likely impact of principal risks to the group, product and capital investment levels as well as available funding. Pearson's strategy and business model are discussed in more detail on pages 20-21.

Viability assessment approach and outputs

Base case

In considering the viability of the company, the five-year plan was used as the base case model for assessment. Sales, profits and cash are forecast to grow in the base case. Management's financial expectations by division are shown on page 57. Management would expect the company to remain profitable and cash generative beyond the five-year period of assessment.

Severe but plausible downside model

A severe but plausible model was prepared based on the base case adjusted for the impact of all principal risks. The net impact of the risks modelled was to reduce operating profit by around 33% in each year modelled, an amount which exceeded the downside experienced in 2020 when COVID-19 reduced profits due to lockdowns in major markets.

Reverse stress test

A reverse stress test was modelled to identify the point at which liquidity is exhausted or covenants are breached. The results of this model show that operating losses would be required for multiple consecutive years for this to occur.

Below are the inputs included in the severe but plausible scenario

— Content / Channel Risk

- Failure to grow English Language and Workforce Skills
- Revenue decline in Virtual Schools in 2023 due to loss of charter schools or schools in sourcing content

— Capability

- Pearson+ and International Higher Education growth not realised as anticipated
- Disruption due to COVID-19 recurrence reduces sales

— Competitive Marketplace

- Assessment & Qualifications declines due to lower immigration and competition from lower cost proctoring offerings
- Increased revenue declines in Higher Education due to enrolment and competition pressures

— Reputation and Responsibility

- Costs and loss of sales associated with a major outage in the VUE professional testing business in 2022
- Reputational incidents in Virtual Schools such as safeguarding result in revenue declines

— Portfolio

- Acquisition of additional unplanned targets increase net debt, disposal of businesses under strategic review resulting in net loss of revenue and profit with stranded costs unmitigated

— Customer Expectations

- Rising customer expectations require additional opex

— Accreditation Risk

- Move away from formal qualifications results in significant revenue and profit declines

At 31 December 2021, the Group had available liquidity of c.£1.6bn, comprising central cash balances and its undrawn \$1.19bn Revolving Credit Facility (RCF). In February 2022, the Group renegotiated its revolving credit facility, extending the maturity of \$1.1bn of the facility by one year to February 2026. Even under a severe downside case, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment even before modelling the mitigating effect of actions that management would take in the event that these downside risks were to crystallise. The downside scenarios assume that the RCF will be available throughout the period to 31 December 2026.

Conclusion

Based on the results of these procedures, and considering the company's strong balance sheet, the directors have a reasonable expectation that Pearson will be able to continue in operation and meet its liabilities as they fall due over the five-year period ending December 2026. Further details of the Group's liquidity are shown in the 'Financial Review' pages 55-59.

Task Force on Climate-related Financial Disclosures

TCFD

We continue to enhance our TCFD reporting to outline how climate change may impact our business, in order to meet market good practice.

Our commitment to operate our business in a more sustainable way is demonstrated by our ambitious target of becoming net zero by 2030 and reducing our scope 1, 2 and 3 carbon emissions by 50% over the same time period. Our targets have been validated by the Science Based Targets initiative. We support the aims of the Task Force on Climate-related Financial Disclosures (TCFD) because we believe that businesses should understand and communicate the risks and opportunities that climate change brings, in order to achieve change.

We are long-standing members of the Climate Disclosure Project (CDP) and our Environmental, Social and Governance (ESG) reporting includes use of other leading frameworks such as GRI and SASB.

This report describes how climate change may impact our business, and the disclosures we make in 2021 are consistent with the recommendations of the TCFD

- Reviewing progress towards Pearson's net zero carbon goals
- Monitored progress towards compliance with TCFD reporting requirements, noting the key climate-related risks
- Considered work undertaken by 'tiger teams' within the business divisions to formulate ESG plans
- Considered an independent report on investor sentiment towards Pearson's ESG programme and communications, which was used to help shape our refreshed ESG framework ESG strategy and reporting, Science Based Targets, & TCFD

Further information is included on pages 98-100

The Audit Committee and the Pearson Executive Management team have reviewed and approved the Group's environmental Re-baselining Policy, and will continue to be involved in the development, monitoring and execution of our roadmap to achieve net zero by 2030

The Sustainability team is responsible for driving the implementation of our overall ESG strategy and supporting all parts of the business as they identify and mitigate climate risk and capture climate opportunities

Summary

We have identified the potential physical and transitional risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to Pearson. Climate change is not a principal risk for Pearson for the year ended 31 December 2021, but we have identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders

In addition, we have performed an assessment of the financial impact of these risks and opportunities under multiple future climate change scenarios, which we describe in detail below. In making this assessment, we have considered the actions needed to achieve our commitment to net zero by 2030, as well as the impact of potential physical and transition risks. We concluded that these do not have a material impact on the carrying value of any assets and liabilities as at 31 December 2021, as set out in further detail in note 1 to the financial statements. For an illustration of our plan to net zero, please see pages 44-45

Governance

The Board's Reputation & Responsibility Committee (RRC) is the main governance body for sustainability at Pearson and has responsibility for the oversight of climate change considerations. Cinthia Nespoli, Pearson's Chief Legal Officer, is the Executive Management member responsible for ensuring the effective delivery of our environmental target of becoming net zero by 2030 and reducing our scope 1, 2 and 3 carbon emissions by 50% over the same time period. The RRC works closely with Pearson's other Board Committees to ensure alignment and rigour of governance across all the potential impacts of climate change from strategic to financial and risk considerations.

The Committee members have the necessary experience to provide appropriate oversight for climate change. Please see pages 76-78 for a list of committee members and relevant professional experience. We recognise that the skills and expertise of the Committee will need to continually evolve given the rapid pace of change in environmental issues. Key activities of the Committee in 2021 included the following

Risk Management

Our Organisational Risk Management process provides a framework for identification, analysis and response to various forms of risk, the establishment of risk thresholds, and the creation of processes intended to mitigate, monitor and manage risks within these thresholds. For more information, please see pages 60-69. Our analysis shows that climate change is not one of Pearson's principal risks but we have identified the climate transition as an emerging risk.

Strategy

In 2021, we commissioned the Carbon Trust to undertake a project to identify and quantify the potential impact of climate change risks and opportunities to our business

We considered various climate scenarios covering a broad range of outcomes to help provide insight into some of the risks and opportunities that may arise. The scenarios that were considered were:

- a well below 2 degree scenario
- a 2.4 degree scenario, and
- a 4.3 degree scenario

These scenarios were selected because they provide a reasonable diversity of potential future climate states

The time period considered was out to 2100 and the assumptions used in each of the scenarios were collected externally from sources including the International Energy Agency ("IEA"), the International Institute for Applied Systems Analysis ("IIASA")'s Shared Socioeconomic Pathways ("SSP"), the Royal Netherlands Meteorological Institute KNMI climate change Atlas (CMIP5 ensemble). We will refresh our scenario analysis as new evidence comes to light or climate situations change. This will be done cyclically every two years.

Our analysis identified six main categories of risks and opportunities (CROs) across Pearson. The six main categories of CROs derived from a longer list of risks and opportunities. These were identified using an evidence-based approach.

Each CRO was assigned a specific parameter which could be used to indicate how factors beyond Pearson's control could change under different scenarios as a result of climate change, thus triggering the CRO taking place.

In assessing the risks for Pearson it was determined that there were no significant material risks arising in the near term (up to 2025). Longer term, the key risks to the business were considered to be supply chain risk and outsourcing risk. However, these are not expected to have a material impact on the business in any scenario.

We continue to assess the opportunities and quantify them as our business continues to evolve.

See the table set out below for a list of CROs identified and how we can mitigate the risk or maximise the opportunity as part of our business plans.

Climate Risk/ Opportunity	Descriptor	Impact time scale *	Actions
Products & Services	Opportunities associated with (re)training for 'green collar' careers	Short	Provide sustainability-related learning tools, products and services to our customers.
Content Delivery	Opportunity to use 'blended' service offering to mitigate extreme weather events	Medium	Build products and services that could be adapted for blended service and grow our digital strategy.
Raw Material Procurement	Increased costs driven by risk of disruption to distribution	Medium	Our digitalisation strategy will mean the business will become less reliant on physical paper products. Global purchasing of raw materials will enable Pearson to manage short term changes and drive efficiencies from global purchasing.
Operations	Business continuity/disruption to Pearson operations in the Philippines due to extreme weather events	Medium/long	Pearson sites could be impacted by extreme weather events which could affect our ability to deliver some non-revenue generating services. Climate change adaptation measures are built into operations & building selection processes to ensure they have mitigation plans in place to minimise risk to Pearson's business. In addition, Pearson introduced a Global Flexible Working Policy during 2021.
Outsourcing	Business disruption to Pearson operations and outsourcing in India, due to extreme weather events	Medium/long	Pearson outsources some of its 'back office' functions (customer support, software development etc). However, these activities are not revenue generating. Nonetheless, we build climate change adaptation into our procurement process, to ensure they have mitigation plans for climate change risks to minimise risk to Pearson's business.
Government funding	Reduced government funding for education due to lower GDP/climate change mitigation	Long	Introduced a direct-to-consumer strategy, and life-long learning business model.

* Impact time scale: Short – before 2025, Medium – between 2025 – 2050, Long – beyond 2050

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TCFD continued

Metrics and Targets

Our key targets will be to achieve net zero by 2030 and reduce our Scope 1, 2 and 3 carbon emissions by 50% over the same timeframe (which have been validated by the Science Based Targets initiative). This will be measured through our percentage emissions reduction against a 2018 baseline.

Over 95% of our emissions fall within Scope 3, with our supply chain and printed books accounting for 24%. There are many actions we can take and are already making progress with our supply chain partners and sourcing initiatives. In the supply chain, alignment with our GHG strategy is a requirement of doing business. Within books we have already achieved significant carbon reductions from the transition from printed to digital product. Will continue and we are also now focusing on using lower carbon paper and printing on demand to reduce emissions further. Refer to pages 52-53 for detailed plans and metrics of the individual actions that will be undertaken to achieve our net zero plans for progress achieved against our environmental targets.

This year, we will be finalising our detailed plan to net zero, including associated costs. Further metrics will be developed as these plans progress. A portion of our executive compensation is also linked to our ESG performance. For details, please see page 121.

Table of Contents

The table below summarises each of the recommendations and where the relevant disclosures can be found.

TCFD Recommendation	Where Pearson's Disclosure is included
Governance	
a) Describe the Board's oversight of climate-related risks and opportunities	Information on the Board's involvement, and the Board's Reputation & Responsibility Committee (RRC) is included in the Governance section of this report, and in the Corporate Governance Report on pages 74-136, and the RRC Report on pages 98-101.
b) Describe management's role in assessing and managing climate-related risks and opportunities	For details of management's involvement and the work led across the business by the Sustainability team, refer to the Governance and Risk Management sections of this report, and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
Strategy	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Refer to the Strategy section.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Refer to the Strategy section.
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Refer to the Strategy section and Scenario Analysis section.
Risk Management	
a) Describe the organisation's processes for identifying and assessing climate-related risks	Refer to the Risk Management section and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
b) Describe the organisation's processes for managing climate-related risks	Refer to the Risk Management section and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Refer to the Risk Management section and the Principal Risks and Uncertainties section of the Strategic Report on pages 60-69.
Metrics and Targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Refer to the Targets and Metrics section and the Sustainability section starting on page 40.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3, greenhouse gas (GHG) emissions, and the related risks	Refer to the Sustainability section starting on page 40.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Refer to the Targets and Metrics section and the Sustainability section starting on page 40. Please also see our non-financial KPIs on pages 24-26.

Governance Report

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Chair's Letter

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The Board is focused on ensuring Pearson is a successful, sustainable and purposeful company for the benefit of all its stakeholders.

Sidney Taurel, Chair

Dear shareholders,

I am delighted to introduce our Governance Report for 2021. As described earlier in this annual report, in 2021 the company realigned its vision, strategy and organisation. The Board and its Committees have played a critical role in that. The year was also a particularly active one for Board succession and associated planning.

Strategy and performance oversight

The Board was heavily engaged with the management team in developing the strategy unveiled in March 2021, including to reorganise the company into the new five global business divisions with a focus on lifelong, direct relationships with consumers, and to develop that strategy across those divisions. This included regular review of the creation and launch of Pearson+, which you can read more about on page 28 and page 85.

The Board continued to modify Pearson's portfolio in support of the strategy, involving both acquisitions and divestitures. As referenced earlier, this included the acquisitions of Faethm, the ground-breaking workforce AI and predictive analytics company, in September 2021 and, more recently, Credly, the digital credentialing business, in January 2022. You can read more about the Board's engagement on the acquisition of Faethm on page 88. The company also completed the divestments of the Pearson Institute of Higher Education in South Africa and its Sitemas business in Brazil. Progress continued on the process to divest other non-core assets in our international courseware local publishing markets.

I noted earlier that the Board continued to pay close attention to maintaining a strong financial position in the interests of all stakeholders, which enabled us to grow the dividend in 2021, in line with our progressive dividend policy. Further, the company's financial position has meant that it is well placed to pursue strategic

opportunities as they arise, as well as being able to announce its plans to launch a £350m share buyback programme in 2022.

As part of monitoring execution and performance, the Board regularly receives a dashboard that allows Directors to monitor progress on Pearson's financial and strategic priorities, supported by agreed indicators and milestones identified as key measures of performance. You can read more about the key performance indicators (KPIs) monitored by the Board on pages 24-27 of this annual report.

In August 2021, the company announced that it had reached a settlement with the Securities and Exchange Commission in connection with a 2018 security incident impacting AIMSweb 1.0 software. Security and privacy are of paramount importance to the Board and the company and, accordingly, the Board took this matter seriously. Please see page 85 for more detail on how the Board was kept informed and the actions it took.

Sustainability, stakeholder engagement and culture

As I mentioned earlier in the report, our new ESG framework, which you can read more about from page 41, prioritises the potential that Pearson has, as the world's leading learning company, to make the biggest positive impact on our society, people and planet. Sustainability matters are a key element of the Board's deliberations, as you will see throughout this report – such as the Reputation & Responsibility Committee's activities, which you can read more about on pages 99-100.

The themes of talent development and diversity form a continuing thread throughout the Board's and its Committees' work. In addition to the Board's regular talent and succession considerations, the Board kicked off a new cohort of its mentoring programme in support of senior talent. Building on the extensive Diversity Equity & Inclusion work undertaken in 2020, those initiatives continued apace in 2021, with the Board receiving and discussing regular updates. As noted earlier, a better gender and ethnic mix throughout the company remains a priority for us, and we have accelerated our progress, but we fully recognise there is more to be done.

Engaging with, and understanding the views of, all our stakeholders is imperative to developing and delivering products that meet the needs of learners, educators, governments and employers, and for running a successful, sustainable company. This Governance Report provides more detail on the Board's engagement activities – please see the 'Understanding Our Stakeholders' section on pages 86-87. It included enhanced workforce engagement in 2021 under Sherry Coutu, who took over as our designated lead Non-Executive Director for this activity. With her extensive track record in nurturing talent and building workforce skills across SMEs, start-ups, scaling and large businesses, Sherry has particular experience in, and passion for, fostering workforce engagement as a key stakeholder that unlocks competitive advantage. She engaged with a new cohort of employee representatives in the company's Employee Engagement Network (EEN), which remains a valuable forum to hear employee views and a useful conduit to bring the voice of the workforce into Board discussions.

There was also extensive shareholder engagement by our departing and successor Remuneration Committee Chairs, Dame Elizabeth Corley and Sherry Coutu, on remuneration matters following the 2021 AGM, with our Senior Independent Director also involved in some of these discussions. We appreciate the valuable feedback we have received from shareholders and welcome an ongoing dialogue with them. You can also read more on this engagement in our Directors' Remuneration Report on page 113.

Also critical to our success is ensuring that Pearson's culture complements the delivery of our strategy. As part of continuing to transform the company and evolve the strategy, as highlighted in the Strategic Report, in 2021 the Board and management directed particular effort towards updating our purpose, values and culture, to serve the achievement of our new vision and mission (see page 84 for more on this). Our engagement with the EEN played an important part in informing this work.

Board composition, succession and evaluation

Pearson has a fully engaged Board, including a strong Non-Executive team with an excellent mix of skills across the key areas relevant to Pearson, including digital and direct to consumer, sustainability, education and public sector, and leadership of global organisations through periods of transformation and disruption, as well as, of course, financial acumen. You can read more about the Board's mix of skills and experience on page 93.

I am glad to report that, on my retirement, our Board will be equally balanced both gender-wise and as between UK and US-based directors, and several of its members will be from an ethnically diverse background. More details on our Board's diversity are set out on page 76 and pages 96-97.

The right skills and experience to support the company's future direction and strategy are also fundamental to the Board's succession planning. Following the announcement of my intention to retire, a thorough process was conducted to appoint a successor, led by our Senior Independent Director, Tim Score. This culminated in the announcement in December of Omid Kordestan as new Chair designate. As part of this process, Tim was elevated to Deputy Chair designate.

As I commented in the Strategic Report, Omid brings significant experience of leading and advising some of the world's best-known consumer technology brands and I am delighted that Tim will support Omid as Deputy Chair, with his wealth of UK plc experience.

Our succession-planning process more broadly has been very strong, particularly in a year when we have said goodbye to valued Board members Dame Vivienne Cox, Michael Lynton and Dame Elizabeth Corley. I would like to thank them for their contributions; they have all been outstanding Board members who have been highly engaged and made significant contributions to the Board's debates and decisions.

We have appointed a new Remuneration Committee Chair, replaced our Senior Independent Director and seen a significant renewal of the Board in 2021 with the appointments of Annette Thomas and, recently in 2022, Esther Lee, in addition to Omid. You can read more detail about the Board recruitment processes in the Nomination & Governance Committee report on pages 92-95. A thorough induction is also provided for new Board members, with more detail about Annette's induction available on page 89.

While all these changes have been managed effectively, in view of the degree of change that has taken place we propose to take a near-term step to maintain some continuity. We will be recommending to shareholders that Linda Lommer, who is due to retire from the Board in July 2022 after serving for nine years, stays on for one further year until our AGM in 2023. As Chair of the Reputation & Responsibility Committee and a Member of the Audit Committee, Linda brings a broad knowledge of the company and its markets, and we are confident in her continued independence, while the opportunity for her to support our new Board members for a period of handover will be invaluable.

As Senior Independent Director, Tim Score led our annual evaluation process in 2021. The results demonstrated that our Board is collaborative and collegial, while also exercising independent judgement and operating in an environment of constructive challenge and questioning. Good progress has been made in following up on the recommendations from the 2020 review. You can read more about the 2021 evaluation, and how the Board implemented conclusions from the 2020 evaluation, on pages 90-91.

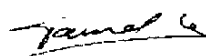
Conclusion

I hope you find this report clearly explains how your company is run and how we align governance and our Board agenda with the strategic direction of Pearson. We always welcome questions or comments from shareholders, either via our website ([pearsonplc.com](https://www.pearsonplc.com)), or at our AGM. While it remains possible that the AGM could again be impacted by the pandemic, we very much hope to be able to welcome shareholders in person to our AGM this year as well as

offering, for the first time, the opportunity for shareholders to attend and vote virtually should they prefer. Details will be included in our forthcoming AGM notice.

Finally, it remains for me to thank you once again for your support for this fantastic company which it has been a great privilege to chair these past six years. The company has undergone a very significant transformation to respond to both wrenching market changes in our traditional markets and bright new opportunities, and it is now well poised to continue, on a sustainable basis, the growth it started in 2021.

I am delighted to welcome Omid as my successor, congratulate Tim upon his elevation as Deputy Chair and wish both of them and the Board, as well as Andy, his management team and the whole company, every success going forward.



Sidney Taurel

Chair

Compliance with the UK Corporate Governance Code

The principles set out in the UK Corporate Governance Code (the Code) emphasise the value of good corporate governance to the long-term sustainable success of listed companies. The Pearson Board is responsible for ensuring that the Group has in place appropriate frameworks to comply with the Code's requirements. This Governance report and the Strategic report set out how Pearson has applied the principles of the Code throughout the year.

The Board believes that during 2021 the company was in full compliance with all applicable principles and provisions of the Code, save that:

- as described last year, Pearson is not fully compliant with Provision 36 of the Code on the basis that the shares awarded under the Chief Executive's co-investment award are subject to a post-vesting holding period until 31 December 2023, rather than a total vesting and holding period of five years or more required by the Code.
- in respect of Provision 41, the company is fully compliant with six of the seven component elements and is partly compliant with the seventh, relating to engagement with employees on alignment of executive remuneration with wider company pay policy. While there are established channels for the workforce to be informed about, and understand, the alignment between executive remuneration and wider pay policy, the Company recognises that a proactive discussion of this would be beneficial. As designated workforce Non-Executive Director, Sherry Coutts CBE leads the Board's engagement with employees including through attending meetings of the Employee Engagement Network (EEN). In planning its forward-looking work schedule, the EEN and Ms Coutts agreed in 2021 that discussions focused on reward and incentives would take place in the coming year. As part of Ms Coutts' role as Remuneration Committee Chair, she ensures that the views and sentiment of colleagues around matters such as reward and culture are considered in the work of the Remuneration Committee. In light of the planned proactive EEN discussion in 2022, Pearson believes it has a clear path towards full compliance with the seventh element of Provision 41.

Further detail on both matters is provided in the Directors' Remuneration Report.

Board of Directors

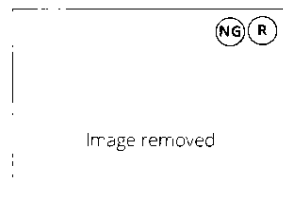
Pearson Board members bring a wide range of experience, skills and backgrounds which complement our strategy.

All Board members have strong leadership experience at global businesses and institutions. Our Board members' biographies illustrate the contribution each Director makes to the Board by way of their individual experience.

Key to Committees

- (A)** Audit
- (NG)** Nomination & Governance
- (RR)** Reputation & Responsibility
- (R)** Remuneration
- (C)** Committee Chair

Current notable commitments reflect other listed company directorships and full-time or executive roles



Sidney Taurel

Chair
aged 73

Appointment

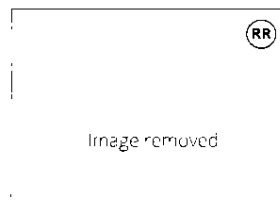
Chair since 1 January 2016

Skills and Experience

Sidney has 50 years of experience in business and finance and is currently a Non-Executive Director of H.I.G. Acquisition Corp. He was Chief Executive Officer of global pharmaceutical firm Eli Lilly and Company from 1998 until 2008, Chair from 1999 until 2008, and has been Chair Emeritus since 2009. His 37-year career at Eli Lilly included time spent in Brazil, France, Eastern Europe, the US and the UK. Sidney is a former director of IBM (2001-2021), McGraw-Hill (1996-2016) serving in both as chair of the Compensation Committee for several years, and of ITT Corp (1996-2001) where he chaired the Audit Committee. In 2002, Sidney received three US presidential appointments to the Homeland Security Advisory Council, the President's Export Council and the Advisory Committee for Trade Policy and Negotiations, and is an Officer of the French Legion of Honour.

Current notable commitments

H.I.G. Acquisition Corporation (Non-Executive Director)



Andy Bird, CBE

Chief Executive
aged 58

Appointment

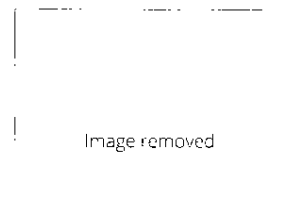
First appointed to the Board 1 May 2020
Chief Executive Officer since 19 October 2020

Skills and Experience

Andy has a long and distinguished career spanning over 35 years in the media industry, and he is an accomplished, strategic leader of global consumer content businesses.

Most recently, he spent 14 years working for The Walt Disney Company, joining the business as President of Walt Disney International in 2004, before being appointed Chair in 2008. He held this role for a decade, during which time he transformed the organisation into a digital-first, direct to consumer business, focused on serving the diverse needs of customers around the world. In addition, Andy worked to establish the iconic brand in China through the creation of Disney English, teaching English language to local families through immersive learning experiences.

Prior to Disney, Andy worked in a number of senior positions at AOL Time Warner, and spent the earlier part of his career at Piccadilly Radio, Virgin Broadcasting Company, BSB Music Channel, Big & Good Productions and Unique Broadcasting.



Sally Johnson

Chief Financial Officer
aged 48

Appointment

Chief Financial Officer since 24 April 2020

Skills and Experience

Sally joined Pearson in 2000 and has held various finance and operations roles across the business, both at a corporate level and within the divisions, including The Penguin Group. She brings to the Board extensive commercial and strategic finance experience as well as transformation, treasury, tax, risk management, business and financial operations, investor relations and M&A expertise. She has held various senior level roles across the business, most recently as Deputy CFO of Pearson. Sally is a member of the Institute of Chartered Accountants in England and Wales and trained at PricewaterhouseCoopers. She was also a Trustee for the Pearson Pension Plan from 2012 to 2018.

Board Composition

Gender

chart removed

Ethnicity*

chart removed

Nationality

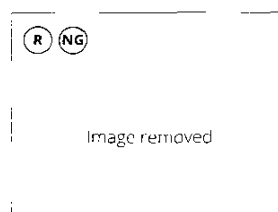
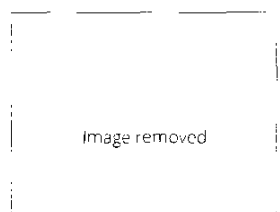
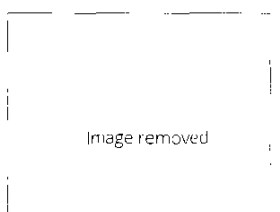
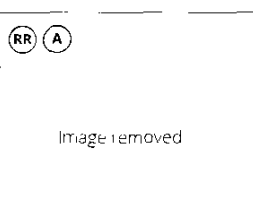
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Tenure

chart removed

This data represents Directors in office as at 28 February 2022. To learn more about Board diversity, please see page 96.

* Categories are based on the UK's Office for National Statistics classification

			
Sherry Coutu, CBE Non-Executive Director aged 58	Omid Kordestani Non-Executive Director and Chair Designate aged 58	Esther Lee Non-Executive Director aged 63	Linda Lorimer Non-Executive Director aged 69
Appointment Non-Executive Director since 1 May 2019 Designated Non-Executive Director responsible for workforce engagement since 30 April 2021	Appointment Non-Executive Director since 1 March 2022	Appointment Non-Executive Director since 1 February 2022	Appointment Non-Executive Director since 1 July 2013
Skills and Experience Sherry has extensive experience in the technology industry. She has also served on the boards of a range of companies and charities, with a focus on working with entrepreneurs and specialising in consumer digital, information services and education. Sherry is the Chair of Founders4Schools and founder of the Scale-Up Institute. Previously, she was CEO of Interactive Investor International plc, and has served on the boards of Cambridge Assessment, Bloomberg New Energy Finance and the London Stock Exchange plc as well as being SID and Remuneration Committee Chair of RM plc. Sherry has started and/or invested in over 60 technology businesses and served on the boards of Zoopla plc, Raspberry Pi, NESTA, and the Advisory boards of the National Gallery, Royal Society and LinkedIn. She was appointed Commander of the British Empire in the 2013 New Year Honours for her services to entrepreneurship.	Skills and Experience Omid is an international businessman who serves on the boards of Twitter, Inc., Klarna Bank AB and Klarna Holding AB and is a Council Member for Balderton Capital. He was Executive Chair of Twitter, Inc. between October 2015 and May 2020. From August 2014 to August 2015, Omid served as Senior Vice President and Chief Business Officer at Google and previously from May 1999 to April 2009 as Senior Vice President of Global Sales and Business Development. From 1995 to 1999, Omid served as Vice President of Business Development at Netscape Communications Corporation. Prior to joining Netscape Communications Corporation, Omid held positions in business development, product management and marketing at The 3DO Company, Go Corporation and Hewlett-Packard Company. Current notable commitments Twitter, Inc. (Board Member)	Skills and Experience Esther brings significant experience to the Pearson Board through her prior executive leadership roles in developing customer strategies to drive growth, global marketing and branding, driving digital transformation and building high-performance teams. She has a long track record of senior leadership roles working for global consumer-facing brands. Most recently, she served as Executive Vice President – Global Chief Marketing Officer at MetLife Inc. Previously, Esther served as Senior Vice President – Brand Marketing, Advertising and Sponsorships for AT&T, and she has served as CEO of North America and President of Global Brands for Euro RSCG Worldwide. Prior to that, she served for five years as Global Chief Creative Officer for The Coca-Cola Company. Esther is a Board member at The Clorox Company where she chairs the Nomination & Governance Committee. Current notable commitments The Clorox Company (Non-Executive Director)	Skills and Experience Linda is currently a Senior Advisor at the Boston Consulting Group and has spent almost 40 years serving higher education. She retired from Yale in 2016 after 34 years at the university where she served in an array of senior positions, including Vice President for Global & Strategic Initiatives. She oversaw the development of Yale's online education division and the expansion of Yale's international programmes and centres. During her tenure, she was responsible for many administrative services, ranging from Yale's public communications and alumni relations to sustainability, human resources and the university press. She also served on the boards of several public companies, including as Presiding Director of the McGraw-Hill companies. Linda is a trustee of Hollins University and a member of the board of Yale New Haven Hospital, where she chairs the nominating and governance committee, and she also remains on several consequential advisory committees at Yale University.

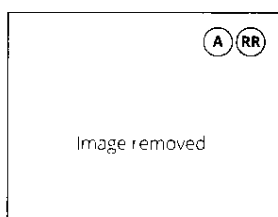
Independence of Directors

All of the Non-Executive Directors who served during 2021 were considered by the Board to be independent for the purposes of the UK Corporate Governance Code (the Code). The Board reviews the independence of each of the Non-Executive Directors annually. This includes reviewing their external appointments and any potential conflicts of interest as well as assessing their individual circumstances in order to ensure that there are no relationships or matters likely to affect their judgement. In addition to this review, each of the Non-Executive Directors is asked to provide confirmation of their independence on an annual basis (as defined by the Sarbanes-Oxley Act, the New York Stock Exchange (NYSE) listing rules and the Code). In July 2022, Ms Lorimer will reach nine years' service on the Pearson Board. Considering the recent degree of change to our Board, the Board believes that it is in the company's interest to maintain continuity and, therefore, recommends that Ms Lorimer remains on the Board for one further year until the AGM in 2023. Upon attainment of nine years' service by any Non-Executive Director, the Board undertakes an assessment to satisfy itself as to the continuing independence of that Director. The Nomination & Governance Committee gave particular consideration to Ms Lorimer's independence ahead of formalising a recommendation to the Board regarding her re-appointment. In doing so, the Committee assessed the degree of objective judgement and constructive challenge demonstrated by Ms Lorimer, and confirmed that her skills, experience and knowledge contribute to productive Board discussions. Accordingly, the Board is satisfied that Ms Lorimer remains independent, and that she continues to provide constructive challenge and hold management to account. Furthermore, Ms Lorimer's continued appointment will ensure a smooth transition of knowledge and expertise to our new directors, particularly in respect of her role as the Chair of the Reputation & Responsibility Committee.

In accordance with the Code, Sidney Laurel was considered to be independent upon his appointment as Chair on 1 January 2016.

The Directors can obtain independent professional advice, at the company's expense, in the performance of their duties. All Directors have access to the advice and services of the Company Secretary, whose appointment and removal is a matter reserved for the full Board.

Board of Directors *continued*



Graeme Pitkethly
Non-Executive Director
aged 54

Appointment

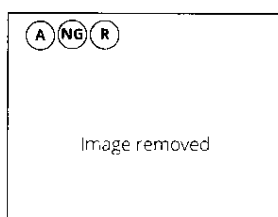
Non-Executive Director
since 1 May 2019

Skills and Experience

Graeme joined Unilever in 2002 and, prior to being appointed CFO and Board member, was responsible for Unilever's UK and Ireland business. Previously, he had held a number of senior financial and commercial roles within Unilever and spent the earlier part of his career in senior corporate finance roles in the telecommunications industry. Graeme served as Vice President of Financial Planning and Vice President of Corporate Development at FLAG Telecom and started his career at PricewaterhouseCoopers. Graeme is a Vice Chair of the Task Force on Climate-Related Financial Disclosures and is a Chartered Accountant.

Current notable commitments

Unilever plc (Chief Financial Officer)



Tim Score
Senior Independent Director
and Deputy Chair Designate
aged 61

Appointment

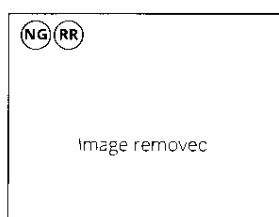
Non-Executive Director
since 1 January 2015
Senior Independent Director
since 30 April 2021

Skills and Experience

Tim has extensive experience of the technology sector in both developed and emerging markets, having served as Chief Financial Officer of ARM Holdings plc, the world's leading semiconductor IP company, for 13 years. He is an experienced Non-Executive Director and was appointed as a Non-Executive Director of Bridgepoint Group PLC in 2021, alongside his roles as Chair of The British Land Company plc, a Non-Executive Director of the Football Association, and a Trustee of the National Theatre. Tim has garnered extensive financial and listed company experience during previous and current positions. He served on the board of National Express Group plc from 2005 to 2014, including time as interim Chair and six years as the Senior Independent Director. Earlier in his career, Tim held senior finance roles with Rebus Group, William Baird, LucasVarity plc and BTR plc.

Current notable commitments

The British Land Company plc (Chair), Bridgepoint Group PLC (Non-Executive Director)



Annette Thomas
Non-Executive Director
aged 56

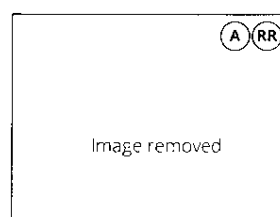
Appointment

Non-Executive Director since
1 October 2021

Skills and Experience

Annette has a 25-year track record in leading global publishing and data analytics businesses, across academic, educational and consumer media verticals. Most recently, she served as CEO of Guardian Media Group, a position she held until June 2021. Prior to this, Annette was CEO of the Web of Science Group at Clarivate Analytics, a data, analytics and software business focused on research and higher education. She has also served as CEO of Macmillan Publishers and led the digital and global transformation of Nature Publishing Group.

She currently serves as a Trustee of Yale University. Her previous non-executive experience includes serving as Non-Executive Director at Clarivate Analytics (2017), and as a board member for Cambridge University Press and Cambridge Assessment (2019-2020). She has also previously acted as an advisor to Creative Commons and Bain Capital.



Lincoln Wallen
Non-Executive Director
aged 61

Appointment

Non-Executive Director since
1 January 2016

Skills and Experience

Lincoln has extensive experience in the technology and media industries, and is currently CTO of Improbable, a technology start-up supplying next-generation cloud hosting and networking services to the video game industry. Lincoln was CEO of DWA Nova, a software-as-a-service company spun out of DreamWorks Animation Studios in Los Angeles, a position he held until 2017. He worked at DreamWorks Animation for nine years in a variety of leadership roles including Chief Technology Officer and Head of Animation Technology. He was formerly CTO at Electronic Arts Mobile, leading their entry into the mobile gaming business internationally. Lincoln is a Non-Executive Director of the Smith Institute for Industrial Mathematics and Systems Engineering and Varjo, a manufacturer of augmented, virtual and mixed reality headsets for professionals. His early career involved 20 years of professional IT and mathematics research, including as a reader in Computer Science at Oxford.

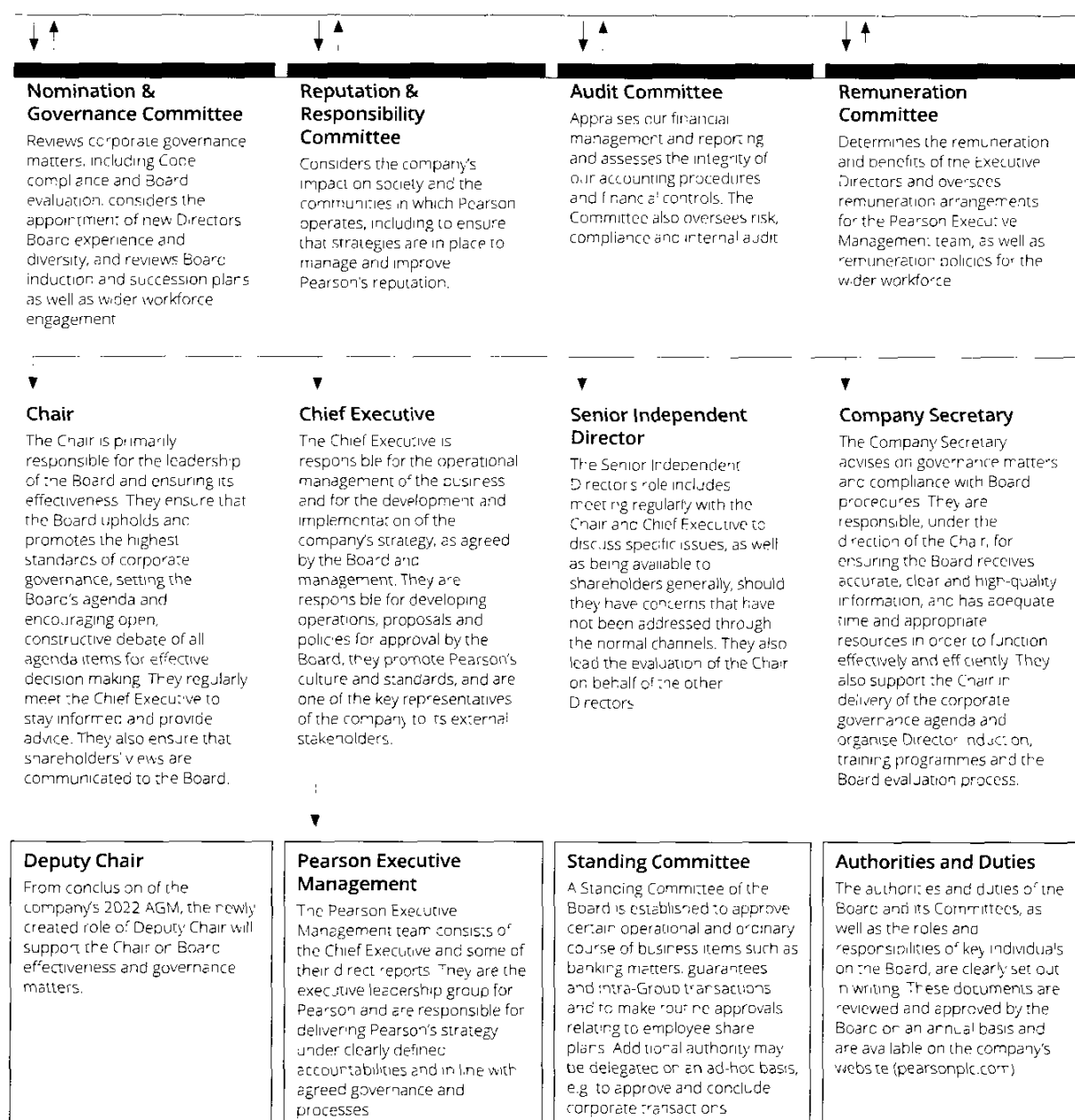
Current notable commitments

Improbable (Chief Technology Officer)

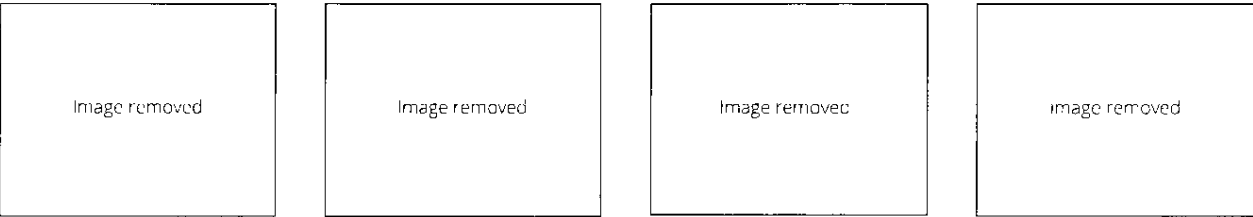
Division of Responsibilities

The Board

The Board has established four formal Committees. The Committees focus on their own areas of expertise, enabling the Board meetings to focus on strategy, performance, leadership and people, governance and risk, and stakeholder engagement, thereby making the best use of the Board's time together as a whole. The Committee Chairs report to the full Board at each Board meeting following their sessions, ensuring a good communication flow while retaining the ability to escalate items to the full Board's agenda if appropriate.



Pearson Executive Management (PEM)


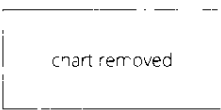
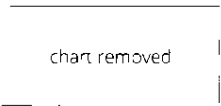
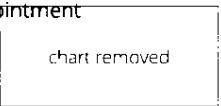


Tom ap Simon President – Virtual Learning aged 43	Ali Bebo Chief Human Resources Officer aged 53	Tim Bozik President – Higher Education; Interim Chief Product Officer and Co-President, Direct to Consumer aged 60	Lynne Frank Chief Marketing Officer and Co-President, Direct to Consumer aged 55
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Appointment Joined Pearson 1 December 2004 Appointed to the PEM 1 April 2021 Internal Appointment	Appointment Joined Pearson 13 December 2021 Appointed to the PEM 13 December 2021 External Appointment	Appointment Joined Pearson 18 May 1998 Appointed to the PEM 23 May 2013 Internal Appointment	Appointment Joined Pearson 16 November 2020 Appointed to the PEM 16 November 2020 External Appointment
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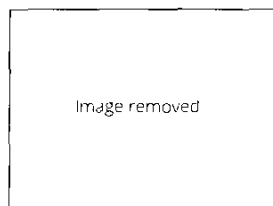
Skills and Experience Tom has 19 years of international business and finance experience. At Pearson, he has led the Virtual Schools business, worked in finance for the emerging markets businesses and led M&A activity in the US. Previously, he worked in investment banking at RW Baird. Tom holds an MA in Economics and Politics from the University of Edinburgh.	Skills and Experience Ali is a senior executive with over 25 years of experience building culture for transformative business performance across multiple industries. Prior to joining Pearson, she was an officer and CHRO for Hologic, Inc., a global medical technology company. Prior to Hologic, she held various HR leadership roles with the specialty retail company, ANN INC. Ali earned her BA in political science from the University of California, Los Angeles.	Skills and Experience Tim has more than 30 years of extensive leadership experience in higher education products and the business of delivering them at Pearson. Tim earned a Bachelor's Degree from the University of Notre Dame and currently serves on the Board of Directors for the Association of American Publishers.	Skills and Experience Lynne has over 25 years of experience in the media industry. Previously, she has worked in companies such as WarnerMedia, ESPN/Disney and Turner Broadcasting. Lynne holds a degree in economics and business, and a certificate in corporate board governance from the University of California, Los Angeles (UCLA).
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PEM Composition

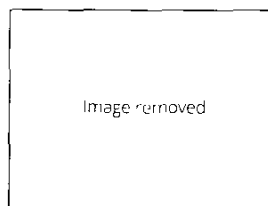
Gender 	Ethnicity* 
Nationality 	External/Internal Appointment 

These figures represent the Executive team excluding the Chief Executive and Chief Financial Officer who are counted in the Board metrics

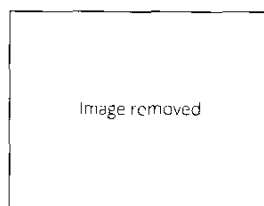
* 'Mixed, Other and White' are the categories recognised as ethnic groups under the UK's Office for National Statistics classification



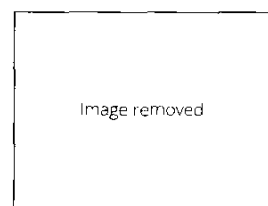
Gio Giovannelli
President – English
Language Learning
aged 49



Mike Howells
President – Workforce Skills
aged 45



Cynthia Nespoli
Chief Legal Officer
aged 41



Art Valentine
President – Assessment
& Qualifications
aged 57

Appointment

Joined Pearson 1 February 2014
Appointed to the PEM 1 April 2016

Internal Appointment

Skills and Experience

Gio has over 25 years of international business experience, including four CEO roles in Brazil.

Previous board roles include BOVESPA-listed Natura and CVC Viagens. Gio graduated from Bocconi University, holds an Economics Ph.D. and is OPM graduate of Harvard Business School.

Appointment

Joined Pearson 1 December 2020
Appointed to the PEM
1 December 2020

External Appointment

Skills and Experience

Mike has more than 20 years of international business experience. Previously, he has worked in the British diplomatic network and the UK Foreign, Commonwealth and Development Office. Mike holds a master's degree in International Law from the University of Nottingham and an Anthropology degree from University College London.

Appointment

Joined Pearson 1 February 2014
Appointed to the PEM 21 May 2020

Internal Appointment

Skills and Experience

Cynthia has over 18 years of international legal and compliance experience. Previously, she held leadership roles in legal and compliance at multinational companies. Cynthia was admitted to the Brazilian bar in 2004 and earned her law degree from Pontifícia Universidade Católica de Campinas and a post-graduate degree in tax law from Pontifícia Universidade Católica de São Paulo.

Appointment

Joined Pearson 23 January 2006
Appointed to the PEM
1 February 2022

Internal Appointment

Skills and Experience

Art has more than 30 years of leadership experience in assessments, testing, and technology. Prior to his 16 years at Pearson serving as a senior leader of Pearson VUE and as Managing Director of Pearson Clinical Assessment, Art worked at Promissor, which was acquired by Pearson in 2006. Art earned his MS in Mathematical Science/Computer Science from the University of North Carolina Chapel Hill.

Board activities

The Board is deeply engaged in developing and measuring the company's long-term strategy, performance, culture and values. We believe that it adds a valuable and diverse set of external perspectives and that robust, open debate about significant business issues brings an additional discipline to major decisions.

The role and business of the Board

The key responsibilities of the Board include

- overall leadership of the company and setting the company's values and standards, including monitoring culture and Diversity, Equity & Inclusion initiatives
- reviewing and determining the company's strategy, including in relation to Environmental, Social and Governance matters, in consultation with management, assessing performance against it and overseeing management's execution of it
- major changes to the company's corporate, capital, management and control structures
- approval of all transactions or financial commitments in excess of the authority limits delegated to the Chief Executive and other Executive management
- assessment of management performance, Board and Executive succession planning and talent pipeline
- effective engagement with key stakeholders

Strategic planning and decision-making

The Board spends considerable time in assessing whether any proposed action aligns with the strategy and future direction of the business, while taking into consideration sustainability and impact on our stakeholders. In addition, the Board regularly holds strategy discussions, whether in relation to the specific strategies of Pearson's five business divisions or the vision and wider strategy of the company as a whole, both of which enhance the Board's decision-making in shaping the company's strategic and financial plans.

The Board and Committees receive timely, regular and necessary financial, management and other information to fulfil their duties. Comprehensive papers are circulated to the Board and Committee members approximately one week in advance of each meeting. The Board receives a regular performance dashboard and key milestones report, together with updates from the Chief Executive and Chief Financial Officer. In addition to meeting papers, a library of current and historical corporate information is made available to Directors to support the Board's decision-making process. For items that require significant consideration and review in advance of a decision, such as the adoption of Pearson's new strategy and organisational structure announced in 2021, the Board's discussions can take place over a number of sessions.

Board meeting focus during 2021

Strategy	Performance	Leadership & people	Governance & risk	Shareholder engagement
<ul style="list-style-type: none"> — Ongoing digital transformation — Direct to consumer strategy — Pearson+ development and launch — Ongoing assessment of impact of COVID-19 on strategy — Divisional strategy sessions — Implementation of Group strategy — Oversight of Five Year Strategic Plan and preparation of 2022 annual operating plan — Portfolio review and M&A — Capital allocation — Data strategy 	<ul style="list-style-type: none"> — 2020 preliminary results and annual report and accounts — 2021 operating plan performance, including interim results and trading updates — Regular dashboard and milestone reports, including review of KPIs — Operating and strategic plan discussions — Continuing review of forecasts — Final and interim dividend proposals — Ongoing assessment of impact of COVID-19 on performance 	<ul style="list-style-type: none"> — Chair and other NED succession planning — Culture — DE&I initiatives & plans — Employee Engagement Network engagement and feedback — Employee survey assessments — Purpose, vision, mission & values — Talent: review and pipeline development, including executive team succession — Workforce learning and development — Board mentoring programme 	<ul style="list-style-type: none"> — Legal and regulatory governance compliance — Board training on key legal and regulatory matters — Data privacy and cyber security matters — Board and Committees effectiveness evaluations — Regular review and annual confirmation of conflicts of interest — Approval of Committees' terms of reference — Approval of division of responsibilities between Chair, Chief Executive and Senior Independent Director 	<ul style="list-style-type: none"> — Investor relations strategy and share price performance — Shareholder issues and voting — AGM and related shareholder interactions — Feedback from Board member meetings with shareholders — Major shareholders and share register analysis

The Directors recognise their duties towards the shareholders and other stakeholders as set out in Section 172 of the Act, and a continued understanding of the key issues affecting stakeholders is an integral part of the Board's decision-making process. You can read more on pages 84-88 about how the Board engages with stakeholders and takes their views into account when making decisions.

Board meetings

The Board held seven scheduled meetings in 2021, with discussions and debates focusing on the formulation, implementation and execution of the new strategy, as well as other key strategic issues facing the company. Major items covered by the Board in 2021 are shown in the table to the left. In addition to its scheduled meetings, the Board convenes as necessary to consider matters of a time-sensitive nature. In 2021, the Board also met on two additional occasions to consider specific corporate finance matters in further detail. Despite the continued restrictions on international travel and physical gatherings in 2021, the Directors have continued to engage with company stakeholders, including the workforce. The Board was pleased to be able to gather in person for one physical Board meeting during the year, where it was joined by the Pearson Executive. The Board was able to meet in person in February 2022 and hopes that it will be able to meet face-to-face throughout the coming year.

Reflecting on the level and quality of engagement by the Board in 2021, the Board is satisfied that each Director contributed to Board discussions and demonstrated sufficient commitment to be able to meet their responsibilities. As shown in the table below, each of the Non-Executive Directors attended all scheduled meetings during 2021. In addition, the Nomination & Governance Committee confirmed in its annual assessment that each Director demonstrates the requisite level of commitment and contribution in accordance with Principle H and Provision 18 of the Code. Furthermore, the Board has continued to adapt to a hybrid way of working (both physical and virtual) which has allowed for greater participation with employees and stakeholders around the world.

Directors' commitments and conflicts of interest

Under the Companies Act 2006 (the Act), the Directors have a statutory duty to avoid conflicts of interest with the company. The company's Articles of Association allow the Directors to authorise conflicts of interest. The company has an established procedure to identify actual and potential conflicts of interest, including all directorships or other appointments to, or relationships with, companies that are not part of the Pearson Group and which could give rise to actual or potential conflicts of interest. Additionally, in response to Provis on 15 of the UK Corporate Governance Code, Pearson has developed internal guidance to be taken into account when considering changes to a Director's commitments, or when appointing a new Director, as well as formalising the Board approval process for such matters.

Once notified to the company, any potential conflicts and commitments are considered for authorisation by the Board at its next scheduled meeting or, where necessary in the interests of timeliness, by a Committee comprising the Chair, Senior Independent Director and Company Secretary. In particular, the Board or Committee considers the type of role, expected time commitment and any impact which this may have on the Director's duties to Pearson, as well as any relationships between Pearson and the external organisation. The interested Director is not permitted to vote on, or be counted in the quorum for, any resolution relating to their commitments, conflict or potential conflict. The Board reviews any authorisations granted on an annual basis.

During 2021, the Board approved one new significant commitment for existing Directors, which was the appointment of Tim Score as a Non-Executive Director of Bridgepoint Group plc, a global leader in middle market private assets investing and a constituent of the FTSE 250. The Board was of the opinion that this additional appointment was acceptable as there were no conflicts perceived, and that the appointment would not prevent Mr Score from giving his Pearson role the time and attention it required which, at the time, included the Chair succession process. Furthermore, the Board believes that the experience gained by Directors through their other commitments can bring valuable perspectives to the Pearson Board. There were no other new commitments of Directors during 2021 which the Board considered to be significant in nature.

Board attendance

Directors are expected to attend all Board and Committee meetings, but in certain exceptional circumstances, such as due to pre-existing business or personal commitments, it is recognised that Directors may be unable to attend. In these circumstances, the Directors receive relevant papers and, where possible, will communicate any comments and observations in advance of the meeting for raising as appropriate during the meeting. They are updated on any developments after the meeting by the Chair of the Board or Committee, as appropriate.

Individuals' attendance at Board and Committee meetings is considered as part of the formal review of their performance. There was a high level of attendance by the Directors at Board and Committee meetings in 2021, as shown in the table to the right and in the Committee reports that follow:

	Scheduled meetings attended
Chair	
Sidney Laurel	1/1
Executive Directors	
Andy Birc	7/7
Sally Johnson	7/7
Non-Executive Directors	
Dame Elizabeth Corley	7/7
Sherry Courtu	7/7
Dame Vivienne Cox ²	3/3
Linda Lorimer	7/7
Michael Lynton ³	3/3
Graeme Pitkethly	7/7
Tim Score	7/7
Annette Thomas ⁴	2/2
Lincoln Wallen	7/7

¹ Dame Elizabeth Corley resigned from the Board on 31 December 2021.

² Dame Vivienne Cox retired from the Board on 30 April 2021.

³ Mr Lynton resigned from the Board on 30 April 2021.

⁴ Ms Thomas joined the Board on 1 October 2021.

How the Board is kept informed

The application of our Board and Governance processes in 2021 ensured that our Directors received accurate, timely and clear information from a range of sources. This allowed the Board and Committees to monitor and provide feedback on matters of importance, as well as to make informed decisions that were in the best interests of the company and its stakeholders.

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Culture

The Board monitors the culture and organisational health of the company with the assistance of its Committees, including through regular updates from the Chief Executive, Chief Human Resources Officer, and Chief Diversity Officer, as well as considering Group-wide programmes such as the quarterly employee pulse survey, Code of Conduct, compliance, health & safety, and talent and learning initiatives.

In early 2021, work began to redefine our company purpose and values. The project aimed to align and galvanise employees to support the new corporate strategy. The Reputation and Responsibility Committee received reports and presentations from a cross-functional team (Corporate Marketing & Corporate Communications, HR and Strategy) to discuss messaging and implementation. These discussions continued throughout the year and, following a robust research phase conducted by an external agency partner with key stakeholders (which included employees across different levels, geographies, and parts of the business), the project was debated by the full Board ahead of their decision to move forward.

The Board also received culture-related updates from various other sources, including feedback from the Employee Engagement Network and updates on the results of the quarterly employee pulse survey. In July 2021, the Board received a culture update, delivered by the Head of our Global Employee Communications, on ways to align Pearson's culture and strategy, noting that the two must work in concert to drive the company's overall business performance. The presentation outlined plans to shift company culture and employee engagement, as well as providing an update on the ongoing work to build an inclusive performance culture at Pearson and plans to revamp other employee initiatives, of which the Directors were supportive. Company culture is a key factor in decisions the Board makes in relation to the workforce and will be a topic of discussion in 2022.

For more information on employee engagement, please see page 87.

DE&I

The Board recognises the importance of Diversity, Equity and Inclusion and encourages the company's approaches in addressing this subject matter. In 2021, Pearson appointed a Chief Diversity Officer. This role was designed to enhance the culture at Pearson through the creation of a strategy to build an inclusive environment, increase workforce diversity, and drive equity in products and services. Following the appointment, the Chief Diversity Officer assessed organisational performance against the 50 key DE&I initiatives that had been approved by the Board for implementation across 2021 and 2022 (for additional information please see page 96). In 2021, the Board reviewed a progress report of the 50 initiatives, noting that 43 of these were on track to be delivered by their deadline. In addition, a more streamlined approach was introduced to revise DE&I priorities, with this evolution including the development of an enterprise strategy with operation support centred around four new organising pillars: recruitment and promotion, retention, inclusive culture, and social impact.

To optimise the delivery of DE&I outcomes, regular updates have been provided to the Board and Committees. This action has resulted in awareness of complex challenges and milestones relative to product equity and remediation plans to minimise reputation risk. Updates further explored progress towards advancing diverse workforce representation and creating a new external website designed to increase the public's understanding of social equity topics. This engagement allowed Board and Committee members opportunities to ask key questions and share opinions to guide future outcomes.

Environmental, Social & Governance

To learn more about how the Board monitors ESG matters please see the Reputation & Responsibility Committee Report on page 98.

Portfolio Changes

The Board receives regular updates on portfolio and corporate finance activities throughout the year, including regular updates on live transactions (disposals, acquisitions and corporate joint venture activity) and outputs of periodic portfolio reviews. These updates can take the form of presenting key summaries of information documented in Board packs or oral updates on key matters. These discussions are typically led by executive and divisional management, supported by the Corporate Development team and, where necessary, external advisers. Subsequently, once portfolio transactions have closed, the Board is also kept informed of the integration or transition progress.

Data governance and cyber security

In August 2021, Pearson announced that it had reached a settlement with the Securities and Exchange Commission (SEC) concerning a 2018 security incident impacting AIMSweb 1.0, a web-based software tool for entering and tracking students' academic performance that was rerolled in July 2019 in line with a previously scheduled plan.

Security and privacy are of paramount importance to the Board and to Pearson and its stakeholders as a whole and, accordingly, the Board was attentive to this matter as it progressed. Steps undertaken during 2021 included:

- The Board and Audit Committee were kept informed of legal discussions leading up to the settlement with the SEC.
- In light of the SEC matter, the Chair of the Board requested that an independent investigation be conducted into the circumstances surrounding the matter to identify root causes and process and programme improvements, a request which was fully endorsed by other Board members.
- Upon completion of that investigation, the Board considered and endorsed recommended actions to be taken by the company.
- Internal cyber security incident disclosure protocols and controls were reviewed and updated, as well as severity assessment practices and standards and escalation procedures.
- Following the 'lessons learned' discussion, the Audit Committee received a progress update on actions taken and will continue to monitor management's implementation of progress.

The Board and its Committees also have an ongoing programme of discussions relating to their oversight of data governance, privacy and cyber security matters. In 2021, the matters covered were:

- Data Privacy* – Audit Committee deep dive with Chief Privacy Officer and Chief Legal Officer
- Cyber Security* – Audit Committee deep dive with Chief Information Officer and SVP – Technology Assurance
- Data Ethics* – Reputation & Responsibility Committee session with Chief Strategy Officer and Chief Data Officer
- Data Strategy – Board session with Chief Data Officer

A data-driven approach is core to our strategy as a digital and consumer-focused business, therefore strict data governance, security and privacy standards are integral to the management of a number of our principal risks. The trust that comes from acting with integrity, including through our approach to data security and privacy, is at the heart of our corporate values. You can read more about the importance of these factors in our risk section beginning on page 60.

Pearson+

In July 2021, we accelerated our move into digital and sharpened our focus on student relationships by launching Pearson+, a direct to consumer subscription experience that gives Higher Education students simple and affordable access to eBooks and study tools.

The Board monitored progress on Pearson+ from the initial development of the concept through to launch and beyond. Although development of products is led and overseen by management, the Board paid particular attention to Pearson+ as the flagship product of the company's direct to consumer strategy, the creation and launch of which also represented a cultural shift in the way Pearson ideates and brings products to market.

In the early stages of the concept, the Board considered the investment to be made alongside potential revenues to be generated. Throughout the first half of 2021, the Board was updated on product development, design, focus group feedback (including from the target consumer demographic), pricing strategies, brand and marketing. Following a product demonstration, Board members provided feedback on features and functionality with reference to the broader marketplace and considered the key quality differentiators and highly personalised, rich learning experience that Pearson+ would offer the consumer. The project team kept the Board informed of progress through user acceptance testing, with design and build quality being front of mind to ensure a trusted product.

The Reputation & Responsibility Committee considered plans for the product launch and media strategy as part of a communications update. After launch, the full Board received updates on investor and broker sentiment towards Pearson+ as part of its regular Investor Relations report. As well as monitoring development and go-to-market strategy for Pearson+, the Board considered the potential for Pearson+ within the broader organisation, looking beyond the boundaries of the Higher Education division to explore potential uses in other business divisions. It also examined how to leverage the product in possible inorganic growth opportunities.

Following the launch of Pearson+, the Board paid close attention to subscription rates, user registrations and engagement data. Certain targets associated with the launch and take-up formed part of the Board's dashboard of KPIs in 2021 as well as featuring in Pearson's public non-financial KPIs (see page 24). The product team also provided the Board with insights into the early feedback coming from consumers, covering themes such as product features, purchase experience, affordability and subscription terms.

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* Read more on these sessions in the Committee reports that follow.

Understanding our stakeholders

A strong understanding of our stakeholders and their views is integral to Pearson's strategic planning and operational delivery, and the Board's strategy sessions are informed by the views and needs of, among others, our eight key stakeholder groups: consumers; employees; shareholders; educational institutions and educators; employers; government and regulators; business partners; and our communities – the local economies in which our businesses operate.

As required by the UK Corporate Governance Code, the Board ensures that Pearson engages effectively with, and encourages participation from, its key stakeholders. The Board maintains its oversight through a variety of direct and indirect mechanisms, and the Reputation & Responsibility Committee monitors the Group's stakeholder engagement framework.

More information on Pearson's key stakeholders, including their areas of concern and our response, is set out in the Strategic report on pages 16-19. Further information on how the Directors discharge their duties under Section 172 of the Companies Act 2006 is available on page 19.

Engagement during 2021

As with 2020, face-to-face engagement with stakeholders was a challenge for the Board, given lockdowns and travel restrictions. However, the Board and its Committees recognise that stakeholder views are integral to decision-making and the company's strategy. The Board therefore ensured that it was kept informed of stakeholder views, concerns and commentary throughout the year, whether through direct or indirect, physical or virtual, engagement. In addition, the use of digital technology allowed for broader engagement, helping to ensure that stakeholders retained a voice within the Boardroom. This took place through (among other things) physical interactions (wherever possible), virtual meetings, reports and presentations at Board or Committee meetings, feedback from members of the Pearson Executive Management team and other employee groups, and interactions with various functions, teams or advisers, both inside and outside Pearson.

While all key stakeholders are integral to the Board's deliberations, the Directors recognise that learners' interests are particularly important, and that a key factor of any decision is listening to the interests of the various stakeholders, taking these into account and trying to align or mitigate any opposing views, all while keeping the learners' best interests in mind. Some examples of the key activities undertaken by the Board or by individual Directors in relation to stakeholder matters are set out below. Please also see page 88 for a detailed review of our acquisition of Faethm, and how it relates to our stakeholders and the long-term success of the company.

Shareholders

- Shareholders are a key consideration in Board decision-making. Despite the Board being unable to engage in person with shareholders at the 2021 AGM, we held a Virtual Engagement Event for our shareholders in advance of the AGM. This involved an online presentation and Q&A session with members of our Board and provided shareholders with an opportunity to hear from our Board members and ask questions relating to the business of the AGM. At the 2021 AGM, Pearson shareholders granted the company the authority in its Articles of Association to hold future general meetings by hybrid (that is, concurrent

physical and virtual) means. In 2022 we plan to host our first hybrid meeting, which will make it easier for our global shareholder base to take part, and further enhances the Board's ability to engage with shareholders.

- The Board also ensured there was a continued dialogue throughout the year with our largest shareholders, including extensively in relation to company's new strategic direction. In addition, and following the opposition to the motion at last year's AGM to authorise holding general meetings on 14 clear days' notice, as part of a broader shareholder engagement exercise the company sought to better understand the views of shareholders on this particular matter. As a result of the consultation, the company acknowledges there were certain concerns around Pearson's use of this power to hold meetings on less than 21 clear days' notice with respect to the September 2020 Extraordinary General Meeting. Although the Directors believe that it is an important power to continue to seek in future, to afford flexibility where time may be of the essence on certain matters, they respect the concerns expressed regarding its use in 2020. As a result, Pearson is committed to reflecting views of shareholders in any consideration of future use of this power, if granted by shareholders. In addition, the Board engaged extensively with shareholders regarding the significant vote against the Directors' Remuneration Report at the 2021 AGM. Please see page 113 in the Remuneration Committee Report for additional detail on this engagement.
- For more details on how the Board, or specific Directors, have engaged with shareholders, please see our 2021 shareholder engagement cycle, below.

Shareholder engagement cycle 2021

- | | |
|-----------|--|
| Q1 | <ul style="list-style-type: none">— January Trading Update— Full year 2020 results and strategy update— 2020 Annual Report & Accounts— Full year results investor roadshow with Management |
| Q2 | <ul style="list-style-type: none">— Release of Form 20-F— Pre-AGM Virtual Shareholder Event— Q1 Trading Update— 2021 AGM— Investor conferences with Chief Executive and Chief Financial Officer following Q1 Trading Update |
| Q3 | <ul style="list-style-type: none">— Half year results— Investor roadshow following half year results— Engagement relating to Remuneration |
| Q4 | <ul style="list-style-type: none">— Nine Month Trading Update— Investor Roadshow with Chief Executive & Chief Financial Officer following Q3 Trading Update— In person Investor Roadshow in New York & Paris— Engagement relating to Remuneration |

Pearson Partner Forum 2021

Held in March 2021, the Pearson Partner Forum provided business partners with an opportunity to hear from our Chief Executive, Chief Financial Officer and members of the Pearson Executive Management team (among others) on the new strategic direction of Pearson. With over 130 of our key suppliers attending, Andy and Sally shared their thoughts on Pearson's strategy, enabling business providers to hear directly from, and engage with, our Executive Directors. This live virtual event also gave business partners an insight into the company's approach to responsible procurement and outlined our approach to suppliers with specific reference to DE&I and our new workforce skills division. While the focus was on providing our suppliers with an insight into Pearson, and specifically in relation to our new strategy, the forum provided the opportunity for business partners to ask questions, thus providing our Executive team with an understanding of suppliers' views and concerns. The intention of the forum was to highlight the critical role that partnerships and corporate social responsibility will play in Pearson's strategy into the future.

Engagement with employees

Despite physical interactions being limited throughout 2021, the Directors utilised a number of methods to engage with employees virtually throughout the year. The Board recognises that Pearson employees are integral to the business and therefore made sure that, during a time of continued transformation, employees were listened to, appreciated, supported and rewarded. Some examples of how the Board has engaged with employees include:

— The Employment Engagement Network

The network has established a feedback mechanism between the Board and the workforce, enabling the Board to hear directly from employees. Members of Pearson leadership nominate a group of active listeners, good communicators, and solid employee ambassadors to represent the voice of our employees across the company and in key geographies. In making these appointments, matters such as gender, ethnicity, geography, age and tenure are taken into account. This ensures we have a diverse and wide-ranging group of individuals to represent our workforce.

During a one-year appointment, the network meets virtually with a non-executive director on a quarterly basis. The group contributes its views on timely topics and provides feedback, which is also an important part of UK corporate governance.

The network provided insightful and helpful feedback on a variety of key topics in 2021, including the launch of the new company-wide strategy as well as our renewed purpose and values.

In 2021, the network also welcomed Sherry Coutu as designated Board representative, succeeding Dame Vivienne Cox. With her extensive track record of working with start-ups and scaling businesses, Sherry has particular experience, and passion for, fostering workforce engagement. She will be joined by Chief Human Resources Officer Ali Bebo, in each meeting moving forward. Key themes that will be discussed in 2022 are innovation, reward and recognition, systems and processes, organisational structure, and silos.

"I am delighted to work with colleagues in the Employee Engagement Network, which is a fantastic channel for helping to bring the employee voice into the Boardroom so that we can co-create the future together."

Sherry Coutu,

Pearson's Designated Non-Executive Director responsible for workforce engagement

Consumers

As a business with a focus on direct to consumer, the consumer is integral to the company's strategy, and is a key consideration for any Board decision. The Directors therefore need to ensure that the opinions of all consumers – be that school students, vocational learners, individuals looking to upskill or reskill in the workplace, or anyone else – are taken into account in every decision or discussion that is had. The Directors ensured that as a Board they were receiving relevant, up-to-date and detailed information through the form of reports, verbal updates, and presentations on a range of matters, including the launch of the direct to consumer strategy, the launch of Pearson+ (for more information, including how the Board received student and user testing feedback, please see our case study on page 85), updates from the DE&I taskforce on increasing diversity in Pearson products and services, and general updates on product development and demonstrations.

There were regular scheduled meetings (which were held virtually throughout 2021) with the EEN and Ms Cox or Ms Coutu, who respectively reported back to the Board after each session so that the views and voice of the workforce could be reflected in the Board's business and deliberations.

For additional information on how the Board will increase engagement with employees in 2022 with respect to remuneration, please see page 114.

— Learning initiatives

During the year, the Company held a number of virtual events for the benefit of employees, with topics including 'Global Learning at Work Week', 'Global Inclusion Week', 'Global WFL Week' and 'Information Security Awareness Summit', among others. As well as the Executive Directors being directly involved, the Board also received feedback on these events as part of a general update on talent, learning and company culture.

— Virtual Town Halls

At frequent points throughout the year Andy, Sally and the Pearson Executive Management Team held virtual town halls, which Pearson employees were invited to attend. These discussions were of particular importance when they coincided with the significant points in the year, for example when Andy announced Pearson's new strategy, the launch of Pearson+, and any results released by the Company.

— Pulse Surveys

On a quarterly basis the Pearson workforce receives an invitation to complete an employee survey, and the Board discusses the results of these surveys.

These give the Board insight into specific sentiments of the workforce. In 2021, these areas included mental health and wellbeing, perspectives on individuals' professional development, thoughts on the company's strategy, and what individuals think about working at Pearson. The survey also gives employees an opportunity to provide written feedback, which is summarised and, if there are underlying trends or common themes, presented to the Board. The measures from the Pulse survey also form part of the Board's dashboard of KPIs, which it monitors regularly.

Across the year, 71% of respondents self-reported that they had upskilled or reskilled in 2021.

— Mentoring schemes

The Non-Executive Directors participate in a mentoring scheme, whereby they are paired with a high-potential leader at Pearson. After a successful first cohort in 2019, the scheme was re-launched with a new cohort in 2021. For additional details, please see page 96.



Key decision made by our Board

Acquisition of Faethm

This case study on Pearson's recent acquisition of Faethm shows an example of how the Directors have considered the long-term consequences, interests of stakeholders and the impact of operations on the community in their decision-making processes, while acting in a way that promotes the success of Pearson for the benefit of its shareholders as a whole.

In September 2021, Pearson announced the acquisition of Faethm, a pioneering digital analytics platform that helps companies and governments understand the dynamic forces shaping the labour market. The insights provided by Faethm help its customers to make data-driven decisions to navigate the changing labour market and support the upskilling and/or reskilling of their workforce, thereby helping to prepare the working age population for disruption to current jobs and ways of working.

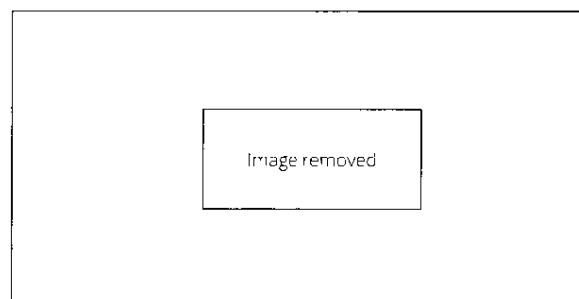
Having first made a minority investment in Faethm through Pearson Ventures, Pearson quickly identified that Faethm's market-leading data, insights and AI capabilities could play an important role both in Pearson's digital strategy, and in its continued commitment to serve the lifelong learning needs of people around the world. With customers across the globe and a great business ethic, the Directors noted that Faethm's strong reputation would complement the high standards with which Pearson seeks to conduct business. Faethm sits at the very heart of Pearson's new Workforce Skills division and its analytics capability, combined with Pearson's world-class end-to-end learning and assessment products, enables companies of all sizes to understand what skills are needed in their workforce, and how these skills can be nurtured and developed. This is a further building block to power the next generation of Pearson's lifelong learning products, meeting the rapidly changing needs of today's workforce and bridging the global skills gap.

Faethm was Pearson's first major acquisition since the implementation of the new divisional structure, and an acquisition that is integral to the growth of our Workforce Skills Division. During their discussions, the Board ensured that there were strong strategic rationale, clear integration plans and achievable synergies.

When considering this acquisition, the Board received detailed updates from management, prepared by the internal advisory team (with key input from the business and external advisers) setting out the strategic rationale, anticipated synergies, due diligence findings, valuation and return analysis, stakeholder considerations and detailed post-acquisition integration plans. Very relevant in the discussions were also the possibilities to use Faethm's data capabilities and sophisticated skills taxonomy to power future products to be developed by Pearson. Through the decision-making process, the Board considered how the acquisition may accelerate the company's strategy and how the expertise acquired as a result of the acquisition allows Pearson the opportunity to provide support to a range of stakeholders, all of whom can benefit from the enhanced ability to adapt to a dynamic, ever-changing environment and the potential economic opportunities that this brings, all while ensuring that the acquisition was financially viable and would therefore continue to support key internal and external stakeholders. As such, the Board was mindful of the ability this acquisition would have to promote sustainable economic growth and provide an inclusive approach in order to support each and every individual in their search for work. The Board considered the company's key stakeholders in the following ways:

Educational institutions and educators

The Board noted the potential role for Pearson as a 'matchmaker', leveraging our experience and position in the market to provide educational options to employers that are looking to recruit, retain, upskill and reskill their employee base. Integrating Faethm's solution into the Pearson business allows the company to foster a myriad of business relationships and provides the opportunity to bring together employers and institutions.



Employers

Employers, including companies and governments, often struggle to understand and react to the dynamic forces that shape the labour market. As a business and an employer which has been affected by both digital advancements and, more recently, COVID-19 disruptions, Pearson is conscious of the constant requirement to upskill and reskill a company's workforce. As such, the Directors are able to leverage their experiences to understand the benefits of a solution like the one offered by Faethm. Stepping outside the sphere of 'traditional' education and acknowledging the needs of a constantly changing labour market, the Directors received reports and debated the impact that Faethm could have on a company's workforce. They acknowledged the gap in training that many organisations face in the ability to retain, upskill and reskill their employee base and agreed that the service provided by Faethm would provide a long-term solution for employers, facilitating data-driven decisions and helping them predict and navigate future developments.

Consumers

As a business with a strong direct to consumer focus, Pearson puts the consumer at the heart of its strategic decisions. Faethm offers a solution that allows the world's workforce to unlock its potential. With its AI-powered forecast engine and a granular skills ontology, Faethm enables companies and governments to gain a deep understanding of their workforce and to support individuals to upskill (and progress in their careers) or reskill (pointing them towards an alternative career pathway). In their review of the proposed acquisition, the Directors acknowledged the fast-moving pace of working environments, and considered that the acquisition of Faethm would give Pearson an important building block to create the best end-to-end skills mapping and learning solution for consumers.

Employees

The Board considered the employees of Faethm in their deliberations, including how best to preserve the entrepreneurial culture and drive that the Faethm leadership team had created. The Board also discussed how best to minimise disruption during integration into the wider Pearson culture, as well as ways to incentivise and support Faethm employees.

The Directors also considered the impact the acquisition would have on existing Pearson employees, especially those in the Workforce Skills division. Arrangements were made for relevant employees to be provided with an opportunity to meet Faethm employees, and learn more about the Faethm solution.

Shareholders

In evaluating the acquisition prospect, the Board considered the alignment of the acquisition with Pearson's strategy, the potential financial returns on investment, and whether the commercial terms of the acquisition were in the interests of shareholders as a whole. The Directors agreed that integrating Faethm's taxonomy, data science and corporate sales capabilities into the company could play a key role in accelerating Pearson's strategy. The Board agreed that Faethm was a strategic fit for the company with the potential for broad benefits for the company and its members.

Directors' induction

The Directors receive a significant bespoke induction programme and a range of information about Pearson when they join the Board. This includes background information on Pearson and details of Board procedures, Directors' responsibilities and various governance-related issues, including procedures for dealing in Pearson shares and their legal obligations as Directors.

The induction also typically includes a series of meetings with members of the Board, external legal advisers and brokers, the Pearson Executive Management team and other senior management. Directors receive presentations regarding the business from senior executives and a briefing on Pearson's investor relations programme. The induction framework is reviewed periodically by the Nomination & Governance Committee.

Induction for Annette Thomas

As part of the onboarding programme for Annette Thomas, who was appointed as a Non-Executive Director in October 2021, the company provided a comprehensive and engaging induction over a series of meetings, beginning before Annette joined the Board. The programme built on her particular skillset, attributes, and background in media and education, to integrate her into the Board's activities.

In addition to meeting our Chair, Chief Executive and Chief Financial Officer, Annette met with each of the Pearson Executive Management members and key representatives of our corporate functions. These meetings covered year-to-date performance against financial objectives, strategic initiatives and a wide range of other matters, some of which are presented in the table below.

Following the initial phases of her induction, Annette was keen to understand in greater detail all five business divisions, as well as our Human Resources and Direct to Consumer functions. Additional meetings were subsequently arranged for Annette to learn more about these functions, including an in-depth discussion with Lynne Frank, Chief Marketing Officer and Co-President of the Direct to Consumer function.

Annette's induction programme also included one-to-one meetings with each of her fellow Non-Executive Directors and a comprehensive overview of each of the Board's Committees, including their objectives and priorities. The Nomination & Governance and Reputation & Responsibility Committees, contribution to which she discussed with their respective Chairs, were of particular importance to Annette.

Annette met our external auditors and brokers and joined a meeting with the company's legal advisers to discuss, among other topics, directors' duties, corporate governance and external reporting.

"It was an educating, engaging and insightful experience that brought me up to speed with every aspect of the business and the governance requirements in advance of joining the Board. Each meeting was carefully planned, and appropriate information was prepared with the aim of supporting my contribution as a Non-Executive Director."

Annette Thomas

Appointed to the Board
on 1 October 2021

A selection of meetings that Annette Thomas held with the company's senior management

		Attendees	Key topics covered
Business Divisions	Assessment & Qualifications	President, Assessment & Qualifications	Clinical & US Student Assessment Pearson VUE Financial metrics
	Virtual Learning	President, Virtual Learning	Market and current positioning of Pearson Value proposition Key performance indicators
	Higher Education	President, Higher Education	Performance measures & commercial KPIs Business model 5-year strategic overview
	Workforce Skills	President, Workforce Skills	Workforce strategy Organisational structure Key business metrics
	English Language Learning	President, English Language Learning	Financial projections Organisational structure Strategic priorities
Corporate Functions	Company Secretarial	Company Secretary Deputy Company Secretary External counsel	Induction planning Governance framework UK plc regulatory induction Board and Committee matters
	Human Resources	SVP, Reward SVP, HRBP Higher Education and Corporate Functions SVP, HRBP Virtual Learning, English Language Learning and Workforce Skills	DE&I commitments and initiatives Goals, measures and challenges Remuneration principles
	Investor Relations	SVP, Investor Relations & Financial Communications	Shareholder views External perception of Pearson Most frequently asked questions from shareholders
	Legal & Government Relations	Acting Chief Legal Officer	Key legal risks and recent matters Government relations key themes Sustainability

Board evaluation

The Board operates a three yearly evaluation cycle which employs a variety of methodologies to ensure the most effective results.

Following an internally facilitated review in 2019, led by the Senior Independent Director, and an externally led review in 2020, the 2021 evaluation would normally have been questionnaire based. However, given the appointment of a new Senior Independent Director in April 2021, it was agreed that it would be beneficial for a further internally facilitated evaluation to be undertaken in 2021.

Three-yearly evaluation cycle

Year	Methodology	Last undertaken
1	Questionnaire, tailored to specific needs of the business	2018
2	Internally facilitated interviews, to be led by the Chair, Senior Independent Director and/or Company Secretary as appropriate	2021
3	In-depth evaluation, externally facilitated	2020

Approach and methodology

The 2021 evaluation was carried out by Tim Score, Senior Independent Director, through a series of one-to-one conversations with each Director.

Discussion areas included matters that are important to Pearson in particular, as well as those items laid down in the Code and associated guidance, including:

- the effectiveness of the organisation and dynamics of the Board, including composition, competencies, diversity, leadership, agendas, meeting cadence, quality of the information provided, governance and decision-making
- relationships between the Board and senior leaders, and between members of the Board itself, including the remit of and interaction among the respective Committees and with the Board
- succession planning and talent pipeline for Executive Directors and other senior leaders
- the company's purpose and the Board's monitoring of organisational culture, behaviours and employee sentiment
- articulation and implementation of strategy
- understanding of risks facing the company, including probability and mitigation
- understanding of stakeholder views
- oversight of ESG and sustainability matters, including DE&I
- concerns and areas for improvement

The members of the Pearson Executive were also invited to provide their views on these topics by way of a questionnaire prior to the Directors' individual interviews. The findings from this exercise were analysed by an external advisory firm, Lintstock, and shared, on an unattributable basis, with the Senior Independent Director in advance of his conversations with Board members to allow for the Executive's opinions to be taken into account during the process.

Evaluation process

- ▼ The format of the review was agreed by the Nomination & Governance Committee
- ▼ The scope of the review was finalised by the Senior Independent Director with support from the Company Secretary.
- ▼ Feedback from the Pearson Executive was gathered by way of a questionnaire
- ▼ The Senior Independent Director interviewed each of the Directors on a confidential and unattributable basis.
- ▼ The output of the evaluation was captured in a report to the Board in December 2021 with the Board then discussing the points raised by the review
- ▼ Progress on the findings of the evaluation will be monitored by the Nomination & Governance Committee throughout 2022.

The Nomination & Governance Committee reviewed the findings from the evaluation with the full Board at its meeting in December 2021. The Committee will develop an action plan to address areas for improvement and will monitor progress during the year.

In reporting back to the Board, the Senior Independent Director reported that conversations with Board members were positive, with unanimous agreement that the Board operates effectively.

Key findings included:

- All Board members are fully engaged, providing the right balance of challenge and support to the Executive. There is a high level of retained strategic and operational knowledge. The Board members as a group are collaborative and respectful, with contributions made in a constructive but informal tone.
- Board members have relevant skills and experience albeit the Board recognised the importance of paying particular attention to its balance of skills and experience in light of departures during 2021. The identity of the new Chair was viewed as important in considering the appropriate mix of skills and experience on the Board.
- The frequency and length of meetings and structure of agendas are considered appropriate. Continued refinement of the dashboard and milestone report has facilitated appropriately disciplined discussion by focusing on the most important issues.
- The Board appreciates the level of exposure it receives to layers of management below the senior leadership team, which assists the Board's understanding of the talent pipeline.
- Company secretariat support to the Board was considered to be of an excellent standard.

There was unanimous agreement that the Chair leads the Board in an effective manner, fulfilling Principle F of the Code. The Directors agreed that he demonstrates objective judgement, promotes a culture of openness and debate, and facilitates constructive Board relations and the effective contribution of all Non-Executive Directors. This in turn supports Non-Executive Directors in fulfilling the requirements of Principle H of the Code in providing constructive challenge, strategic guidance, offering specialist advice and holding management to account.

The main areas identified by the Board for particular focus during 2022 were

- Continued focus on strategic execution in each of Pearson's five divisions, including clarity on how the divisions work together and continued optimisation of the more-established businesses
- Continued discussions on portfolio, investment prioritisation, capital allocation and other corporate finance matters, in support of delivery of the strategy
- Involvement in the selection of KPIs, with the Board having visibility of supporting data to allow evaluation of relevant metrics
- Continued sharing of customer insights with the Board to aid understanding of the quality of product, content and services
- Ongoing focus on succession planning and talent management, both at senior levels and more broadly to ensure Pearson has the right skillset to execute the strategy
- Refinement of long-range planning in light of the new strategy and business structure
- Ensure work to refresh the risk management framework continues, particularly given the increasing importance of information security, data management and privacy, and cyber risks
- Continue to evolve ways of monitoring the culture and behaviours throughout the organisation, as well as overseeing the implementation of Pearson's new purpose, mission, vision and values

In addition to the annual evaluation exercise, the Chair meets regularly with the Non-Executive Directors and these sessions include reciprocal feedback on the functioning of the Board

Individual evaluation

In addition to the evaluation of the Board as a whole, Executive Directors are evaluated each year on their overall performance against goals agreed by the Board, and in respect of strategic measures under the company's annual incentive plan. These goals and objectives are linked to the key metrics for the company,

including both financial and strategic objectives as well as goals linked to culture, talent, brand, digital growth and transformation. Progress against each of these metrics is reviewed by the Board on a regular basis, as part of a dashboard of KPIs.

The Chair leads a formal individual evaluation of each Non-Executive Director every other year and encourages open channels of communication between Directors and the Chair on an ongoing basis. In the Board's opinion, these ongoing lines of communication, combined with a Group-wide culture which allows and encourages feedback at any time, provide the most effective means for evaluation. In assessing the contribution of each Non-Executive Director, the Chair has confirmed that each continues to make a significant contribution to the business and deliberations of the Board. The Non-Executive Directors, led by the Senior Independent Director, also conduct an annual review of the Chair's performance, with the Senior Independent Director providing feedback from this review to the Chair.

Committee evaluation

All Committees undertake an annual evaluation process to review their performance and effectiveness. For 2021, the Committee evaluation process comprised two elements

- feedback relating to Committees was sought from Directors as part of the wider Board evaluation led by the Senior Independent Director
- other key contributors to the Committees were invited to provide their views by way of questionnaires tailored to the specific remit of each Committee

The findings from this process were considered by each Committee at its December 2021 meeting. The Committees were considered by Directors to be working well although it was felt that, given the evolving strategic priorities and the changing risk landscape, a review of the remits of the Committees should be carried out to ensure all key areas are being covered and there is no duplication. The Board also noted that all Committees have recently had or are likely to have Chair transitions in the near or medium term. Read more in the Committee reports on the pages that follow

Progress on findings of 2020 evaluation

A number of actions were taken during the year in response to findings from the externally facilitated 2020 Board evaluation process, as set out below. The Board has confirmed that these items were addressed to its satisfaction, with recommendations having been put into practice or a clear action plan identified for each.

Finding / Focus area

Support the Chief Executive in delivery of new vision and strategy, including evolving and monitoring culture and refreshing risk analysis

Focus on balance between strategic considerations and performance monitoring, including:

- quality of information received by Board
- opportunities for debate and decision-making
- KPIs and market insights

Continue to support ESG and sustainability agendas, including DE&I

Continue to enhance virtual interactions between the Board, Committees and executive management. Facilitate virtual engagement with the wider workforce as well as other stakeholders where appropriate

Response/action taken

The Board worked closely with the Chief Executive and management to support development and introduction of the new strategy. The Board valued its close involvement in the recent refresh of Pearson's purpose, vision, mission and values, for launch in 2022. The ongoing refresh of Pearson's risk framework has been valuable and positive so far, although work will continue into 2022.

This was a particular area of focus for the Chief Executive supported by the Company Secretary and executive team. Board discussions during the year were seen as open and engaging with proposals and ideas being brought to the Board at the appropriate time in their development. Board materials are viewed as timely and concise with the improvement in this area much appreciated by the Board.

The Board recognises the increasing importance of ESG, sustainability and DE&I and the progress being made by Pearson in these areas and is confident that sufficient time is being, and will continue to be, devoted to them at Board meetings. Read more on page 84

In 2021, the Board and company continued to avail itself of the opportunities presented by remote working and virtual meetings. The agility afforded by virtual meetings allowed not only for the Board to continue to operate effectively throughout ongoing pandemic restrictions, but also for meetings to be convened or rearranged at short notice where necessary, to consider time-sensitive matters, as well as being an enabler of other interactions with stakeholders, including Employee Engagement Network meetings, the Pearson Partner Forum and a pre-AGM shareholder event. Read more on stakeholder engagement on page 86. In spite of the benefits of virtual interactions, the Board is keen to spend more time together in person as soon as circumstances permit.

Nomination & Governance Committee Report

Sidney Taurel
Committee Chair

Committee responsibilities include:

Appointments

Identifying and nominating candidates for Board vacancies

Balance

Ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence, diversity and knowledge to operate effectively.

Succession

Reviewing the company's leadership needs with a view to ensuring the continued ability of the organisation to compete in the marketplace

Governance

Reviewing and overseeing Pearson's corporate governance framework, including culture and employee engagement, Board evaluation and training plans, and the Board Diversity Policy

Role and composition of the Committee

The Committee monitors the composition and balance of the Board and of its Committees, identifying and recommending to the Board the appointment of new Directors and/or Committee members. The Committee has oversight of the company's compliance with, and approach to, all applicable regulation and guidance related to corporate governance matters. The Committee also oversees talent and succession plans for senior roles.

The Committee currently has four members including me as Chair, with Annette Thomas having joined the Committee following her appointment to the Board in October 2021. During 2021, we said goodbye to two Committee members as they stepped down from the Board – Dame Vivienne Cox, who was my predecessor as Chair of the Committee until her retirement in April 2021, and Dame Elizabeth Corley – and I offer my thanks to both for their substantial contributions to the Committee's work.

The Chief Executive and other senior management, including the Chief Human Resources Officer, attend Committee meetings by invitation. All Committee members demonstrated a strong attendance record during the year (see left). In addition to the four scheduled meetings held during 2021, the Committee also met as necessary to consider the Chair succession process. You can read more about the Chair succession process on page 95.

As Committee Chair, I am available to engage with any shareholders who have questions or comments about the work of the Committee and was pleased to join our virtual engagement event with shareholders ahead of the 2021 AGM.

Board succession planning, skills and expertise

A key element of the Committee's remit is to lead the process for Board appointments in line with appropriate succession plans. The company has contingency plans in place for the temporary absence of the Chief Executive for health or other reasons. The matter of Chief Executive succession is a regular item for discussion and review by the Board on an annual basis. Succession planning for the Board as a whole is considered at least annually by the full Board and on an ongoing basis by the Committee. In 2021, the Board discussed at each meeting the evolving nature of the skills and characteristics required of new Non-Executive Directors. The Chair and Senior Independent Director also discussed Committee succession planning on a regular basis.

The Committee has defined a set of specific criteria for potential new Non-Executive Directors, in particular giving consideration to the skills, experience and knowledge required in any candidates. Pearson expects all Non-Executive Directors to demonstrate the highest level of integrity and credibility, independence of judgement, maturity, collegiality and the commitment to devote the necessary time to the company's business.

As part of its regular succession planning activity, all Board members are asked periodically to complete a self-assessment of the skills and experience which they believe they each bring to the Board. The assessment focuses on those categories of skills and experience which are relevant to Pearson's strategy, business model and particular organisational characteristics. When mapped against expected retirement dates, the assessment helps the Committee to identify the areas where it may need to focus any future search activity. The results of the most recent assessment (shown opposite) demonstrate that Pearson has a strong spread of skills across all areas identified as being of particular importance.

Terms of reference

The Committee has written terms of reference which clearly set out its authority and duties. These are reviewed annually and can be found on the Governance section of our website ([pearsonplc.com](https://www.pearsonplc.com)).

Committee members and attendance

Attendance by Directors at scheduled Nomination & Governance Committee meetings throughout 2021:

Committee members	Meetings attended
Dame Elizabeth Corley ¹	4/4
Sherry Coutu	4/4
Dame Vivienne Cox ²	2/2
Tim Score	4/4
Sidney Taurel	4/4
Annette Thomas ³	1/1

1. Dame Elizabeth resigned from the Board and the Committee on 31 December 2021.

2. Dame Vivienne retired from the Board and the Committee on 30 April 2021.

3. Ms Thomas was appointed to the Committee on 1 October 2021.

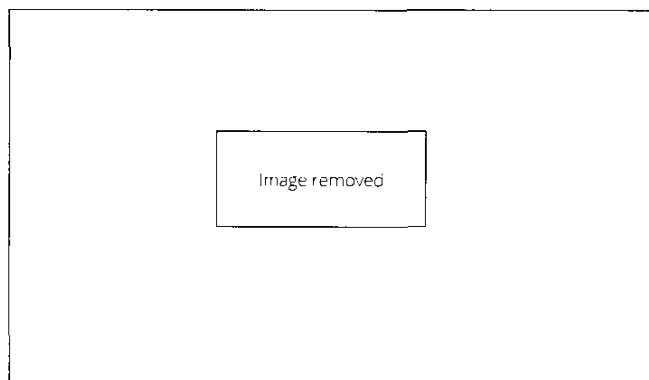
Skills matrix

This matrix represents the number of Directors with core or supplemental capability in areas that are relevant to Pearson's strategy, business model and organisational characteristics. A core capability is one of the strongest areas of a Director's skill and expertise, where they bring considerable value to Board discussions. A supplemental capability is an area where the Director is competent or has experience, but it is not one of the primary skills or attributes that they bring to the Pearson Board.

Category

- | | |
|--|--|
| 1. Accounting and finance | 6. Education and public sector |
| 2. Data and cyber security governance | 7. Global markets |
| 3. Digital and technology | 8. People/general talent focus, including workforce learning |
| 4. Disruption management, including: Talent leadership through change, Marketing and data insights, New business models and innovation | 9. Policy and government relations |
| 5. Direct to consumer business models (including consumer brand and marketing) | 10. Prior CFO experience, particularly of multinational businesses |
| | 11. Remuneration |
| | 12. Scale and complexity |
| | 13. Sustainability/ESG |
| | 14. UK plc governance |

● Core capability ● Supplemental capability



Board search processes and appointments

The Committee has been very active over the past year in relation to Board search activity, conducting several search processes resulting in the appointment of two new Non-Executive Directors, Annette Thomas and Esther Lee, and selection of a new Chair, Omic Kordestani. While these processes were all conducted separately, with specific candidate profiles in mind and utilising two different search firms, it was imperative for the Committee to ensure there was appropriate alignment across the three searches such that the breadth of desired skills, expertise and backgrounds were suitably covered by the appointed candidates. As noted above, you can read more about the Chair succession process on page 95.

Before commencing the searches, the Committee took into account the changes to the overall skills and expertise on the Board resulting from recent and anticipated retirements of other Non-Executive Directors and mapped this against the key areas of strategic importance to the business, to ensure our Board would be optimally staffed to deliver on the new strategy.

The Committee agreed that it was particularly keen to identify candidates across the two Non-Executive Director searches who would bring a combination of skills and expertise in the following areas:

- global or multinational executive experience, preferably including experience of the US market
- leading complex companies through digital transformations
- digital and/or data analytics
- direct to consumer experience

Taking into account the agreed person specification, the Committee engaged external search firms to undertake two search processes. In line with the objectives of the Board's Diversity Policy, the Committee asked the firms to ensure that the lists of candidates reflected diversity of gender and ethnicity as well as diversity in its broadest sense.

As Chair, I worked closely with the search firms to develop the candidate lists, with the Committee then considering the candidate profiles in detail, including their current commitments, skills, motivations and previous experience. I met with all shortlisted candidates and provided my feedback to the Committee, following which the preferred candidates then met with the remaining members of the Board. The search processes culminated in the appointments of Annette Thomas and Esther Lee as Non-Executive Directors with effect from 1 October 2021 and 1 February 2022 respectively.

Pearson was assisted in the search processes which resulted in the appointments of Annette and Esther by Russell Reynolds Associates and Spencer Stuart respectively. Neither firm has any connection with Pearson or members of the Board beyond its expertise in board and executive search. Both firms are signatories to the Voluntary Code of Conduct for Executive Search Firms.

Executive succession planning

Succession planning for key positions at Executive management level is primarily overseen by the full Board with support provided by the Committee in respect of particular initiatives. The Executive team has a key role to play in our strategic planning process, the ongoing development of our talent pipeline and in fostering the culture and values required to continue to deliver on our strategy. In December 2021, the Board held a discussion on talent, including a succession planning session focused on the executive pipeline from which the future leaders of Pearson were likely to emerge, both at Pearson Executive Management level and for other key roles. A diverse pipeline of ready now and ready later emerging talent has been identified, and plans are in place to accelerate their development and path to succession where possible. These measures include inviting individuals to participate in Board and Committee meetings, mentoring by Non-Executive Directors, and encouraging and enabling individuals to take on external non-executive roles in order to increase their exposure to new areas of business. The company also has targeted development programmes for high-potential talent and mentorship programmes for diverse leaders, as well as development programmes for junior and middle management.

Nomination & Governance Committee Report *continued*

Other areas of focus during 2021

The Committee oversees the company's compliance with the UK Corporate Governance Code and receives a status tracker at each meeting to enable it to consider the appropriateness and maturity of various elements of our governance framework and to monitor any areas of non- or qualified compliance. Learn more about Pearson's compliance with the Code on page 75.

Other areas of focus for the Committee during the year included: oversight of investor governance and voting policies and broader governance thought leadership; an annual review of the Board Diversity Policy and its accompanying objectives; review of proposed changes to Pearson's Articles of Association, which were subsequently approved by shareholders at the 2021 AGM; consideration of the Board's own ongoing programme of learning and development; and the annual review of the contribution of each Director to the Board. The Committee also received periodic updates from the Chief Human Resources Officer and members of the HR team in respect of diversity and talent initiatives across the business.

Committee evaluation

The Committee undertakes an annual evaluation process to review its performance and effectiveness. For 2021, feedback relating to the Committee was sought from Directors as part of the wider Board evaluation led by the Senior Independent Director. Topics covered included the effectiveness and dynamics of the Committee, oversight of key areas within the Committee's remit, the quality of papers and meeting discussions, and the relationships between the Committee and management.

The Committee considered the findings from this process at its December 2021 meeting, including:

- The Committee is considered to be working well with appropriate agendas, papers produced to a good standard and high-quality discussions.
- Given the evolving strategic priorities and the changing risk landscape, including around ESG and culture, it was felt that a review of the remits of all Board Committees should be carried out to ensure all key areas are being covered appropriately and there is no unnecessary duplication. As well as considering its own remit in light of this recommendation, the Committee will also lead on this overall review process on behalf of the Board during the coming year.

There were no particular matters identified during the 2020 evaluation process that required attention during the year.

Directors' training

The Committee is responsible for overseeing the Board's training and induction plans. In 2021, we reviewed and considered the proposed Board training programme for the next 18 months and approved the induction plan for newly appointed Non-Executive Director, Annette Thomas.

Training undertaken by the Board in 2021 included:

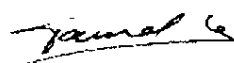
- The Board's responsibility for oversight of Pearson's ethics and compliance programmes.
- An overview of the evolving regulatory landscape relating to sustainability disclosures, including the recommendations of the Task Force on Climate-related Financial Disclosures.
- Refresher training on the UK Market Abuse Regulation and inside information regime.

In addition to the specific training sessions in the year, all Directors receive training in the form of presentations about the company's operations and, where possible, through Board meetings held at operational locations, and by visiting local facilities and management. While physical visits to some locations remained challenging during the year, we sought to offer the Directors the same level of interaction, to the extent possible, through digital means. The Company Secretary, in conjunction with Pearson's advisers, monitors legal and governance developments and updates the Board on such matters as agreed with the Chair. Our Directors can also make use of external courses.

A thorough induction plan was prepared for Annette Thomas ahead of her appointment to the Board in October 2021. You can read more about this on page 89.

Committee aims for 2022

The priority for the Committee in 2022 will be to ensure smooth Chair transitions at Board and Committee level, and the successful onboarding and integration of new Directors. The past year has required the Committee to be particularly focused on Board search activity and, in 2022, we will pivot our attentions towards other elements of the Committee's remit, giving consideration to areas in which there may be scope to go above and beyond Pearson's current governance arrangements in continuing to ensure a world-class corporate governance framework. Attention will also be given to ensuring our good progress on Board diversity extends to the composition of the Committees. We will welcome the insights of Ali Bebo, our recently appointed Chief Human Resources Officer, as we continue to discuss diversity, talent and culture more broadly, and we will begin preparatory work towards the next externally facilitated Board evaluation process due to take place in 2023.



Sidney Taurel

Chair of Nomination & Governance Committee

Chair succession

Image removed

In April 2021, Pearson announced that Sidney Taurel had informed the Board of his intention to retire as Chair and that the Nomination & Governance Committee would commence a process to identify his successor, led by the Senior Independent Director, Tim Score. Graeme Pitkethly was co-opted onto the Committee for this process, alongside Mr Score and existing members, Dame Elizabeth Corley and Sherry Coutu. Sidney Taurel recused himself from the Committee's discussions on this matter.

Following a competitive process, Russell Reynolds Associates (RRA) was selected by the Committee in June 2021 to support the Chair succession activity. In addition to this mandate, RRA is periodically engaged by Pearson in respect of broader Board and Executive search activity. The firm has no other connection with Pearson or any members of the Board.

RRA met with each member of the Board individually to seek their input into the profile of the desired candidate and to refine the role specification, following which a long list of candidates was drawn up. The Directors agreed that the key attributes they were seeking in proposed candidates included:

- a deep understanding of disruptive business models and an appreciation of the challenges and opportunities inherent in Pearson's continuing transformation
- strong strategic orientation and a particular affinity with digital, consumer-oriented and branded businesses
- a global outlook, ideally with experience in the US
- intellectual curiosity and a strong belief in the transformative power of lifelong learning
- ability to represent Pearson to the investor community and to lead and get the best out of the Board
- ability to build an effective and trustful working relationship with the management team

The Committee recognised that it might be necessary to weigh up the priority of particular strengths in digital disruption and consumer experience in Pearson's main markets next to specific FTSE chair experience. The Committee also made clear to RRA that diversity, including of gender and ethnicity, was an important consideration in the candidate search process.

From the long list that RRA developed, the Committee considered approximately 60 candidates over the course of the process. As this progressed, the Committee prioritised a shortlist of six individuals, including two women and three individuals of colour. Each of the shortlisted candidates met with Tim Score and Andy Bird during August and September, as well as with a number of other Board members. This round of one-to-one meetings allowed the Committee to further sharpen its focus onto a smaller group of candidates, who then met with the other members of the Board in the Autumn.

As a result of the comprehensive interview process, the Committee identified Omid Kordestani as its preferred candidate for the role of Chair of the Board. Once appropriate checks and referencing had been completed, the Committee was able to finalise its recommendation. In doing so, the Committee was cognisant of the trade-offs and balance to be struck between different candidate profiles and concluded that the optimal Board leadership structure would comprise a strategy-focused Chair working alongside a Deputy Chair with strong UK listed company governance expertise. The Committee, in consultation with RRA, identified Pearson's Senior Independent Director, Tim Score, as the best candidate for the proposed role of Deputy Chair.

Following a formal recommendation from the Committee in December 2021, the Board approved both the appointment of Omid Kordestani as a Non-Executive Director and Chair Designate with effect from 1 March 2022 and the appointment of Tim Score as Deputy Chair Designate. It is intended that Omid and Tim will commence their respective new roles upon conclusion of the AGM on 29 April 2022.

The Board is pleased to welcome Omid, who brings a wealth of experience in leading and advising some of the world's best-known consumer technology brands. His expertise will help to further Pearson's ambition to accelerate its digital, lifelong learning strategy.

Omid met the Code's independence requirements on appointment. In accordance with Pearson's external appointment policy, a conflicts of interest and commitments review was carried out prior to appointment and the Board was satisfied that Omid's external interests would not create any conflicts with his role at Pearson and, further, that he would be able to devote the necessary time and attention to Pearson business.

Sidney Taurel did not take part in the search and selection process save that he participated, firstly, in the initial individual scoping sessions with RRA and, secondly, in the final decision to appoint Omid and Tim, with these resolutions being passed unanimously by the Board. Tim Score recused himself from Committee discussions relating to his own nomination as Deputy Chair and did not participate in the Board's vote relating to his own appointment.

On behalf of the Board and Pearson colleagues, the Committee would like to thank Sidney for his leadership, diligence and unfailing support of the company during his time as Chair of the Board. During his tenure, Sidney has steered Pearson through a period of disruption while the company undertook a substantial transformation and he leaves Pearson with a Board and management team that are well-positioned for the next phase of growth. We will miss Sidney's wise and experienced counsel, and wish him and his family all the very best for the future.

Nomination & Governance Committee Report *continued*

Diversity across Pearson

We accelerated our DE&I efforts in 2021, continuing to build an inclusive workplace culture and a more equitable company. In October 2020, the Board approved 50 initiatives for implementation over a 12-month period for which progress has been made. This plan was further defined by the creation of a DE&I strategy in March 2021 focused on four organising themes: Recruitment/Promotion, Retention, Inclusive Culture and Social Impact. This five-year Action Plan contains a framework of goals and initiatives to further underscore areas of improvement as we continue the path to increase representation across the enterprise while building equitable learning solutions.

Pearson's Code of Conduct in relation to ethical practices takes account of gender, age, ethnicity, disability and sexual orientation, and applies to all employee levels, including the Pearson Executive Management (PEM) team. It is underpinned by a global statement on DE&I, along with country and business-specific policies. Standards are set consistently worldwide – both internally and externally – as part of our endeavour to make Pearson a great place to work.

The Global DE&I Council oversees progress on our DE&I agenda. This group includes this PEM team, engages business leaders and members representing employee resource groups, and is chaired by Chief Executive Officer, Andy Bird, and the Chief Diversity Officer, Dr Flo Starks. For more information on our approach to DE&I, see page 49.

Board diversity

We believe that Board diversity makes us a better business, contributing to high performance, enhanced commercial results, and a leadership culture that is inclusive. Research indicates high-performing boards provide an increased competitive advantage. Further, global trends continue to reflect the needs for greater inclusion.

We are determined that, as a Board, we must be representative of our employee base and wider society, including the countries in which we operate. The Board embraces the UK Corporate Governance Code's underlying principles with regard to Board balance and diversity, including in respect of ethnicity, gender and age. The objectives set out in the Board's Diversity Policy and our progress towards these are shown in the table on the opposite page.

The Nomination & Governance Committee ensures that the Directors of Pearson demonstrate a broad balance of skills, background and experience, to support our strategic development and reflect the global nature of our business. It requires appointments to be made on merit and relevant experience, while taking into account the broadest definition of diversity. In the recent Non-Executive Director search processes, the Committee encouraged the retained search firms to place an emphasis on putting forward candidates who would enhance the overall diversity of the Board.

The Committee has readopted the following objectives, which support the Board Diversity & Inclusion Policy, which continues to support Pearson's commitments to creating a more equitable and inclusive company:

- at least 40% female Directors (previous target: 33%)
- at least two Directors of colour (previous target: one)

As at 31 December 2021 the Board was 50% female (2020: 45%), exceeding the recommendation of at least 33% female representation suggested by the Hampton-Alexander Review, as well as the recently released FTSE Women Leaders Review which has a target of 40% women's representation by the end of 2025. The FTSE Women Leaders Review also recommends that Boards should have at least one woman in the Chair, Senior Independent Director, Chief Executive or Chief Financial Officer role by 2025 – a target we have already achieved.

We also satisfied, ahead of the 2021 target date, the recommendation in the Parker Review that at least one Director should be from an ethnic minority background.

Diversity was one of the topics the Board considered in the Board evaluation process conducted in 2021, both in respect of its own composition and in terms of the company's approach. The results and feedback provided by the evaluation indicated that the Directors believe the Board's diversity, as a whole, good. In a wider context, the Board recognised the increasing importance of DE&I and acknowledged the current progress being made. It noted that sufficient time was, and would continue to be, devoted to discussing DE&I at future Board meetings. In addition, the Committee has discussed advancing the objectives set out in the Board Diversity & Inclusion Policy, to increase the racial and ethnic representation on the Board.

Diversity and talent at Executive level

Three of our Executive team of eight, excluding the Chief Executive and Chief Financial Officer who are counted in the Board's metric, are women (37.5% vs 30% in 2020). Including the Chief Executive and Chief Financial Officer, this rises to 40% women (four women out of 10 members) (2020: 33%). As of 31 December 2021, the senior management team (as specified by the UK Corporate Governance Code), i.e. the Pearson Executive Management team and their direct reports, including the Company Secretary, contained 44 women, representing 49% of that group (2020: 36%).

To build a pipeline of diverse individuals in leadership and senior management positions, we run several accelerated learning and career development programmes. Supported by the Global DE&I Council, and with a particular focus on ethnicity and gender, the schemes have been designed to assess how sponsorship and senior-level advocacy in the workplace can produce career dividends for protégés and their sponsors. The Board and Committee carefully monitor plans in this respect and the outcomes achieved.

The Committee received updates on two internal mentoring schemes that it supports. The first pairs a high-potential leader (typically at SVP level) with a Director. The second involves members of the PEM team sponsoring a small group of individuals at management level, identified through our talent and learning review process as potential successors of senior management. The Committee agreed that the programmes, which have been under way for some years, should continue in 2021 with a further cohort of participants. We are currently reviewing opportunities to strengthen our Board sponsorship and mentoring schemes, and in future they will focus on creating mentoring partnerships based on skill development needs. Our goal is that 50% of both the Board mentoring and PEM sponsorship cohorts should be from a diverse background, specifically looking at gender, racial and ethnic diversity.

Image removed

Board diversity objectives

During the year, the Committee received a detailed progress update on the company's DE&I strategic approach, framework, governance and measurement models, and priority areas. As part of this, the Committee reviewed and updated the objectives which underpin the Board Diversity Policy. The current objectives, and Pearson's performance against them, are set out below.

Key

- ✓ Target achieved
- ✗ Target not met

Objectives

We will strive to achieve and maintain a Board composition of:

- at least 40% female Directors
- at least two Directors of colour

All Board appointments will be made on merit, in the context of the skills and relevant experience that are needed for the Board to oversee Pearson's strategic development and that reflect the global nature of our business.

The Board will continue to incorporate a focus on a diverse pipeline in its succession and appointment planning including to prioritise the use of search firms which adhere to the Voluntary Code of Conduct for Executive Search Firms (the Voluntary Code) when seeking to make Board-level appointments.

The Board will continue to adopt best practice, as appropriate, in response to the Hampton-Alexander Review and the Parker Review.

The Board will consider its composition and diversity as part of its consideration of effectiveness in the Board evaluation review process.

Where appropriate, we will assist with the development and support of initiatives that promote all forms of DE&I in the Board, Pearson Executive Management team and other senior management.

We will review and report on our progress in line with the policy and our objectives in the annual report, including providing details of initiatives to promote DE&I in the Board, Pearson Executive Management team and other senior management.

We will continue to make key DE&I information, about the Board, senior management and our wider employee population, available in the annual report, and aim for ongoing transparency in this area in line with best practice.

Progress

As at 31 December 2021:

- ✓ The Board included 50% female Directors
- ✓ The Board included one Director who identifies as Mixed – White & Black Caribbean, and one Director who identifies as Mixed – White and Black African

*As at 28th February 2022 the Board includes 3 Directors of colour

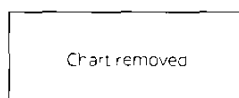
- ✓ The Chair search process in 2021 considered a wide range of candidates, including from diverse backgrounds, all of whom were evaluated on the basis of merit. The process resulted in the appointment of Omid Kordestani whom the Board believes possesses the requisite skills and experience for the role.
- ✓ The Committee actively includes diversity in its search criteria for Board appointments, and proactively encourages engaged search firms to include candidates from a range of diverse backgrounds in its candidate lists.

Russell Reynolds Associates and Spencer Stuart both assisted Pearson with search activity during 2021, including for the external element of the Chair and Non-Executive Director search processes. Both companies are signatories to the Voluntary Code.

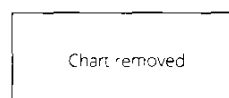
- ✓ The recommendations of the Hampton-Alexander Review, Parker Review and the FRC Board diversity and effectiveness report in respect of gender and ethnic diversity have been noted by the Board, and were considered as part of the Committee's diversity deep dive in 2021. In addition, the Board is cognisant of the FTSE Women Leaders Review, which has succeeded the Hampton-Alexander Review.
- ✓ These matters were considered in the 2021 evaluation process. Read more on page 90.
- ✓ The Board scheme of mentoring senior leadership talent was renewed with a fresh cohort in 2021.
- ✓ The Nomination & Governance Committee reviewed the Board's Diversity Policy and accompanying objectives during the year, as well as developments on DE&I in the external landscape.
- ✓ This information is included in the annual report. Read more about DE&I matters in the wider employee population on page 49.

Diversity and talent at Executive level

Executive team*



Senior management team



* Executive Team: including Chief Executive and Chief Financial Officer

Reputation & Responsibility Committee Report

Linda Lorimer
Committee Chair

Image removed:

Committee responsibilities include:

Stakeholders

Ensuring Pearson's strategic direction builds long-term value for our business and stakeholders and makes positive social impact on the planet. Key stakeholders include consumers, employees, shareholders, educational institutions and educators, employers, government and regulators, communities, and business partners

Risk

Overseeing Pearson's approach to reputational risk, and ensuring that clear roles have been assigned for the management of the reputation dimension of risks identified

ESG & ethics

Overseeing Environmental, Social and Corporate Governance (ESG) factors and performance. Monitoring ethical business standards, including Pearson's approach to issues relevant to its reputation as a responsible corporate citizen

Brand & culture

Managing the Pearson brand to ensure that its value and reputation are maintained and enhanced. Overseeing Pearson's approach to monitoring and supporting the values and desired behaviours that form our corporate culture

Strategy

Overseeing strategies, policies and communication plans related to reputation and responsibility issues and monitoring that the people and processes are in place to anticipate and manage them.

Reputation & Responsibility Committee role

The Committee works to assess and advance Pearson's reputation across the range of its stakeholders and to maximise the company's impact on society and the communities in which we work and serve.

The Committee reviews matters that are material to Pearson's stakeholders – we are the main governance body for sustainability at Pearson providing important oversight of our environmental, social and governance (ESG) framework; this includes climate change considerations. As part of this role, we promote and oversee Pearson's ESG strategy and assess progress against its commitments. We also monitor the Pearson brand, culture and values and provide ongoing oversight and scrutiny across all reputational matters including issues raised by regulators. As Committee Chair, I am available to engage with any shareholders who have questions or comments about the work of the Committee and was pleased to join our virtual engagement event with shareholders ahead of the 2021 AGM.

As outlined elsewhere in this annual report, Pearson considers climate transition as an emerging risk. The Committee works alongside the Audit Committee in overseeing matters relating to climate change and net zero carbon. The Committee's role is to review, refine and oversee implementation of the strategic ESG plan and monitor how it is delivered, while the Audit Committee focuses on assurance of metrics and feasibility of accompanying financial plans. Overlapping membership on the two Committees ensures alignment and a full appreciation of all relevant aspects.

The full Board is kept abreast of the Committee's work through reports I make following every session of our Committee; these reports include highlighting any areas of concern and offering specific recommendations.

Committee composition and attendees

The Committee currently has five members, with Annette Thomas having joined the Committee following her appointment to the Board in October 2021. Annette's experience in consumer-focused media businesses, data, analytics and educational institutions and publishing brings important perspectives to our work. During 2021, we said goodbye to two Committee members as they stepped down from the Board – Dame Vivienne Cox and Michael Lynton – and I offer my thanks to both for their substantial contributions to the Committee's work.

Committee members bring a range of expertise across the key areas of the Committee's remit including sustainability, ESG, data privacy and cyber security, people and talent, and policy and government relations.

In addition, we benefit from the regular attendance of senior executives whose work is central to the remit of the Committee. These include the Chief Legal Officer, who is the executive leader responsible for the development, monitoring and execution of Pearson's ESG strategy; the Chief Marketing Officer and Co-President of Direct to Consumer; and the Senior Vice Presidents of Government Relations, Investor Relations and Corporate Communications.

Terms of reference

The Committee has written terms of reference that clearly set out its authority and duties. These are reviewed annually and can be found on the Governance section of our website (pearsonplc.com).

Committee members and attendance

Attendance by Directors at scheduled Reputation & Responsibility Committee meetings throughout 2021.

Committee members	Meetings attended
Andy Bird	4/4
Dame Vivienne Cox	1/1
Linda Lorimer	4/4
Michael Lynton ¹	1/1
Graeme Pitkethly	4/4
Annette Thomas ²	2/2
Lincoln Wallen	4/4

¹ Dame Vivienne retired from the Board and the Committee on 30 April 2021.

² Mr Lynton resigned from the Board and the Committee on 30 April 2021.

³ Ms Thomas was appointed to the Committee on 1 October 2021.

ESG activities in 2021

Throughout the year, the Committee paid particular attention to the continued evolution of our ESG strategy, including its overall structure and framework, how it aligns to our greatest areas of opportunity and challenge as a business, and how to communicate its tenets to all our stakeholders in a clear and impactful way. During 2021, we worked closely with management to help craft the company's ESG narrative. Pearson's overall purpose and mission has ESG firmly at its heart and we recommended to the executive that communicating this clearly to investors and wider stakeholder groups should be the overriding aim.

As described in greater detail in our ESG Report beginning on page 40, our ESG framework comprises three pillars that align with the interests of stakeholders, and where we can make the biggest positive impact.

- Driving learning for everyone with our **products**
- Empowering our **people** to make a difference
- Leading responsibly for a better **planet**

These areas are also materially influential in helping Pearson succeed as a business. The pillars have a clear, natural fit to our non-financial KPIs, reflecting the common goal of alignment between our corporate and ESG strategy. This strategy is supported by Pearson's robust corporate governance, strong corporate culture and a range of effective policies to ensure we achieve our ambitions.

The Committee receives regular updates from management on progress against specific elements of the ESG strategy. Key activities of the Committee over the past year in relation to our three ESG pillars have included:

Driving learning for everyone with our products:

- At each meeting, the Committee receives a report on recent incidents and issues that could have an impact on the company's reputation, including those relating to our products. We consider Pearson's responses to coverage on social media and in traditional media, including paying particular attention to our protocols for responding to questions about our content, the integrity with which we handle such situations and any lessons learned.
- We discussed with our Chief Diversity Officer the recent focus on Critical Race Theory, particularly in the US, noting that the manner in which Pearson has responded to the debate reflects the company's values as an organisation, with our role being to provide historically accurate content, in line with state curricula requirements, to enable learners to think critically.
- We received an update on the strong progress made in the DE&I review of Pearson's top-selling and high-risk products and titles to ensure they are free from bias and promote diverse and inclusive representation in their content. We also noted the launch of our Global Content and Editorial Policy. You can read more about this policy on page 47.
- We endorsed an initiative to increase the reach and impact of Pearson's social equity content by launching a free resource section on our website aimed at students, faculty and adults, initially available in the US.

Empowering our people to make a difference:

- As Pearson continued to build its corporate DE&I programme, we considered the proactive internal and external messaging being developed to establish Pearson's voice in the equity conversation. Committee members expressed the importance of recognising the company's position as a global business with employees, customers and other stakeholders from a wide range of backgrounds, and encouraged management to consider carefully the risks and opportunities around inequities in products and services.
- We worked alongside management and in support of the Board to develop and define the new corporate purpose, mission, vision and values to align with our new corporate strategy. You can read more about Pearson's purpose on page 4.
- We reviewed progress on our Future Workplace Strategy, considering the principles underpinning Pearson's shift to a hybrid workplace culture, and noted the steps being taken around HR policy, employee communications, technology systems, equipment and space management. Directors were pleased to have the chance to experience the new workplace approach first-hand during our in-person meeting in London in autumn 2021.
- We monitored employee sentiment around the company's continuing response to COVID-19, including considering Pearson's return-to-office protocols relating to vaccination status, social distancing and wearing of masks. Other employee engagement metrics are monitored by the Board and Pearson Executive Management. Pearson's designated Non-Executive Director for workforce engagement joins meetings of the Committee whenever matters relating to employees are discussed. You can read more about Employee Engagement on page 87.
- We received an update on our global employee wellbeing programme, which has evolved from a COVID-19 incident response initiative to being an important element of positioning Pearson as an employer of choice. We also considered health and safety, noting that Pearson's broader strategy in this space had been impacted by the pandemic and that, as we move towards permanent hybrid working, there will be a further evolution in our health and safety priorities.

Leading responsibly for a better planet:

- We reviewed progress towards Pearson's goal of net zero carbon by 2030.
- In a session led by the Chief Data Officer, we considered the importance of an ethical approach to usage of, and risks associated with, data. Such an approach is integral to operating Pearson's direct to consumer business in a manner consistent with the company's values.

Reputation & Responsibility Committee Report *continued*

— Robust governance, a strong culture and effective policies:

- We considered work undertaken by 'tiger teams' within the business divisions to formulate ESG plans. The Committee advised management on how best to demonstrate Pearson's firm commitment across a spectrum of sustainability activities while ensuring targets were stretching but also considered and realistic.
- We monitored progress towards compliance with TCFD reporting requirements, which became mandatory for Pearson from the 2021 financial year, noting the key climate-related risk categories identified through a comprehensive risk assessment.
- We considered an independent report on investor sentiment towards Pearson's ESG programme and communications, which was used to help shape our refreshed ESG framework described in this annual report.
- We reviewed the annual Modern Slavery Statement with management prior to recommending that the Board approve the statement for publication.

Other areas of focus during 2021

- In the regular reports about any communications issues that arose, the Committee provided input both to the specific incidents at hand and to the general topics raised.
- With the appointment of a new Chief Marketing Officer, we reviewed Pearson's overall marketing positioning and discussed new opportunities in the consumer space as Pearson+ was being launched.
- Health and safety and safeguarding are two topics that Pearson takes very seriously, and the Committee reviewed annual assessments of both.

The Committee also considered the plans for, and results of, the Global Learner Survey. In this year's survey (see page 15), Pearson asked 5,000 people in five countries about their experiences of climate change education. Respondents were clear that there is an increasing need for deeper environmental and climate knowledge, especially with many industrial expecting significant growth in green jobs over the next ten years. These views are reflected in Pearson's renewed strategic focused ESG framework, and the continued development of our roadmap to achieve net zero carbon by 2030.

Committee members also provided input into early-stage plans to identify an initiative or cause in which Pearson can participate that will benefit global communities and be both achievable and impactful.

Committee evaluation

The Committee undertakes an annual evaluation process to review its performance and effectiveness. For 2021, the Committee evaluation process comprised two elements:

- feedback relating to the Committee was sought from Directors as part of the wider Board evaluation led by the Senior Independent Director
- Committee members and other key contributors to the Committee were invited to provide their views by way of a tailored questionnaire

Topics covered included the effectiveness and dynamics of the Committee, oversight of key areas within the Committee's remit, the quality of papers and meeting discussions, and the relationships between the Committee and management.

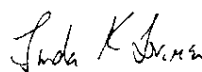
The Committee considered the findings from this process at its December 2021 meeting and concluded:

- The Committee is working well with appropriate agendas, papers produced to a good standard and high-quality discussions
- Given the evolving strategic priorities and the changing risk landscape, including around ESG, culture, data and cyber matters, it was felt that a review of the remit of all Board Committees should be carried out to ensure all key areas are being covered appropriately and there is no unnecessary duplication where multiple committees are overseeing the same issues.
- As I expect to retire no later than the 2023 AGM, appropriate consideration will be given to planning for my successor as Committee Chair by the Nomination & Governance Committee

There were no particular matters identified during the previous year's evaluation process that required attention during 2021.

Committee aims for 2022

Over the next year, we will continue to monitor and oversee progress towards delivery of Pearson's ESG strategy as this becomes more embedded within our five new business divisions, including monitoring progress against our climate goals. We will be attentive to the efficacy of Pearson's products, our consumer brand equity and to the company's broader marketing, communications and brand strategy. Continued focus on Pearson's reputation and the increasingly important topic of data privacy will be part of the Committee's work in 2022. Following the successful launch of our new corporate values – the implementation of which continues throughout 2022 – we will review how these are being lived by colleagues throughout the business through conversations with the Chief Human Resources Officer on culture and employee engagement. We will also consider how the company's culture is reflecting both our increased focus on the consumer and our corporate purpose of adding life to a lifetime of learning.



Linda Lorimer

Chair of Reputation & Responsibility Committee

Image removed

Audit Committee Report

Tim Score
Committee Chair

Image removed

Committee responsibilities include:

Financial reporting

The quality and integrity of financial reporting and statements and related disclosures, including significant reporting judgements.

Policy

Group policies, including accounting policies and practices.

External audit

External audit, including the appointment, qualification, independence and effectiveness of the external auditor.

Internal audit, risk & internal control

Risk management systems and the internal control environment including oversight of the work and effectiveness of the internal audit function.

Compliance & governance

Legal and regulatory requirements in relation to financial reporting and accounting matters and oversight of compliance programmes and investigations.

Terms of reference

The Committee has written terms of reference which clearly set out its authority and duties. These are reviewed annually and can be found on the Governance section of our website (pearsonplc.com).

Committee members and attendance

Attendance by Directors at scheduled Audit Committee meetings throughout 2021

Committee members	Meetings attended
Dame Elizabeth Corley ¹	4/4
Dame Vivienne Cox ²	2/2
Linda Lorimer	4/4
Michael Lynton ³	2/2
Graeme Pitkethly	4/4
Tim Score	4/4
Lincoln Wallen	4/4

¹ Dame Elizabeth resigned from the Board and the Committee on 31 December 2021.

² Dame Vivienne retired from the Board and the Committee on 30 April 2021.

³ Mr Lynton resigned from the Board and the Committee on 30 April 2021.

Audit Committee role and composition

The Committee has been established by the Board primarily for the purpose of overseeing the accounting, financial reporting, internal control and risk management processes of the company and the audit of the financial statements of the company. As a Committee, we are responsible for assisting the Board's oversight of the quality and integrity of the company's external financial reporting and statements and the company's accounting policies and practices.

Pearson's Vice President – Internal Audit has a dual reporting line to the Chief Financial Officer and to me, and external auditors have direct access to the Committee to raise any matters of concern and to report on the results of work directed by the Committee. As Audit Committee Chair, I ensure that the full Board is kept abreast of the business of the Committee in a timely manner, including highlighting any areas of concern or specific recommendations. I also work closely with the CFO and senior financial, risk, legal and internal audit personnel outside the formal meeting schedule to ensure robust oversight and challenge in relation to financial control, compliance, investigations and risk management.

As Committee Chair, I am available to engage with any shareholders who have questions or comments about the work of the Committee, and was pleased to answer questions from shareholders at our virtual event held in advance of the AGM in April 2021 and to meet remotely with some of our institutional investors during the year in my role as Senior Independent Director.

Audit Committee meetings and activities

The two prominent themes in the Committee's work throughout 2021 were:

- Leading the tender process for Pearson's external audit and overseeing the subsequent steps being taken to prepare for the transition in 2022. You can read more about this process on page 107.
- Following the announcement of Pearson's new strategy and organisational structure, overseeing the impacts of the changes on various areas within the Committee's remit.

In considering the impacts of Pearson's new strategy and organisational structure, the areas to which the Committee paid attention included:

- The creation of five new reporting segments, reflective of our five new business divisions, as well as a separate reporting category of 'businesses under strategic review'.
- The goodwill and impairment assessments conducted in respect of the re-allocation to the new divisions.
- Accounting treatment in respect of portfolio changes resulting from the new strategy.
- Operational changes resulting from the new organisational structure. Consequential effect on other areas such as internal audit, compliance and risk, including increased accountability at a divisional leadership level.
- Technology resilience, data privacy and cyber security which, in addition to continuing to increase in importance at a macro level, are key factors in the success of Pearson's digital- and consumer-focused strategy.

At every meeting, the Committee also considered reports on the activities of the internal audit and compliance functions, including the results of internal audits, project assurance reviews and fraud and whistleblowing reports. The Committee also monitored the company's financial reporting procedures, discussed the finance and IT controls environment, reviewed the services provided by PwC and considered any significant legal claims and regulatory issues in the context of their impact on financial reporting, each on a regular basis.

In addition to its four scheduled meetings in 2021, the Committee met a further two times, both in connection with the tender process for the external audit contract. Firstly, the Committee held a series of panel sessions to interview the proposed partners from each of the three participating firms and, secondly, the Committee met to finalise its recommendation for the Board on the selection of external auditor. View the key activities of the Audit Committee below.

Additional meeting attendees

The Chief Financial Officer and her Deputy, other executives and senior managers from across the business also attended meetings during the year, either as regular invitees of the Committee or to discuss particular items of business. This direct contact with key leadership augments the Committee's understanding of the issues facing the business as well as helping to develop Pearson's talent pipeline through facilitation of Board-level engagement opportunities for those leaders and managers. The Chair and Chief Executive each attend Committee meetings regularly at my invitation, with the Chief Executive particularly attending for discussion of matters with an operational and customer focus. I have also extended an open invitation to those Non-Executive Directors who are not members of the Committee to attend Committee meetings should they so wish, in addition to receiving meeting papers. This allows those Directors to *understand the work of the Committee in greater depth and to offer their own valuable insights*. The Committee also meets regularly in private with the external auditors and with the Vice President - Internal Audit, and as required with the Chief Legal Officer, Chief Compliance Officer and Senior Vice President - Treasury, Risk and Insurance.

Audit Committee training and knowledge sharing

The Committee receives technical updates at each meeting, including on matters such as accounting standards and the audit and governance landscape, and members are able to request specific or personal training as appropriate. In particular, we have kept abreast of developments relating to audits at a legislative and regulatory level, *including the consultation by the Department for Business, Energy & Industrial Strategy on 'Restoring trust in audit and corporate governance' to consider how the proposals outlined in that consultation might affect the company's processes and practices*.

Committee members also meet with local management on a periodic basis, such as when travelling for overseas Board meetings, in order to gain a better understanding of how Pearson's policies are embedded in operations. We hope to resume our programme of meeting in person with local management teams as soon as travel restrictions permit, and in the meantime the Committee continues to engage with a wide range of senior management and technical specialists through virtual methods in order to inform *our discussions*.

Audit Committee meeting focus during 2021

Financial reporting	Policy	External audit	Internal audit, risk & internal control	Compliance & governance
<ul style="list-style-type: none"> Accounting and technical updates Impact of legal claims and regulatory issues on financial reporting Fair, balanced and understandable reporting, going concern and viability statements including supporting analysis 2020 annual report and accounts: preliminary announcement, financial statements and income statement Review of interim results and trading updates Form 20-F and related disclosures, including annual Sarbanes-Oxley Act section 404 attestation of financial reporting internal controls Significant issues reporting 	<ul style="list-style-type: none"> Accounting matters and group accounting policies Annual review and approval of external auditors' policy Treasury policy and reporting Tax strategy, including impact of global tax reforms 	<ul style="list-style-type: none"> Oversight of audit tender process Provision of non-audit services by external auditor Receipt of external auditors' report on Form 20-F and year-end audit Report on half-year procedures Reappointment of external auditors Confirmation of auditor independence 2021 external audit plan Remuneration and engagement letter of external auditors Review opinion on interim results Review of the effectiveness of external auditors 	<ul style="list-style-type: none"> Internal audit activity reports and review of key findings Enterprise risk management including principal and emerging risks 2022 internal audit plan Assessment of the effectiveness of internal audit function, internal control environment and risk management systems Risk deep dives: cyber security, data privacy, treasury and insurance; anti-bribery and corruption, tax, business resilience Controls Centre of Excellence updates Appointment of new Vice President - Internal Audit 	<ul style="list-style-type: none"> Fraud, whistleblowing reports and compliance investigations Compliance with accounting and audit-related aspects of the UK Corporate Governance Code Audit Committee and internal audit function terms of reference Schedule of authority Regulatory briefings, including BEIS consultation on audit and corporate governance reform

Audit Committee report *continued*

The Committee's focus areas for 2022 will include:

- The transition of Pearson's external audit to a newly appointed external auditor. See page 107 for further information.
- A continued focus in the Committee's agendas on important areas such as data privacy, cyber security and ESG risks.
- Oversight of any separation of businesses or assets resulting from the strategic review of Pearson's international courseware local publishing businesses.
- Continued oversight of Pearson's key judgements and key areas of estimation as described in the financial statements.

Committee evaluation

The Committee undertakes an annual evaluation process to review its performance and effectiveness. For 2021, the Committee evaluation process comprised two elements:

- feedback relating to the Committee was sought from Directors as part of the wider Board evaluation which I led in my capacity as Senior Independent Director.
- Committee members and other key contributors to the Committee – including the lead external audit partner, the Chief Financial Officer and her Deputy, the Chief Legal Officer, and senior financial, risk and compliance management – were invited to provide their views by way of a tailored questionnaire.

Topics covered in the evaluation included the effectiveness and dynamics of the Committee, the Committee's oversight of key areas within its remit, the quality of papers and meeting discussions, and the relationships between the Committee and management.

The Committee considered the findings from this process at its December 2021 meeting, including:

- The Committee is considered by Directors and other contributors to be working well with appropriate agendas, papers produced to a good standard and high-quality discussions.
- A recognition that it is important for all parts of the group's assurance framework to remain attuned to the importance of ESG, data and cyber risk, as well as remaining cognisant of the impacts of the new strategy, divisional structure and consumer focus. It will be important for the Committee to ensure that it continues to have appropriate levels of support and expertise to assess and manage these areas.
- Given the evolving strategic priorities and the changing risk landscape, it was also felt that a review of the remits of all Board Committees should be carried out to ensure all key areas are being covered and there is no unnecessary duplication.
- Respondents recommended potential work items for 2022 including the opportunity for a deep dive into organisational and control dynamics under the new structure and a consideration of how to utilise the external audit transition as a tool for positive change as a result of new insights in certain areas.
- The Committee is likely to have a Chair transition in the near to medium term, as I will reach nine years' service on the Board at the end of 2023, so appropriate consideration will be given to succession planning in this regard by the Nomination & Governance Committee.

Fair, balanced and understandable reporting

We are mindful of the Code's Principle N relating to fair, balanced and understandable reporting, and we build sufficient time into our annual report timetable to ensure that the full Board receives sufficient opportunity to review, consider and comment on the report as it progresses. Learn more about fair, balanced and understandable reporting on page 135.

Members

As at the date of this report, the Committee comprises four independent Non-Executive Directors, all of whom have financial and/or related business experience due to the senior positions they hold or have held in other listed or publicly traded companies and/or similar large organisations. The Committee possesses a good balance of skills and knowledge with competence and experience covering all aspects of the sectors in which Pearson operates – education, digital products and services – and the company's key geographic markets. Other Non-Executive Directors are welcome to attend the Committee's meetings to understand the work of the Committee in greater depth and to offer their own insights.

Tim Score, Chair of the Committee since April 2015, is the Committee's designated financial expert, having recent and relevant financial experience, and is an Associate Chartered Accountant. Tim is Audit Committee Chair for Bridgepoint plc and has also previously served as Audit Committee Chair for The British Land Company plc and National Express Group plc.

The qualifications and relevant experience of the other Committee members are detailed on pages 76-78.

Financial reporting and policies

In February 2022, the Committee considered the 2021 annual report and accounts, including the preliminary results announcement, financial statements, strategic report and Directors' report. The significant issues considered by the Committee relating to the 2021 financial statements are set out on page 109.

Risk assessment, assurance and integrity

A key role of the Committee is to provide oversight and reassurance to the Board with regard to the integrity of the company's procedures for the identification, assessment, management and reporting of risk.

As previewed in last year's report, the Committee was particularly focused throughout 2021 on Pearson's evolving enterprise risk management approach. Management has refreshed its approach towards risk identification and monitoring in light of the company's new strategy and organisational structure, and the Committee has been attentive to this to ensure the approach is robust, proportionate and continues to facilitate a culture of accountability and ownership among business leaders. In fulfilling its remit, the Committee remains mindful that effective risk management is essential to executing Pearson's strategy, achieving sustainable shareholder value, protecting the brand and ensuring good governance and, further, has worked with management to agree how the Committee's own requirements will be satisfied to enable it to successfully discharge its risk oversight duties under this new approach. Read more about the Board's responsibility for risk on page 111.

During 2021, we also conducted a number of deep dives into selected principal risks including data privacy, cyber security, tax, anti-bribery and corruption, and business resilience. The Committee uses these deep-dive sessions to understand the rigour of management's risk scanning and to challenge any judgements being made in response to risks.

Data privacy and cyber security

Prudent management of data privacy and cyber security are fundamental to Pearson's future success and to building trust with our customers. The Committee oversees these matters on behalf of the Board from a risk and assurance perspective and monitors the maturity of associated governance frameworks that Pearson has in place. It does this through annual deep dives into both data privacy and cyber security, as well as through oversight of the scope and findings of the risk-based internal audit programme. The Reputation & Responsibility Committee also considers data-related matters, primarily from an external perspective, including stakeholder considerations around consent and the ethics of data usage, as well as political developments in the wider data landscape.

In 2021, the Chief Privacy Officer, Chief Information Officer and Senior Vice President – Technology Assurance reported on data privacy and cyber security to the Committee and the Board as a whole.

As part of the data privacy report, the Committee considered developments in the global regulatory landscape, including readiness for new laws in China as well as noting enforcements by regulators since the introduction of GDPR. Key aspects of Pearson's data privacy programme were also considered, including:

- Changes to Pearson's global privacy programme to reflect the shift in strategic focus towards the consumer including the planned build of privacy and enhanced user preferences centres
- The review and enhancement of the data privacy governance structure, including the embedding of privacy resource within business divisions supported by the data privacy office, and continued collaboration with the data security and the newly created data office
- Data retention protocols and activity with a particular focus on customer products and platforms
- The controls in place to respond to and mitigate privacy related risks

In addition, the Committee considered a progress update from the Chief Legal Officer on actions taken by management following settlement with the Securities and Exchange Commission ("SEC") relating to the 2018 security incident affecting AIMSwb 1.0. The Committee will continue to monitor management's implementation of progress in this area on behalf of the Board.

The Committee also considered the status of Pearson's cyber security programme. This deep dive was set in the context of the challenges and threats prevalent in the evolving global security landscape, including ransomware attacks launched by organised crime and geopolitical risk. Key aspects considered by the Committee and Board included:

- Pearson's cyber risk profile, including the status and trend of top threats and response to these threats. Issues discussed included platforms and processes that control access to systems content, new supplier security risk assessment protocols, the recruitment and retention of appropriately skilled staff, and role-based employee security awareness training
- Objectives for the continued enhancement of Pearson's cyber security infrastructure and governance frameworks, including the key achievements in 2021 and aims for the coming year. Considerations in 2021 included a particular focus on Pearson+ and the security frameworks required to support the increasingly consumer-focused strategy
- The continued building out of a culture of security accountability through introduction of new digital security policies and a shared risk management approach to establish consistency across divisions
- Findings of the annual third party assessment of Pearson's cyber capability maturity, which continues to demonstrate year-on-year improvement

The Committee also held a separate session during the year, led by the Chief Information Officer, focusing on Pearson's technology resilience capabilities. This included updates on infrastructure enhancements, product availability and incidents, and solutions introduced or enhanced in support of hybrid and remote working models.

Compliance, fraud and whistleblowing

The Chief Compliance Officer oversees compliance with our Code of Conduct and works with senior legal, HR and other relevant personnel to investigate any reported incidents, including ethical, corruption and fraud allegations. The Committee receives an update at each meeting on all significant investigations as well as reviewing data regarding matters raised through our whistleblowing reporting system, with any findings of the external auditors with respect to a particular matter considered as appropriate as part of these discussions. The Committee also meets in private as required with the Chief Compliance Officer. On behalf of the Board, the Committee considers an annual review of the effectiveness of the whistleblowing system including through benchmarking against peers and by monitoring progress against previous years' findings. The Committee Chair's regular reports to the Board include a review of whistleblowing matters of note. All Board members participated in a session with the Chief Compliance Officer to review compliance investigations and reports for 2021.

The Pearson anti-bribery and corruption (ABC) and sanctions compliance programme provides the framework to support our compliance with various regulations such as the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act, and the Committee conducts a deep dive into the ABC and sanctions compliance programme on an annual basis. In 2021, in addition to its regular review of investigations, the Committee noted at each meeting the continued enhancements made to the compliance programme, including the introduction of automated tools to streamline the process for third-party sanctions screening and employee compliance declarations. The full Board also undertook training during the year focusing on its responsibility for oversight of Pearson's ethics and compliance programmes.

Internal audit

The internal audit function is responsible for providing independent assurance to management and the Committee on the design and effectiveness of internal controls, to mitigate strategic, financial, operational and compliance risks. The Vice President – Internal Audit reports formally to the Chair of the Committee and the CFO and is responsible for the day-to-day operations of internal audit and execution of the annual audit plan. The Committee Chair worked closely with senior management on the process for appointing a new Vice President – Internal Audit, whose formal appointment was a matter for the full Committee's approval in July 2021.

The internal audit mandate is approved annually by the Committee. The audit plan and any changes thereto are also reviewed and approved by the Committee throughout the year. The internal audit plan is aligned to our greatest areas of risk as identified by the organisational risk management process, and the Committee considers issues and risks arising from internal audits. Management action plans to improve internal controls and to mitigate risks, or both, are agreed with the business area after each audit. Formal management self-assessments allow internal audit to monitor progress in implementing action plans, agreed as part of audits, to resolve any control deficiencies identified. Internal audit will request and assess evidence of action plan implementation on and may re-test controls if necessary. Progress of management action plans is reported to the Committee at each meeting. Internal audit has a formal collaboration process in place with the external auditors to ensure efficient sharing of insights and outcomes, and these plans will be subject to a refresh in light of the appointment of a new external auditor from 2022 in order to optimise combined audit

Audit Committee report *continued*

efforts including through a greater use of data and analytics. Regular reports on the findings and emerging themes identified through internal audits are provided to Executive Management and, via the Committee, to the Board.

In 2021, internal audit carried out engagements across Pearson's business units and corporate functions covering the majority of the principal risks. The audit plan is dynamic and additional work was done to assess the company's response to COVID-19, with particular focus on third-party risks. Key themes in 2021 related to data privacy and data retention, royalties, business resilience and disaster recovery, cloud and information security and ESG as well as financial controls in international businesses.

Internal audit evaluation

At its December meeting, the Committee considered the findings of the review of the performance and effectiveness of Pearson's internal audit function, a process which is undertaken annually. The 2021 review was conducted by distributing a questionnaire to the key stakeholders of the internal audit function – including Committee members, the lead external audit partner, members of the Pearson Executive Management team, and senior financial, legal and operational management.

Based on the findings of the 2021 review, the Committee's opinion is that the quality, experience and expertise of the internal audit function is appropriate for the business. The review was undertaken at a time of staffing transition within the function, which has now largely concluded, and the Committee is satisfied with the response to the previous year's recommendation relating to the balance of skills in the internal audit team. Good progress has been made in 2021 in this area, with the recruitment of additional capabilities around data analytics, programme assurance and auditing digital transformation.

Another key theme arising in the 2021 review was that internal audit, in common with all parts of the group's assurance framework, should continue to be attuned to the importance of ESG, data and cyber risk, as well as mindful of the impacts of the new strategy, divisional structure and consumer focus. The Committee recognises that these risks and strategic shifts are likely to require a considerable amount of time and attention and the Committee will remain attentive to ensuring the appropriate level of focus in its own activities and in the work of internal audit.

In 2019, the internal audit function underwent its first independent external assessment, in line with the requirements of the International Standards for the Professional Practice of Internal Auditing, which was facilitated by Protiviti. The Committee will ensure that an independent third-party assessment of the effectiveness and processes of the internal audit function is conducted at least once every five years, in line with external industry standards.

External audit

The Committee reviews and makes recommendations to the Board in respect of the appointment and compensation of the external auditors. These recommendations are made by the Committee typically after considering the external auditors' performance during the year, reviewing external auditor fees, conducting an effectiveness review, considering the annual report on audit quality of the intended external audit firm and confirming the independence, objectivity, qualifications and experience of the external auditors. The Committee's recommendation to the Board in respect of the external auditor to be appointed for the 2022 financial year was based upon the robust, fair and balanced tender process which it led during the first half of 2021. This resulted in a recommendation, which will be put to shareholders at the AGM in April 2022, to appoint Ernst & Young LLP (EY) as Pearson's external auditor.

There are no contractual obligations restricting the Committee's choice of external auditors. The external auditors are required to rotate the audit partner responsible for the Pearson audit every five years and the lead audit partner for the 2021 audit, Giles Hannam of PwC, rotated onto the audit at the beginning of 2018. Mr Hannam's tenure on the Pearson audit will end once all matters relating to the 2021 financial year have been concluded, with EY proposed for appointment from 2022.

Read more about the Audit Tender process on the opposite page.

External audit effectiveness review

In conducting its review of the effectiveness of PwC, Pearson's external auditors for 2021, the Committee had regard to certain factors set out in the FRC's Audit Quality Practice Aid for Audit Committees as well as the key areas of importance from a strategic, operational, reporting and regulatory perspective. In particular, the Committee considered its own observations and interactions with the external auditors, the quality of the audit, the auditors' independence, and the programme of work conducted by the auditors and their reports on that work.

The review was conducted by distributing a questionnaire to key audit stakeholders, including members of the Audit Committee and key management who interact with the external auditors on a regular basis, including: Chief Financial Officer; Deputy CFO; Senior Vice President – Treasury, Risk and Insurance; Vice President – Chief Compliance Officer; Senior Vice President – Finance for each business division; and other heads of corporate functions. The process sought views on many aspects of PwC's work and interactions with the company, including the degree to which they demonstrate professional scepticism, integrity and judgement in their work, and their mindset, skills and knowledge. All respondents agreed that the external audit partners and staff exhibit professional scepticism in their work and are robust in dealing with issues identified during the audit. Having reviewed the effectiveness and independence of the external auditors during 2021, as it does every year, the Committee is satisfied that the auditors provide effective independent challenge to management.

As PwC's tenure as Pearson's external auditor will end following the conclusion of matters relating to the 2021 financial year, the findings were discussed at the Committee's request, with a particular focus on how the learnings and areas for improvement could be taken forward with the proposed new external auditor, EY. Themes and topics to be taken forward with EY included:

- Use of technology, data and analytics to enhance risk identification, audit coverage and testing efficiency
- Communication between the external audit team and management relating to aspects of the audit planning and feedback cycle
- Enhancing the business understanding of the external audit team, including through knowledge sharing to showcase Pearson digital products and platforms.

The Committee will continue to review the performance of the external auditors on an annual basis and will consider their independence and objectivity and the quality of the external audit, taking account of all appropriate guidelines.

The main area identified as presenting an opportunity for possible improvement following the previous year's review of external auditor effectiveness related to the use of technology in audits. In response to this recommendation, PwC provided the Committee and management with insights into the tools and automation solutions available and their feasibility and appropriateness for Pearson. These insights were considered by the Committee and internal working group as part of the review of technology capabilities of the firms participating in the tender process.

Audit tender and transition

Prior to the audit tender carried out in 2021, Pearson's last audit tender was in respect of the 1996 year end and resulted in the appointment of Price Waterhouse (a legacy firm of PwC) as auditors. As indicated in last year's annual report, Pearson conducted an audit contract tender in 2021 to select a new external auditor for the financial year ending 31 December 2022.

Tender process

A Steering Committee, led by members of the Audit Committee, was established to manage and govern the audit tender process, accountable to the Audit Committee, which maintained overall ownership of the tender process and ensured that it was run in a fair and balanced manner. The Steering Committee was supported by a working group, led by the Deputy CFO. Key steps in the tender process included:

- The request for proposal was issued to firms in March 2021. The incumbent, PwC, was not invited to join the process due to rotation requirements.
- A comprehensive data room was established to provide the firms with sufficient information to design an audit plan, including financial reporting, accounting papers, tax and treasury insights, risk plans, financial controls and policies, and Audit Committee papers. A Q&A process allowed the firms to ask questions on the content of the data room or request further information from management.
- The audit firms participated in a series of meetings with management from across the business, which provided an opportunity for the firms to ask questions arising from their review of the data room, as well as enabling management to interact directly with each proposed audit team.
- The Audit Committee interviewed the proposed lead and second audit partners from each firm at a session which enabled the Committee to probe the firms on their quality records, technical expertise and planned audit approach, among other things.
- Each firm provided an independence assessment at the start of the process, detailing services currently provided to Pearson, and confirmation of their ability to achieve independence within the required timeframe. These responses were reviewed by management to assess consistency with Pearson's own assessment and independence status was reconfirmed ahead of the conclusion of the process.
- Reference checks were undertaken by the Audit Committee Chair, CFO and Deputy CFO with comparable companies, seeking insights into matters such as the firms' ability to challenge management effectively, use of technology and tools, diversity of workforce and confidence in the team's expertise, accreditation and experience.
- Written proposals were received in April 2021 and the participating firms presented their proposals to the Steering Committee in May and June 2021, with each firm also being invited to provide a demonstration of its technology and analytics capabilities to a wider group of Pearson colleagues.

The principal evaluation criteria used to assess the firms included:

- Audit Quality, including the firm's internal and external audit inspection results, the ongoing work in respect of quality being undertaken by the firm, how the firm would approach areas of significant risk, and how the firm would challenge management.
- Audit Approach and Experience – the capability of the proposed audit teams to understand Pearson's business model, corporate structure, challenges and opportunities and their plans to deliver a robust and effective audit.
- Supplier Capability, including quality of technology solutions, use of a data-driven audit, and broader supplier assessment including each firm's focus on DE&I, sustainability and investment in its people.

Following a detailed review of the performance of each firm during the process and an evaluation against all criteria, the Steering Committee recommended Ernst & Young LLP (EY) as its preferred candidate. The factors contributing to the selection of EY as the preferred candidate included a high-quality and experienced audit team with the partners showing an appropriate balance of seniority and a hands-on approach; a clear concept to its audit approach which demonstrated deliverability and is aligned with Pearson's operating model and shared service centre structure; and its technology and innovation capabilities.

In accordance with statutory requirements, a report on the tender selection procedure and conclusions was prepared and validated by the Audit Committee. The Audit Committee and subsequently the Board approved the recommendation to appoint EY. In June 2021, the Company announced the Board's intention to propose to shareholders at the 2022 AGM that EY be appointed as the Company's statutory auditor for the financial year ending 31 December 2022.

Audit transition

Following the selection of EY as Pearson's new external auditor, a governance structure was established to manage the audit transition. This comprises a Transition Steering Committee led by the Deputy CFO, and a Working Group, both of which include representatives of Pearson, EY and PwC. The Working Group reviews key transition milestone progress and provides a forum to escalate any risks and issues. A summary is then shared with the monthly Steering Committee.

Regular updates have been provided to the Audit Committee since the selection of EY. As part of the shadowing process, EY's lead audit partner attended Audit Committee meetings in December 2021 and February 2022, accompanied by other members of the EY team where appropriate.

PwC remained Pearson's auditor for the financial year ended 31 December 2021 and a resolution will be proposed to shareholders at the 2022 AGM to appoint EY as the company's statutory auditor for the financial year ending 31 December 2022.

Compliance with the CMA Order

Pearson confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year ended 31 December 2021.

Audit Committee report *continued*

Review of the external audit

During the year, the Committee discussed the planning, conduct and conclusions of the external audit as it proceeded.

At its July 2021 meeting, the Committee discussed and approved the external audit plan and reviewed the key risks of misstatement of Pearson's financial statements. The external auditors provided an update to the risk assessment at the December 2021 Committee meeting, following the acquisition and disposal transactions in the second half of the year. These risks were then confirmed as final at the conclusion of their audit of the financial statements in February 2022.

The table on pages 109-110 sets out the significant issues considered by the Committee together with details of how these items have been addressed. The Committee discussed these issues with the auditors at the time of their review of the half-year interim financial statements in July 2021 and again at the conclusion of their audit of the financial statements for the full year in February 2022.

In December 2021, the Committee discussed with the auditors the status of their work, focusing in particular on internal controls and Sarbanes-Oxley testing.

As the auditors concluded their audit, they explained to the Committee:

- The work they had conducted over revenue, including over contracts in certain of the Group's businesses in the US and UK that span year-ends, where revenue is recognised using estimated percentage of completion based on costs with a specific focus this year on management's change in revenue recognition methodology for US Student Assessment
- Their work in evaluating management's goodwill impairment exercise, on a value-in-use basis, including assessing assumptions around the cash-generating unit (CGU) reassessment, goodwill reallocation, operating cash flow forecasts, perpetuity growth rates and discount rates
- Their work in assessing management's judgements and assumptions regarding the impairment of its right-of-use assets
- Their procedures performed to audit the material acquisition and disposal completed in the year in addition to evaluating management's judgement that the businesses under strategic review do not meet the IFRS 5 criteria to be held for sale at 31 December 2021
- The work performed over the nature and presentation of adjusting items, focusing on subjective judgements and the transparency with which related adjusted measures are presented, in particular the exclusion of costs related to major restructuring programmes
- The results of their controls testing for Sarbanes-Oxley Act section 404 reporting purposes and in support of their financial statements audit
- The results of their work over the company's going concern and viability statement reports
- Their work in relation to other matters which are not classified as key audit matters, but may give rise to additional disclosure requirements e.g. pensions
- The work performed over the carrying value of investments in subsidiaries for the Pearson plc parent company

The auditors also reported to the Committee the unadjusted misstatements that they had found in the course of their work, which were immaterial, and the Committee confirmed that there were no material items remaining unadjusted in these financial statements.

Auditors' independence

In line with best practice, our relationship with PwC is governed by our policy on external auditors, which is typically reviewed and approved annually by the Committee. The policy establishes procedures to ensure that the auditors' independence is not compromised, as well as defining those non-audit services that PwC may or may not provide to Pearson. Any allowable services are in accordance with relevant UK and US legislation and audit standards. The policy takes into account certain voluntary commitments by PwC regarding independence and applies to all Pearson businesses globally, including associate companies.

The Committee approves all audit and non-audit services provided by PwC. Our policy on the use of the external auditors for non-audit services complies with the FRC's Revised Ethical Standard published in December 2019. The standard applies restrictions on certain non-audit services and applies a cap on the level of permitted non-audit services fees which can be billed in any year. The policy also reflects the restriction on the use of pre-approval in the 2016 FRC Guidance on Audit Committees and, accordingly, all non-audit services, irrespective of value, are required to be approved by the Committee. In particular, we expressly prohibit the provision of certain tax, HR and other services by the external auditor. We review non-audit services on a case-by-case basis, including reviewing the ongoing effectiveness and appropriateness of our policy.

The Committee receives regular reports summarising the amount of fees paid to the auditors. During 2021, Pearson spent £0.4m less on non-audit fees with PwC compared with 2020, including due to the absence of comfort letters for potential bond issues and certain US regulatory filings. For 2021, non-audit fees represented 2% of external audit fees (8% in 2020).

For all non-audit work in 2021, PwC was selected only after consideration that it was best able to provide the services we required at a reasonable fee and within the terms of our policy on external auditors. Where PwC is selected to provide audit-related services, we take into account its existing knowledge and experience of Pearson. Where appropriate, services were tendered prior to a decision being made as to whether to award work to the auditors.

Significant non-audit work performed by PwC during 2021 included:

- social bond assurance work
- half-year review of interim financial statements

A full statement of the fees for audit and non-audit services is provided in note 4 to the financial statements on page 168.



Tim Score

Chair of Audit Committee

Significant issues considered by the Audit Committee

Issue	Action taken by Audit Committee	Outcome
Goodwill allocation and impairment reviews		
<ul style="list-style-type: none"> — Pearson carries significant goodwill and other intangible asset balances. As a result of the new strategy and organisation structure there has been a change in the determination of cash generating units and goodwill has been reallocated. There are significant estimates and assumptions used in the impairment review. Pearson has made significant impairments to goodwill across a variety of its businesses in past years. 	<ul style="list-style-type: none"> — The Committee considered the impact of the new strategy and organisation design on the determination of cash generating units and in particular the level at which goodwill is monitored. The Committee reviewed the reallocation of goodwill across the newly determined cash generating units. — The Committee monitored the Group's plans and forecasts during the year to determine if there were impairment triggers. The Committee considered the results of the Group's goodwill impairment reviews which were undertaken in December and refreshed post year end. Key assumptions – including cash flows derived from strategic and operating plans, long-term growth rates and the weighted average cost of capital – were reviewed and challenged. The Committee considered the sensitivities to changes in assumptions and the adequacy of disclosures required by IAS 36 'Impairment of Assets' in relation to the Group's CGUs. 	<ul style="list-style-type: none"> — The Committee is satisfied with the determination of cash generating units and the associated goodwill reallocation. — The Committee is satisfied with the annual impairment review with confirmation of sufficient headroom in each of the cash generating units. — The Committee is satisfied with the disclosures relating to goodwill.
Going concern and viability		
<ul style="list-style-type: none"> — The assessment of the Group's viability and the appropriateness of the going concern assumption. 	<ul style="list-style-type: none"> — The Committee reviewed future budgets and cash flow forecasts to understand the Group's available liquidity and ability to continue as a going concern. The Committee reviewed and challenged the risks identified to the forecasts. The Committee reviewed the outcome of the severe but plausible scenario modelling and stress testing. 	<ul style="list-style-type: none"> — The Committee is satisfied with the modelling process and the risks identified. In addition, the Committee is satisfied with the stress testing performed and the severe but plausible scenario modelling. The Committee noted that in all scenarios the Group had a high level of liquidity headroom and sufficient headroom against covenant requirements. — The Committee is satisfied with the assessment of the Group's viability and is satisfied that the Group is a going concern. — The Committee is satisfied with the disclosures related to going concern and viability.
Acquisitions and disposals		
<ul style="list-style-type: none"> — Pearson finalised the disposal of its interests in the Pearson Institute of Higher Education (PIHE) in South Africa and its K12 Sistemas business in Brazil. In addition, Pearson announced a strategic review of its international courseware local publishing businesses. — Pearson acquired Faethm Holdings Pty Limited, increasing its ownership from 9% to 100%. 	<ul style="list-style-type: none"> — The Committee reviewed the accounting for the disposal of PIHE and the K12 sistemas business with specific focus on consideration, net assets disposed and disposal costs. The Committee also reviewed tax assumptions relating to the disposal transactions. — The Committee reviewed the status of the strategic review of the international courseware local publishing businesses and considered this against the IFRS 5 criteria to be classified as held for sale. — The Committee reviewed the accounting for the Faethm with specific focus on the step acquisition accounting, consideration, net assets acquired including the valuation of intangibles and the recognition of goodwill. The Committee noted the use of third party valuation experts to value the acquired intangible assets. 	<ul style="list-style-type: none"> — The Committee determined that disposal accounting for PIHE and the K12 Sistemas business had been appropriately recorded. — The Committee also agreed that the IFRS 5 criteria to be classified as held for sale in respect of the international businesses had not been met as at 31 December 2021. — The Committee determined that the acquisition accounting for Faethm had been undertaken appropriately but notes that it remains provisional as at 31 December 2021.

Audit Committee report *continued*

Issue	Action taken by Audit Committee	Outcome
Revenue recognition <ul style="list-style-type: none"> Pearson has a number of revenue streams where revenue recognition is complex. For some revenue streams significant judgements and estimates are required in order to determine the amount and timing of revenue recognition. During the year Pearson made a change to the methodology for recognising revenue in relation to US Student Assessment contracts. The determination of appropriate provisions for sales returns requires a significant amount of judgement, particularly in relation to courseware sales in the Higher Education division. 	<ul style="list-style-type: none"> The Committee regularly reviews and challenges revenue recognition practices and the underlying assumptions and estimates. In addition, the Committee has visibility of internal audit findings relating to revenue recognition controls and processes and routinely monitors the views of external auditors on revenue recognition issues. The Committee reviewed the basis for the change in the methodology for the recognition of revenue in relation to US Student Assessment. In particular the Committee noted that the portfolio method employed would not differ materially from measuring the percentage of completion at the individual contract level. The Committee considered returns provisioning for courseware sales in the Higher Education division and reviewed the methodology for establishing provisions. 	<ul style="list-style-type: none"> The Committee is satisfied that revenue is being recognised appropriately. The Committee is satisfied with the disclosures regarding the US Student Assessment revenue recognition methodology change. The Committee was satisfied that the level of provisions held for sales returns is adequate.
Property asset impairment reviews <ul style="list-style-type: none"> Pearson holds significant right of use assets in relation to leased properties. The property portfolio has been simplified, significantly reducing the square footage required. The right of use assets have consequently been impaired. There are significant estimates and assumptions used in the impairment review. 	<ul style="list-style-type: none"> The Committee monitored the Group's property strategy during the year to determine if there were impairment triggers. The Committee considered the results of the Group's property impairment reviews with specific focus on the 80 Strand and Hoboken properties. Key assumptions – including potential rental value, expected sublease durations and terms such as rent free periods – were reviewed and challenged. The Committee considered the adequacy of related disclosures. The Committee noted the input of third party property specialists in determining the key assumptions. 	<ul style="list-style-type: none"> The Committee is satisfied with the results of the property impairment reviews and the subsequent impairment charges recognised in the income statement. The Committee is satisfied that the charges relate to a major restructuring programme and so meet the Group's criteria to be excluded from adjusted performance measures. The Committee is satisfied with the disclosures relating to property impairments.
Tax <ul style="list-style-type: none"> Pearson holds provisions in relation to uncertain tax positions. In 2021, Pearson paid £105m (including interest) in relation to the EU state aid matter and this amount has been recognised as an asset as it is expected to be recovered in due course. Changes to, and the application of, tax legislation continues to be a complex and judgemental area. 	<ul style="list-style-type: none"> The Committee considered various developments during the year, including Pearson's ongoing response to the European Commission's decision that the UK's Finance Company Partial Exemption rules constituted state aid (EU state aid). The Committee noted that amounts were paid in relation to the EU state aid matter and continued to concur with management that no provision is required for this item. 	<ul style="list-style-type: none"> The Committee was satisfied with Pearson's approach to managing the impact of tax legislation changes and agreed with the views of management regarding tax provisioning levels. The Committee was satisfied with Pearson's approach to the EU state aid matter including the recognition of an asset in relation to amounts paid in 2021 and ongoing disclosure of this contingency.

Risk governance and control

Internal control and risk management

The Board has overall responsibility for Pearson's systems of internal control and risk management, which are designed to manage, and where possible mitigate, the risks facing Pearson, safeguard assets and provide reasonable, but not absolute, assurance against material financial misstatement or loss. The Board agrees risk management requirements and, in assessing the effectiveness of the risk management effort, reviews a range of inputs as described elsewhere in this report. The Board can and does challenge the reporting it receives and will request further information as needed to make its assessment.

The Audit Committee monitors the effectiveness of the company's risk management and internal control systems on behalf of the Board. The Audit Committee oversees a risk-based internal audit programme, including periodic audits of the risk processes across the organisation. It provides assurance on the management of risk (including risk deep dives, as described on page 104), and receives reports on the efficiency and effectiveness of internal controls with input from the Deputy CFO and external auditor. Each business area maintains internal controls and procedures appropriate to its structure, business environment and risk assessment, while complying with company-wide policies, standards and guidelines. These controls and procedures are monitored and certified through the Group-wide Controls Centre of Excellence and are subject to testing as part of both the internal and external audit processes.

The Board confirms that it has conducted and continues throughout the year to review the effectiveness of Pearson's systems of risk management and internal control in accordance with provision 29 of the Code and the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (FRC Guidance). In making its assessment as to the effectiveness of these systems for 2021, the Board had regard to an assurance opinion from Internal Audit. Factors considered in this process included

- The outcomes of internal audits completed during the year
- Significant changes in Pearson's objectives and systems
- The wider Pearson risk management and assurance framework which includes other assurance activities by first and second line of defence teams including enterprise risk management, the Controls Centre of Excellence, divisional and technology assurance teams
- Work conducted by the external auditor
- The organisation's response to internal audit actions
- Whether fundamental or significant actions have not been accepted by management and the consequent risk
- Whether any limitations have been placed on the scope of internal audit

The Board reviewed the detail underpinning these factors as part of the 2021 year end process. Following this review, the Board confirms that Pearson's systems of risk management and internal control operated satisfactorily throughout the year and to the date of this report, and no significant failings or weaknesses were identified in the review process.

The Board is ultimately accountable for effective risk management in Pearson and determines our strategic approach to risk. It confirms our enterprise risk management framework as well as our risk appetite targets. The involvement of the Board and Audit Committee in the design, implementation, identification, monitoring and review of risks (including setting risk appetite and reviewing how risk is being embedded in our culture) is outlined in more detail in the risk management section on page 60.

Risk governance and control *continued*

Financial management and reporting

There is a comprehensive strategic planning, budgeting and forecasting system with an annual operating plan approved by the Board. Monthly financial information, including trading results, balance sheets, cash flow statements, capital expenditures and indebtedness, is reported against the corresponding figures for the plan and prior years, with corrective action outlined by the appropriate senior Executive. Pearson's senior management meets regularly with business area management to review their business and financial performance against plan and forecast. Major risks relevant to each business area as well as performance against the stated financial and strategic objectives are reviewed in these meetings.

There is an ongoing process to monitor the risks and effectiveness of controls in relation to the financial reporting and consolidation process, including the related information systems. This includes up-to-date Pearson financial policies, formal requirements for finance to certify that they have been in compliance with policies and that the control environment has been maintained throughout the year, consolidation reviews and analysis of material variances, finance technical reviews, and review and sign-off by senior finance managers. The Group finance function also monitors and assesses these processes and controls through finance and technology compliance functions and a Controls Steering Committee comprising cross-functional experts.

These controls include those over external financial reporting which are documented and tested in accordance with the applicable regulatory requirements, including section 404 of the Sarbanes-Oxley Act, which is relevant to our US listing. One key control in this area is the Verification Committee, which submits reports to the Audit Committee. This Committee is chaired by the Company Secretary, and members include the Chief Financial Officer, the Deputy Chief Legal Officer and senior members of the finance function. The primary responsibility of this Committee is to review Pearson's public reporting and disclosures prior to release to ensure that information provided to shareholders is complete, accurate and compliant with all applicable legislation and listing regulations. In addition, our separate Market Disclosure Committee is responsible for considering potential inside information and its treatment in accordance with the UK Market Abuse Regulation.

The effectiveness of key financial controls is subject to management review and self-certification and independent evaluation by the external auditors.

Treasury management

The treasury department operates within policies approved by the Audit Committee on behalf of the Board, and treasury transactions and procedures are subject to regular internal audit. Major transactions are authorised outside the department at the requisite level, and there is an appropriate segregation of duties. Frequent reports are made to the Deputy Chief Financial Officer and Chief Financial Officer. Regular reports are prepared for the Audit Committee and an annual risk review meeting takes place between the Treasurer and Audit Committee. The Treasury Policy is described in more detail in note 19 to the financial statements on page 188.

During 2021 the Audit Committee authorised the addition of Fitch to rate Pearson Funding plc's outstanding bond debt and endorsed the Group's approach to transitioning its loan and derivatives portfolio away from Libor. The Committee received regular reporting on liquidity, foreign exchange and interest-rate risks and compliance with laws and regulations.

Insurance

Pearson reviews its risk financing options regularly to determine how the company's insurable risk exposures are managed and protected. Pearson annually reviews coverage against insurable risk, insurers and premium spend, ensuring the programme is fit for purpose and cost-effective.

Pearson's insurance subsidiary, Spear Insurance Company Limited, is used to leverage Pearson's risk retention capability and to achieve a balance between retaining insurance risk and transferring it to external insurers.

Tax

The Board has delegated responsibility for the integrity of financial reporting and risk management to the Audit Committee. This includes setting tax strategy and monitoring tax risk. The Tax Department reports at least annually to the Audit Committee. Regular updates are provided to the Deputy CFO and the CFO throughout the year.

Pearson publishes an annual Tax Report containing information about our tax strategy, governance and risk management approach as well as our attitude to tax planning and being transparent with tax authorities. Our approach to tax is guided by our corporate values and by our Code of Conduct. Our tax principles have been published on our corporate website since 2014, and they guide tax strategy at Pearson.

Directors' remuneration report

Sherry Coutu
Committee Chair

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Key messages from the Remuneration Committee

- During the year, the Committee undertook an extensive engagement exercise to further understand the views of shareholders and how Pearson can engage constructively with its shareholders and advisors going forward.
- The Committee is committed to ensuring remuneration policies and practices across the company reflect the forward-looking strategy and Pearson's recently refreshed purpose, mission, vision and values.
- The Committee reviewed performance measures and targets ahead of 2022. The strategic element of the AIP has been simplified and reflects the focus on acceleration of growth through digital innovation and further establishing Pearson as a purpose-driven company. This includes two ESG metrics aligned to Pearson's strategic pillars. The quantifiable strategic targets have been disclosed prospectively for the first time to aid transparency.
- The annual incentive outcome for Executive Directors reflects Pearson's strategic, operational, and financial progress in 2021, with profit and cash flow ahead of original expectations.
- The Committee completed a thorough and holistic review ahead of the vesting of the first tranche of the co-investment award for the Chief Executive, taking into account the performance underpins as well as broader company performance and the experience of stakeholders.
- There will be a 2.5% salary increase for the Chief Financial Officer in 2022. The salary for the Chief Executive remains fixed until 2023.
- The Committee remains focused on ensuring the remuneration arrangements in place for the broader employee population are consistent with the need to attract and retain the right talent for a digital future. The Committee sought to engage with employees on the executive pay and wider reward matters through a number of channels during the year, including via the Employee Engagement Network.

Terms of reference

The Committee's terms of reference are in line with the 2018 UK Corporate Governance Code and are available on the Governance page of the company's website at [pearsonplc.com](https://www.pearsonplc.com). (A summary of the Committee's responsibilities is shown on page 130).

Board Committee attendance

Attendance by Directors at scheduled Remuneration Committee meetings throughout 2021:

	Meetings attended
Sherry Coutu	7/7
Dame Elizabeth Corley ¹	7/7
Tim Score	7/7
Sidney Taurel	7/7

¹ Dame Elizabeth Corley resigned from the Board and the Committee on 31 December 2021.

Dear shareholders

On behalf of the board I am pleased to present the 2021 Directors' Remuneration Report.

This is my first report as Chair of Pearson's Remuneration Committee, having succeeded Dame Elizabeth Corley in September 2021. My thanks to Dame Elizabeth for her exceptional leadership since April 2015 and to Sidney Taurel, Chair of the Board and member of the Committee, for their support as I stepped into the role. We will welcome Esther Lee, Non-Executive Director, to the Committee from 1 April 2022.

2021 was the first full year under the leadership of new Chief Executive, Andy Bird. At the beginning of the year Pearson announced a new strategy, which aims to reposition Pearson for sustainable and profitable growth and create long-term shareholder value. Since then, work has been undertaken to embed the strategy, evolve the culture and successfully transition Pearson to a digital-first lifelong learning company. More recently, Pearson has refreshed its purpose, mission, vision and values – we add life to a lifetime of learning through creating vibrant and enriching learning experiences designed for real-life impact, so everyone can realise the life they imagine. Going forward, strategy, priorities and behaviours will be anchored around this. Our remuneration approach, which draws on input from key business functions and other stakeholders as well as being data-driven, will also reflect this refreshed focus.

Pearson made strong strategic, operational and financial progress in 2021 and delivered a robust full-year performance, with profit exceeding original guidance. Strong and effective leadership is repositioning the business, driving digital innovation and an increased focus on the consumer through the launch of Pearson+. The company is well placed to build on this momentum and looks to the future with confidence.

In 2021, Pearson increased its dividend, in line with our progressive and sustainable dividend policy, and did not access government funding or take advantage of the furloughing programme. Supporting our employees, customers, partners and broader stakeholders continued to be at the centre of Pearson's response to COVID-19, with the protection of our employees' health, safety and wellbeing remaining a key priority. This was a focus for discussion at the Employee Engagement Network (EEN) during the year. Further, 2021 saw Pearson hold its first 'Global WELL week', to highlight the importance of wellbeing, both inside and outside of work, promote relevant benefits and programmes and 'earn' new ways to improve employees' own emotional, physical, financial, and community wellbeing.

Shareholder engagement

While the Committee was naturally disappointed by the significant minority vote against the 2020 Directors' Remuneration Report at the 2021 AGM, we very much appreciated the support received from the majority of shareholders and took very seriously all feedback received before and after the meeting. Continuing Pearson's commitment to an ongoing and transparent dialogue with shareholders and their advisers, an extensive engagement exercise was carried out during the second half of the year.

The purpose of this exercise was to discuss how Pearson can engage constructively going forward, and I would like to take this opportunity to thank all those who took the time to speak with us over the last year. The conversations I and other members of the Committee had were invaluable and underlined several important areas for the Committee's consideration as we look to the future.

While shareholders remain very supportive of Andy Bird, they highlighted the importance of the Committee's assessment of the performance underpins attached to the co-investment award granted on his appointment for which more detail is provided within this report.

Directors' remuneration report *continued*

In addition, conversations focused on forward-looking remuneration arrangements, in particular the performance framework and the increasing trend toward use of Environmental, Social, and Governance (ESG) measures. The Committee is committed to ensuring any future incentive framework continues to have clear and measurable performance targets.

Vesting of the first tranche of the Chief Executive's co-investment award

The first tranche of the one-off co-investment award granted to Andy Bird in order to secure his appointment vested following 31 December 2021. Vesting was subject to achievement of performance underpins linked to strategic progress and there being no significant ESG issues resulting in significant reputational damage. These underpins are intended to guard against payment for failure, ensuring the Committee can reduce vesting if in its opinion the performance of the business or the individual does not support this.

The Committee was pleased to see the performance delivered during 2021, in particular the strong strategic progress made. In addition to assessing the underpins, the Committee undertook a thorough and robust review process which considered a holistic view of the wider stakeholder experience, including that of shareholders, employees, customers, and suppliers. Overall, the Committee determined that the first tranche of the award would vest in full and full disclosure of the Committee's deliberations in this regard is on page 122.

Shares vesting remain subject to a holding period until 31 December 2023. The remaining two tranches of the award will vest following 31 December 2022 and 31 December 2023 respectively subject to the relevant performance underpins and Andy Bird's continued employment at each vesting date.

Incentive outcomes for 2021

Pearson delivered adjusted operating profit ahead of market expectations. This strong financial performance, as well as the encouraging strategic progress made during the year, resulted in a formulaic Annual Incentive Plan (AIP) outcome for Executive Directors of 63% of maximum. The Committee conducted an in-depth review of the formulaic outcome in considering its appropriateness, taking into account strategic delivery, company and individual performance as well as the experience of broader stakeholders over the year. Overall, the Committee was satisfied that the formulaic outcome was reflective of the performance achieved.

The Long-Term Incentive Plan (LTIP) award granted in 2019 will lapse in full. Neither of the current Executive Directors participated in this award.

Looking forward to 2022

The Committee reviewed the salary of Sally Johnson and approved an increase of 2.5% for 2022. This increase was made in line with the approach taken to salary increases across the UK. Andy Bird's salary remains fixed until 2023.

Executive remuneration framework and alignment to strategy

Our Directors' Remuneration Policy ('Policy') is intended to support Pearson in achieving its purpose while driving long-term sustainable value for shareholders. It also reflects the provisions of the UK Corporate Governance Code and evolving market practice.

The Committee reviewed the implementation of the Policy ahead of 2022, in particular short- and long-term performance measures to ensure these remain appropriate and aligned to the forward-looking strategy. In its considerations, the Committee took into account feedback received from shareholders and their advisors during the recent engagement exercise.

The AIP for 2022 will continue to be based on a balanced mix of financial and strategic measures. The strategic element closely aligns to the forward-looking strategy focusing on accelerating growth through increased velocity of digital transformation and business model innovation and further establishing Pearson as a purpose-driven company across product, people and the planet. Reflective of

the importance of delivering against our strategic commitments, the Committee has, for the first time, prospectively disclosed annual performance targets in respect of the 2022 strategic measures – see page 117 for further detail.

For the 2022 LTIP, the performance measures and weightings will be unchanged. Stretching targets have been set taking into account internal and external expectations. For EPS performance required for full vesting requires significant outperformance of c.34% of current market expectations. See page 117 for full details of the targets.

The Policy is due for its triennial renewal at the 2023 AGM. The Committee plans to undertake a full review of the Policy and its implementation during 2022. This review will begin with consideration of Pearson's remuneration philosophy for the whole organisation and consider alignment to Pearson's new purpose, mission, vision and values as well as evolving market practice, investor expectations and feedback from other stakeholders.

Wider workforce

Pearson's remuneration principles are consistent across the organisation and were designed to support Pearson's culture and to make Pearson an employer of choice able to attract and retain talent to execute our digital-first strategy. The Committee receives regular updates on talent matters and wider workforce considerations and actively considers the approach to reward throughout the organisation in determining executive remuneration. The Committee closely reviews relevant pay ratios and pay gaps and actively supports efforts to make progress against these metrics. The Committee would like to highlight that Pearson will be voluntarily publishing its ethnicity pay gap for Great Britain for the first time in 2022 and was pleased to see voluntary disclosure rates on race and ethnicity in the UK of 97%.

In 2021, a new long-term incentive arrangement was introduced for the Executive Management team and other senior managers more closely aligned to the approach for Executive Directors, ensuring the entire leadership team are all driving to achieve a common goal.

Pearson continues to develop its approach to engaging with the workforce. 'Ask Andy', a new initiative whereby employees can directly communicate with the Chief Executive, has elicited a number of questions on pay and benefits. We also run regular Pulse Surveys which allow all employees to voice their opinion in an anonymous way on pay competitiveness at Pearson. Feedback received from both channels is reported to the Committee where appropriate and considered as part of the decision-making process. Looking forward to 2022, I am pleased to report that executive pay will be a topic for discussion at the EEN, where I am a Board representative. I am also pleased to report that we are doubling the Board representation on the FFN from April 2022 with Annette Thomas joining alongside me from April 2022.

Pearson is committed to a transparent and positive relationship with all its stakeholders and will continue to engage widely as appropriate going forward. I would like to thank shareholders for their continued support at the 2022 AGM in relation to our 2021 Directors' Remuneration Report.

Sherry Coutu

Sherry Coutu CBE

Chair of Remuneration Committee

Executive remuneration framework and implementation for 2022

Pearson has a set of remuneration principles that govern pay for the whole organisation. Remuneration arrangements for our Executive Directors have been developed with these principles in mind.

Remuneration principles that apply across the whole organisation



Our Directors' Remuneration Policy and its implementation supports our purpose of adding life to a lifetime of learning, our strategy and ultimately the delivery of long-term sustainable value for all stakeholders, including our shareholders.

In developing the forward-looking Directors' Remuneration Policy, the Committee had due regard to the UK Corporate Governance Code, wider workforce remuneration and emerging best practice in relation to Executive Director remuneration.

- Pearson's remuneration principles, as set out above, were developed to ensure **alignment to company culture** and position Pearson as an employer of choice, with an ability to attract and retain the right talent to support the company's digital future whilst recognising that remuneration is one part of the broader employee value proposition at Pearson.
- Our ongoing executive remuneration framework is designed to be **simple**, with total remuneration made up of fixed and performance-linked elements supporting different strategic objectives.
- Our remuneration framework and outcomes are designed to be **aligned with performance** achieved:
 - Performance measures selected for the AIP and LTIP are key to achieving strategic objectives. The Committee reviews performance measures on an annual basis to ensure they continue to incentivise the right management behaviours and goals.
 - We carry out a robust target-setting process each year, taking into account Pearson's strategic plan, as well as analyst consensus to reflect market expectations, resulting in stretching yet achievable targets for the AIP and LTIP.

- Maximum awards under the AIP and LTIP are capped and clearly disclosed in our Policy.
- When determining payouts, the Committee discusses if the outcome is reflective of overall company performance and the experience of stakeholders, including shareholders and employees, over the period and, if not, has discretion to adjust outcomes.
- The Committee is **mindful of reputational and other risks** when implementing the forward-looking Directors' Remuneration Policy and determining outcomes for Executive Directors and senior management. The company also has safeguards in place, such as malus and clawback provisions and a two-year holding period on the LTIP, as well as robust shareholding guidelines which extend post-employment.
- Before signing off the annual remuneration report, the Committee reviews drafts and provides input to **clarify** our disclosures. Where material changes are proposed to the operation of our Directors' Remuneration Policy, we would normally consult with key shareholders to ensure the rationale for such changes is fully understood and provide the opportunity for shareholders to feed into the decision-making process and inform our final conclusions.

Executive remuneration framework and implementation for 2022 *continued*

Summary of our forward-looking Directors' Remuneration Policy

The table below provides a summary of our forward-looking Directors' Remuneration Policy and its implementation for 2022. This does not include the co-investment award granted to Andy Bird on his appointment; as this was a one-off arrangement and does not form part of our forward-looking executive remuneration framework. The full Directors' Remuneration Policy, as approved at the 2020 AGM, is available on the Governance page of the company's website at plc.pearson.com/en-GB/company/business-operations

Base salary

Key features

- Base salaries are set to provide the appropriate rate of remuneration for the job, taking into account relevant recruitment markets, business sectors and geographic regions
- Base salaries are normally reviewed annually, with any increases normally in line with typical increases awarded to other employees in the Group
- Salary reviews take into account: general economic and market conditions; the level of increases made across the company as a whole; particular circumstances such as changes in role, responsibilities or organisation; the remuneration and level of increases for executives in similar positions in comparable companies in both the UK, US and internationally; and individual performance

2022 implementation

- Andy Bird – \$1,250,000 (no change)
- Sally Johnson – £535,793 (2.5% increase)

Andy Bird's first salary review will occur in 2023.

When reviewing Sally Johnson's base salary, the Committee took into account the level of increases made across the company as a whole, business and individual performance, and general economic and market conditions. Salary increases for the UK workforce ranged from 1% to 10% taking into account individual performance, with increases above this level awarded in recognition of significant development in role. The increase awarded to Sally Johnson will be effective from 1 April in line with the approach taken for the broader employee population.

Allowances and benefits

Key features

- Allowances and benefits which reflect the local competitive market and may include travel-related benefits, health-related benefits, risk benefits and any other benefits provided to the majority of employees. The Committee may introduce other benefits if it is considered appropriate to do so.
- The cost of the provision of allowances and benefits varies from year to year depending on cost to Pearson.

2022 implementation

No changes for 2022. Executive Directors will continue to receive travel, health and risk-related benefits. Andy Bird will also receive a contribution towards accommodation costs.

Retirement benefits

Key features

- Employees in the UK, including Executive Directors, are eligible to join the Money Purchase 2003 section of the Pearson Pension Plan. Executive Directors are eligible to join this plan or receive a cash allowance of equivalent value.
- The Committee has discretion to put in place retirement benefit arrangements in line with local market practice. The Committee may also honour all pre-existing retirement benefit obligations, commitments or other entitlements that were entered into by a member of the Pearson Group before that person became a Director, such as participation in the Final Pay section of the Pearson Pension Plan.
- Executive Directors, who opt out of the pension, can receive a cash allowance of up to 16% of base salary, in line with the maximum company contribution as a percentage of salary that UK employees of a similar age are eligible to receive.

2022 implementation

No changes for 2022. Sally Johnson is an existing member of the Final Pay section of the Pearson Pension Plan. Her pension accrual rate is 1/60th of pensionable salary per annum, restricted to the Plan earnings cap.

Andy Bird is not a member of a pension scheme operated by Pearson. Instead, he receives a payment of 16% of base salary in lieu of pension. This is aligned with the pension provision that UK employees of a similar age are eligible to receive.

Annual incentive plan

Key features

- Motivates towards the achievement of annual business goals and strategic objectives and provides a focus on key financial and non-financial metrics, with financial metrics accounting for at least 75% of the total annual opportunity
- The Committee sets performance measures and their relative weightings annually to ensure continuing alignment with strategy and that targets are sufficiently stretching
- The Committee has discretion to adjust payments if it believes that the formulaic outcome does not reflect underlying financial or non-financial performance or if such other exceptional factors warrant doing so
- Malus and clawback provisions apply

2022 implementation

Maximum opportunity remains unchanged for 2022:

- 200% of base salary for the Chief Executive
- 170% of base salary for the Chief Financial Officer

50% of the maximum opportunity is payable for on-target levels of performance.

For 2022, the following balanced mix of financial and strategic measures will be used, which is unchanged from the previous year

Adjusted operating profit	Sales	Operating cost flow	Strategic measures
30%	30%	20%	20%

Strategic measures for 2022 will focus on

- Accelerating growth through digital transformation and business model innovation
- Establishing Pearson as purpose-driven across product, people, and the planet

The targets for 2022 are as follows:

	Weighting	Threshold	Target	Maximum
Digital sales growth	10%	Plan less 2%	Plan	Plan plus 2%
Invest in diverse pipeline and increase representation at management levels (Further information on Pearson's diversity goals is shown on page 49)	5%	50% female and ethnic minority representation in leadership development and mentoring programmes + 50% female and 20% ethnic minority representation in leadership succession plans	Threshold + 5% increase in female and ethnic minority representation at VP level and above	Threshold + 10% increase in female and ethnic minority representation at VP level and above
Reduce carbon footprint – net annual reduction versus 2021 baseline	5%	1% reduction	2% reduction	5% reduction

As in previous years, a financial underpin will apply in respect of the strategic measures. Financial targets will be disclosed in full retrospectively following the end of the performance period.

Long-Term Incentive Plan

Key features

- Drive long-term profitability, share price growth and value creation whilst aligning the interests of Executives and shareholders
- Awards are made annually, and vest on a sliding scale based on performance against stretching corporate performance targets measured at the end of the three-year performance period
- Awards are subject to a post-vesting holding period of two years following the end of the performance period
- The Committee is guided by the principle of aligning shareholder and management interests and therefore reserves the right to adjust pay-outs before they are released if it believes that the vesting outcome does not reflect underlying performance or if other exceptional factors warrant doing so
- Malus and clawback provisions apply

2022 implementation

Maximum opportunity remains unchanged for 2022

- 300% of base salary for the Chief Executive
- 245% of base salary for the Chief Financial Officer

Performance will be measured over three years, with any shares vesting subject to an additional two-year holding period.

Performance measures and targets for 2022 are as follows

Performance measure	% of total	Threshold	Stretch	Maximum	Performance range		
					Pay-out at threshold	Pay-out at stretch	Pay-out at maximum
Adjusted EPS	A third	48p	55p	64p	15%	65%	100%
ROIC	A third	6.0%	7.0%	8.0%	15%	65%	100%
Relative TSR vs. FTSE 100	A third	Median	N/A	Upper Quartile	25%	N/A	100%
							100%

Executive remuneration framework and implementation for 2022 *continued*

Shareholding guidelines

Key features

- Align the interests of Executives and shareholders and encourage long-term shareholding and commitment to the company
- Executive Directors are expected to build up a substantial shareholding in the company within five years from their date of appointment to the Board. The current requirements are 300% of salary for the Chief Executive and 200% of salary for other Executive Directors
- Executive Directors are expected to retain their shareholding guideline (or actual holding if lower) for two years following stepping down as an Executive Director

2022 implementation

No changes for 2022. Andy Bird and Sally Johnson are required to meet the shareholding guideline within five years from their date of appointment, by 18 October 2025 and 23 April 2025 respectively. Andy Bird has already met his shareholding guidelines. Further details on the share interests of the Directors can be found on page 126.

Chair and NED Fees

Key features

- To attract and retain high-calibre individuals, with appropriate or industry-relevant skills, by offering market-competitive fee levels
- The Chair is paid a single fee for all responsibilities
- The Non-Executive Directors are paid a basic fee, with Committee Chairs, members of the main Board Committees and the Senior Independent Director paid an additional fee to reflect their extra responsibilities
- The Chair and Non-executive Directors receive no other pay or benefits, except for reimbursement of expenses, and do not participate in incentive plans
- A minimum of 25% of the Chair's and Non-Executive Directors' basic fee is paid in shares

2022 implementation

The Chair of the Board's fee will remain the same for Omid Kordestani, who will succeed Sidney Taurel at the 2022 AGM. An all-inclusive Deputy Chair fee will be introduced following Tim Score's appointment to the role at the 2022 AGM. There will be no other fee changes.

Role	Fees for 2022	
Chair of the Board	£500,000	
Deputy Chair fee (from 2022 AGM)	£175,000	
Base fee for Non-Executive Directors	£70,000	
Senior Independent Director fee (until 2022 AGM)	£22,000	
Role	Chair	Member
Audit Committee	£27,500	£15,000
Remuneration Committee	£22,000	£10,000
Nomination & Governance Committee	£15,000	£8,000
Reputation & Responsibility Committee	£15,000	£8,000

Workforce remuneration at Pearson

The Committee takes its responsibilities concerning the oversight of remuneration policies and practices for the wider organisation seriously. Our remuneration principles are consistent across the employee population, but how they are applied varies by business need, level and geography as required. The key difference in executive remuneration compared to the approach to remuneration across the workforce is that remuneration for our Executive Directors is more heavily weighted towards variable pay and linked to the delivery of our strategic objectives.

Our approach to remuneration across the wider organisation is as follows:

- Base salary – Set taking into account economic factors, competitive market rates, roles, skills, experience and individual performance
- Allowances and benefits – Reflect the local labour market in which they are based. All eligible employees (including Executive Directors) are also eligible to participate in savings-related share acquisition programmes in the UK, US and the rest of the world, which are not subject to any performance conditions
- Retirement benefits – Reflect local market practice. Pearson employees in the UK may participate in the same underlying pension arrangements as the Executive Directors, subject to certain age bands and legacy arrangements
- Annual incentives – Around 11,000 employees participate in an Annual Incentive Plan, which is funded based on similar performance measures as those used for the Executive Directors. A number of other employees participate in alternative forms of cash-based annual bonus such as sales incentive and commission plans based on performance targets and profit-shares where required for legislative reasons
- Long-term incentives – Senior management participate in a long-term incentive arrangement, which comprises both performance shares and restricted shares, recognising the markets in which Pearson competes for talent. Below this senior management level, approximately 1,000 employees participate in share incentive schemes, and are selected on the basis of their role, performance and potential

During the year, the Committee received reports from the Chief Executive and Chief Human Resources Officer on pay and conditions across the company as a whole, and on the recruitment and retention experience, taking these into account when determining executive remuneration. While there are established channels for the workforce to be informed about, and understand, the alignment between executive remuneration and wider pay policy, Pearson continues to develop its approach to engaging with the workforce

The new Remuneration Committee Chair, Sherry Court, CBE is the designated workforce Non-Executive Director and leads the Board's engagement with employees including through attending meetings of the Employee Engagement Network (EEN). While feedback received through the EEN is reported to the Board as a whole, any views and sentiment of the workforce around matters such as reward and culture are considered in the work of the Remuneration Committee. During 2021, 'Ask Andy', a new initiative whereby employees can directly communicate with the Chief Executive, elicited a number of questions on pay and benefits and pulse surveys, which are regularly run, allowed all employees to voice their opinion in an anonymous way on pay competitiveness at Pearson. Feedback received from both channels is reported to the Committee where appropriate and considered as part of the decision-making process. Looking forward to 2022, to ensure a more proactive approach and enable a two-way conversation, it has been agreed that the Employee Engagement Network will hold a discussion on reward and incentives at Pearson.

The Committee also considers the company's gender pay gap for Great Britain. While to date Pearson has seen a continued year-on-year improvement in the gender pay gap, this year the Committee was disappointed to see that the median gender pay gap had increased to 13% (from 10% in prior year). In part this reflects the impact of the pandemic, throughout which Pearson saw an increase in the number of women leaving the business. This outcome underlines the scale of the work still to be done and the importance of having robust action plans in place to help close the gap. Pearson continues to review and update its policies and practices relating to the hiring, retention, and development of women, as well as other diverse talent groups. Building an inclusive culture and increasing diverse representation is one of Pearson's six strategic pillars, and in line with the company's commitments in this area, Pearson will voluntarily be publishing its ethnicity pay gap for Great Britain for the first time in 2022. As for the gender pay gap, there is progress to be made on narrowing the gap, but this initial analysis provides a foundation to build from. Pearson is also working to extend pay gap analysis, both gender and ethnicity, to all markets with sufficient headcounts and data availability. To date, voluntary disclosure rates on race and ethnicity are over 85% across Pearson's key geographies. Further details, including on the actions being taken to address pay gaps across our organisation, can be found within our gender pay gap and ethnicity pay gap reports.

Image removed

Remuneration report for 2021

Certain parts of this report have been audited as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended. Those tables which have been subject to audit are marked with an asterisk.

Single total figure of remuneration and prior year comparison*

Total aggregate emoluments for Executive and Non-Executive Directors were £7,537m in 2021. These emoluments are included within the total employee benefit expense in Note 5 to the financial statements page 169.

Executive Directors

The remuneration received by Executive Directors in respect of the financial years ended 31 December 2021 and 31 December 2020 is set out below. The figures shown in the single figure table reflect remuneration paid while an Executive Director of the company. Andy Bird and Sally Johnson were both appointed as Executive Directors in 2020, and therefore the figures for 2020 are part-year figures.

Overall, the Committee considers that the Remuneration Policy has operated as intended during 2021.

Executive Director 'single figure' remuneration

Element of remuneration 2021	Andy Bird \$000s		Sally Johnson £000s	
	2021	2020	2021	2020
Base salary	1,250	260	521	353
Allowances and benefits	373	125	16	9
Retirement benefits	200	42	58	45
Total fixed pay	1,823	427	595	407
Annual incentives	1,575	–	560	–
Long-term incentives	–	–	–	–
Co-investment award	3,708	–	–	–
Total variable pay	5,283	–	560	–
Total remuneration	7,106	427	1,155	407

Notes to single figure table*

Base salary

The base salary shown in the single figure table reflects salary paid in the financial year while an Executive Director of the company. Andy Bird is paid in US dollars and Sally Johnson is paid in pound sterling.

Allowances and benefits

The breakdown of benefits is as follows for 2021:

	Andy Bird \$000s	Sally Johnson £000s
Travel	–	14
Health	21	2
Risk-related	2	–
Accommodation	350	–

Travel benefits comprise car allowance and reimbursements of a taxable nature resulting from business travel and engagements. Health benefits comprise healthcare, health assessment and dental care. Risk-related benefits comprise of life and other insurance policies. Accommodation benefits for Andy Bird relate to a contribution towards the rental costs of an apartment in New York to be used for business purposes, the cost of which has been capped at \$240,000 per year (\$20,000 per month) prior to any taxes which may be due.

In addition to the allowances and benefits set out, Executive Directors may also participate in company benefit or policy arrangements that have no taxable value and/or are available to all other employees in the same location. Sally Johnson's life cover is arranged under The Pearson Pension Plan's UK group-wide policy.

Retirement benefits

Further detail on retirement benefits is set out later in this report on page 125.

Annual incentives

The 2021 AIP for the Executive Directors was based on a mix of financial (80% weighting) and strategic measures (20% weighting). The 2021 AIP resulted in a 63% of maximum payable for both Andy Bird and Sally Johnson. Bonus is calculated using salary at 31 December 2021 in line with how bonuses are calculated for all participants. For more detail on performance metrics and performance against targets in 2021, see following page.

Long-term incentives

The 2019 LTIP award was subject to performance conditions assessed to 31 December 2021. Performance targets were not met and therefore the award will lapse in full. Neither of the current Executive Directors were eligible to participate in this award. For further details see page 122.

Co-investment award

The first tranche of the co-investment award, granted to Andy Bird to support his recruitment, was subject to performance underpins assessed to 31 December 2021. It was determined the first tranche of the award would vest in full. The value disclosed, which includes an additional amount equal to the value of dividends payable on the shares vesting, is calculated using the share price at the date of vesting (25 February 2022) of 652.9p and was converted using a USD/GBP exchange rate of 1.3753 (average exchange rate for 2021). The award was originally granted based on a share price of 590.2p, and so \$347k of the above figure is attributable to share price growth. The award has been satisfied using market-purchased shares and shares retained after tax must be held until 31 December 2023. For further details see page 122.

Executive Directors' annual incentive payments for 2021*

Andy Bird and Sally Johnson were eligible to participate in the 2021 AIP. The following table summarises the performance targets (presented on a consistent basis to the actual results, taking into account portfolio and currency movements and performance against these targets for the 2021 award which resulted in a 63% of maximum payout).

Overall outcome

Performance measure	Performance range				Payout % of maximum opportunity
	% of total	Threshold	Target	Max	
Adjusted operating profit	30%	£345m	£365m	£445m	19%
Sales	30%	£3,310m	£3,415m	£3,660m	16%
Operating cash flow	20%	£315m	£335m	£415m	17%
Strategic measures	20%	See below			11%
	100%				63%

Performance against strategic measures

The targets and outcomes for performance against each of the strategic measures are shown in the table below. In coming to the final outcome, the Committee made a qualitative assessment of performance against the full scorecard of stretching targets and determined that an outcome of 11% from a maximum opportunity of 20% was appropriate.

Strategic priority and weighting	Measure	Threshold	Target	Maximum	Outcome
Making Pearson fit for the future and investing in our talent Achieved 1.5% out of a possible 6%	Integrated organisational design execution	Successfully complete reorganisation and maintain employee NPS vs Q4 2020 as measured by internal Pulse Survey	Successfully complete re-organisation and increase employee NPS vs Q4 2020 as measured by internal Pulse Survey by 2 percentage points	Successfully complete re-organisation and increase employee NPS vs Q4 2020 as measured by internal Pulse Survey by 4 percentage points	Not met – Integrated organisational design implemented successfully with positive NPS, though not maintained at Q4 2020 level. Employees especially positive about strategic direction, supportive culture and workplace policies, however, challenges of COVID-19 and the disruption this caused to the workforce took a toll which the company has been working to address through employee engagement and enhanced wellbeing efforts.
	Investment in our people's learning – demonstrate effectiveness of upskilling / reskilling work against Pearson's capability framework	50% of respondents to internal Pulse Survey self-reporting upskilling / reskilling via capability framework	65% of respondents to internal Pulse Survey self-reporting upskilling / reskilling via capability framework	50% of all employees in Pearson self-reporting upskilling / reskilling via capability framework in HRIS; define/begin to execute plan for beta testing new commercial corporate learning proposition	Achieved Target – 71% of respondents self-reported upskilling / reskilling in the internal Pulse Survey.
	Achieve 2021 carbon reduction target as step change towards 2030 goal	Reduce Carbon footprint by 7.5% (annual reduction) vs 2018 baseline	Reduce Carbon footprint by 10% (annual reduction) vs 2018 baseline	Reduce Carbon footprint by 15% (annual reduction) vs 2018 baseline	Achieved Maximum – achieved 26% reduction against re-baselined 2018 target adjusted for business disposals. Whilst the COVID-19 pandemic has had an impact in changing how we do business, the strategy for digitalisation has also sped up the transition. In particular, the reduction in carbon footprint is highlighted through the shift from print to digital in US Higher Education Courseware.
Building an inclusive culture, increasing diverse representation and accelerating our sustainability strategy Achieved 6% out of a possible 7%	Drive diversity in leadership development programs to create pipeline for leadership roles	50% of candidates on leadership development and mentoring programs are diverse (female or BIPOC/BAME talent)	Threshold + 50% of succession plans for PLG roles include females and 20% include BIPOC/BAME candidates	Target + 10% increase in representation of both females and BIPOC/BAME employees at PLG level	Achieved Target – 72% of succession plans for PLG roles include females and 24% include BIPOC/BAME candidates with >50% of candidates on leadership development and mentoring programs being diverse.
	Reflect diversity in our product and supply chain	Develop supplier diversity policy and create supplier diversity training program on editorial guidelines for new and existing companies	Threshold + Expand partnership networks to establish a database to attract and retain diverse suppliers	Target + Expand representation in editorial and creative partners by 10% US/UK	Achieved Maximum – Pearson Partner Forum took place on 25 March 2021, pledge launched and included training on diversity. Supplier.io and WEConnect contracted to help discover and vet diverse suppliers. Both platforms launching across Pearson in Q1 2022. Increase in diverse spend from content and editorial > 10%.

Remuneration report for 2021 *continued*

Strategic priority and weighting	Measure	Threshold	Target	Maximum	Outcome
Digital growth, consumer engagement and product effectiveness	Strategic progress in growth opportunities	Launch Pearson+ proposition in US in advance of fall semester and defined organic or inorganic strategy for English	Threshold + demonstrable customer engagement across Pearson+ and Workforce, and progress on English strategy via business case or deal negotiations	Target + Increase revenue generation from accelerated move to DTC via Pearson+, Workforce strategic partnership and English deal or proof of concept	Achieved Target – Pearson+ launched with 133,000 paid subscriptions, 2.75m registered users at the end of 2021 and an app store rating of 4.8. Workforce and English strategies well progressed
Achieved 3.5% out of a possible 7%	Absolute growth in digital and digital-enabled sales	+6%	+8%	+12%	Achieved Target – underlying growth of +7%

Note: If an element of judgement was required to assess achievements that were not completely quantifiable, Internal Audit provided an independent assessment to the Committee.

Executive Directors' Long-Term Incentive Plan award vesting for 2021*

In May 2019, former Chief Executive John Fallon was made an award under the 2019 LTIP. This award was based on performance the business delivered over the three-year period from 2019 to 2021.

The LTIP award made to John Fallon would have vested on the normal vesting date, pro-rated for time to reflect John's departure prior to the normal vesting date, but the applicable performance targets have not been met and therefore his award, together with awards for other participants, will lapse in full.

The targets and performance against these targets are as follows

Performance measure	% of total	Threshold	Stretch	Maximum	Performance range			Actual	% achievement	Vesting % of total award
					Payout at threshold	Payout at stretch	Payout at maximum			
Adjusted EPS	A third	65p	70p	80p	15%	65%	100%	34.9p	0%	0%
ROIC	A third	5.0%	6.0%	9.0%	15%	65%	100%	3.3%	0%	0%
Relative TSR	A third 100%	Median	N/A	Upper Quartile	25%	N/A	100%	Ranked 87 out of 98	0%	0%
									Total	0%

Relative TSR was measured against the constituents of the FTSE 100 at the start of the performance period.

Co-investment award

In order to secure Andy Bird as our Chief Executive the Committee designed a one-off co-investment award. While recognising that such an award was not typical in the UK market, the Committee believes that this was the optimal structure to secure Andy Bird's recruitment whilst incentivising the creation of long-term shareholder value.

The grant of the co-investment award was conditional on Andy purchasing Pearson shares equal to 300% of base salary by 31 December 2020 (being a total value of \$3.75m), which he must continue to hold throughout the period to 31 December 2023. This personal investment by Andy demonstrates his commitment to the role and creates immediate alignment with shareholders.

The co-investment award vests in three equal tranches as soon as practicable following 31 December 2021, 31 December 2022 and 31 December 2023 respectively and is subject to performance underpins and Andy's continued employment at each vesting date. Shares that vest will be subject to a holding period until 31 December 2023.

The co-investment award was designed taking into account Andy's home market – the US – where the structure of pay is often very different to the UK and aims to incentivise the transformation of the business and growth in the near term. It was therefore considered appropriate that the phased vesting schedule and holding period to December 2023 reflect the period over which it is expected value will be delivered to our shareholders.

The vesting of the co-investment award is subject to the achievement of performance underpins to ensure the Committee can reduce vesting if in its opinion the performance of the business or the

individual does not support this. These underpins are intended to prevent payment for failure.

The vesting of each tranche of the award will be subject to the following performance underpins:

- an appropriate level of progress being made in relation to delivering our strategy including our ongoing transition from print to digital
- no significant ESG issues related to Andy's tenure occurring which result in significant reputational damage

In addition, the vesting of the final tranche of the award will also be subject to the following TSR underpin:

- the company's TSR from the date of the announcement of Andy's appointment to 31 December 2023 is either (1) positive, or (2) is at median or above when compared to the performance of the FTSE 100

If one or more of the underpins are not achieved, then the Committee would consider whether, and to what extent, a discretionary reduction in the number of shares vesting was required.

Assessment of performance underpins

The first tranche of the co-investment award vested as soon as practicable following 31 December 2021. In advance of this, the Committee undertook a rigorous assessment of the relevant performance underpins as well as a holistic review of broader Pearson performance and the experience of all stakeholders. In its assessment, the Committee followed the framework developed and disclosed in last year's remuneration report.

Assessment of performance underpins

Initial review of underpins

Progress in delivering Pearson's strategy	<ul style="list-style-type: none"> — Significant strategic progress achieved in 2021 — Launched direct to consumer strategy led by new digital learning service, Pearson+, which continues to make good progress with 2.75m registered users at the end of 2021, reflecting a strong uptake from MyLab and Mastering users, 1.33k paid subscriptions, and a latest app store rating of 4.8 — Pearson's flagship Higher Education product, Revel, completed the move to incorporate the Pearson Learning Platform's capabilities, providing enhanced features, and a new visual design for mobile — Acquired Faethm, the workforce AI and predictive analytics company in September 2021 — The disposal of Pearson's Brazilian K12 Sistemas business completed on 1 October 2021. Marketing is progressing well with other businesses under strategic review. — Rapid implementation of new organisational structure with strong leadership team in place – this included appointing two new roles to the PEM as well as reorganising the leadership team to reflect our future strategy
No ESG issues which, in the opinion of the Committee, have resulted in significant reputational damage	

Consideration of broader performance and stakeholder experience

Robust financial performance

Revenue	Adj. operating profit	Operating cash flow	Adjusted EPS	Net debt
£3,428m	£385m	£388m	34.9p	£350m
8% underlying growth on PY	33% underlying growth on PY	23% growth on PY	22% growth on PY	24% reduction on PY

Wider stakeholder experience

Shareholders <ul style="list-style-type: none"> — Delivered a positive shareholder return over the period from the announcement of the Chief Executive's appointment to 31 December 2021 notwithstanding pressures from the external environment. Strong strategic progress ensures Pearson is well-placed to build on this momentum in the year ahead — Strong financial position has enabled Pearson to grow its dividend (up 5% to 20.5p in 2021), in line with the commitment to a progressive and sustainable dividend. The Board also approved a £350m share buyback programme in February 2022 to return capital to shareholders — Throughout 2021 Pearson did not access government funding or take advantage of the furloughing programme
Employees <ul style="list-style-type: none"> — Significant improvement from 63% in 2020 to 71% in 2021 of employees reporting upskilling or reskilling — Improvement in levels of self-reported upskilling/reskilling in every quarter compared to the same quarter in the previous year (excluding Q1 2020) — Offered a range of formal, social and experiential learning opportunities to support our employees' development, increasingly focusing our expertise in learning on our employees as well as our customers — Continued focus on ensuring the safety and well-being of our employees — First 'Global WELL Week' held, following the launch of the Global WELL initiative in 2020 to highlight the importance of well-being both inside and outside work, promote relevant benefits and programmes and learn new ways to improve employees' own emotional, physical, financial and community well-being. This was positively received by employees — Global Learning at Work Week held for a second year – delivered more than 11,000 hours of live learning — Positive NPS shows employees would recommend working for Pearson to friends and family or colleagues — Achieved development target of participants in leadership development programmes to include a minimum of 50% women and people of colour. Exceeded succession plan objectives for both identity groups resulting in 72% of plans including a woman successor and 24% of plans including people of colour (target 50% women, 20% people of colour) — Data collection and analysis undertaken which will enable Pearson to voluntarily publish its Ethnicity Pay Gap for the first time in 2022. Voluntary disclosure rates of over 85% across Pearson's key geographies

Remuneration report for 2021 *continued*

Customers

- Launched direct to consumer strategy led by new digital learning service, Pearson+, which continues to make good progress with 2.75m registered users at the end of 2021, reflecting a strong uptake from MyLab and Mastering users, 133k paid subscriptions, and a latest app store rating of 4.8
- In Virtual Schools, 93% of parents were satisfied with their Connections Academy school overall, with three out of four parents noting their child's attitude to learning had improved
- Pearson is supporting students most in need as a result of the pandemic, for example through the provision of laptops to school children in the UK
- Launched a new Student Diversity Ambassador Programme to help ensure the products and services Pearson create truly reflect the diverse needs of the learners we serve
- Launched a joint initiative with Penguin Random House in the UK, 'Lit in Colour', to become the first UK exam board to make changes to qualifications and improve the diversity of student texts
- With US Higher Education, hosted and sponsored a variety of faculty conferences to help members develop their skills and grow their network, especially in the world of hybrid learning

Suppliers

- Responsible Procurement Framework launched at Andy's Supplier Forum in March 2021 – too suppliers asked to make commitments above and beyond the threshold of the Responsible Procurement Policy – including focus on eliminating discrimination and inequality
- 55 suppliers have signed Pearson's Responsible Procurement Pledge indicating their commitment to exceed our minimum standards, undergo third-party assessment, share insights and expertise transparently to promote best practice, and actively seek to eliminate all forms of discrimination in their workforce and supply chain
- Over 50 of Pearson's top tier suppliers have undergone a third-party sustainability assessment (incl. human rights & ethics) by EcoVadis, an industry-leading ratings organisation
- We aim to source paper in an ethical way. In 2021, our overall tonnage of paper reduced by 24% (2021: 29,056, 2020: 37,969). Of this total, we purchased 29% FSC certified paper (2020: 32%) and 28% PEFC certified paper.
- Achieved 15.5% of the target (up from 7% in 2020) of spending £500m with diverse-accredited suppliers by 2030, as of December 2021. Subscribed to two databases for diverse supplier discovery, which will support a faster growth rate.

Additional considerations

Pearson developed its new purpose, vision and mission in 2021 – to add life to a lifetime of learning, through creating vibrant and enriching learning experiences designed for real life impact, so everyone can realise the life they imagine. Under Andy's stewardship, work is already underway to fully embed this throughout the organisation and it has been well received.

Further, during 2021 the CEO was efficient and effective in addressing matters relating to events prior to his tenure, including working with the Board to review a 2018 security incident and associated disclosure and driving the company's continued work to enhance its cyber security efforts and protocols.

Taking all of the above into account the Committee has determined that the first tranche of the co-investment award will vest in full

Long-term incentives awarded in 2021*

The following LTIP awards were granted during the year

Director	Date of award	Vesting date	Number of shares	Face value	Face value (% of base salary)	Value for threshold performance (% of maximum ¹)	Performance period
Andy Bird	4 May 2021	1 May 2024	332,316	£2,747,256	300%	18.3%	1 Jan 21–31 Dec 23
Sally Johnson	4 May 2021	1 May 2024	154,915	£1,280,682	245%	18.3%	1 Jan 21–31 Dec 23

Note 1 – Under the adjusted EPS and ROIC elements, 15% vests for threshold performance, under the TSR element, 25% vests for threshold performance. This is the weighted average of vesting for threshold.

Face value was determined using a share price of 826.7p (five-day average to 4 May 2021) which is the share price used to determine award values for LTIP awards to the wider employee population. The face value has been converted using a USD/GBP exchange rate of 1.365.

Details of the performance targets for the 2021 long-term incentive awards are set out in the table below.

Adjusted earnings per share (EPS) (one-third)		Net return on invested capital (ROIC) (one-third)		Relative total shareholder return (TSR) (one-third)	
Vesting schedule (% max)	Adjusted EPS for FY23	Vesting schedule (% max)	Adjusted net ROIC for FY23	Vesting schedule (% max)	Ranked position vs FTSE 100
15%	46.5p	15%	5.5%	25%	Median
65%	53.5p	65%	6.5%	-	-
100%	61p or above	100%	7.5% or above	100%	Upper quartile

Note 1 – Straight-line vesting will occur in between the points shown, with no vesting for performance below threshold.

Note 2 – Pearson's TSR performance is currently measured relative to the constituents of the FTSE 100 Index over the performance period. The Committee intends to keep this comparator group under review for future LTIP awards.

The Committee reserves the right to adjust payouts up or down before they are released if it believes that the vesting outcome does not reflect underlying financial or non-financial performance or if such other exceptional factors warrant doing so. In making such adjustments, the Committee is guided by the principle of aligning shareholder and management interests.

Any shares vesting based on performance to 31 December 2023 will be subject to an additional two-year holding period to 1 May 2026.

Executive Directors' retirement benefits and entitlements*

Details of the Directors' pension entitlements and pension-related benefits during the period each served as an Executive Director in 2021 are as follows:

	Andy Bird \$'000s	Sally Johnson £'000s
Value of defined benefit	-	58
Other allowances in lieu of pension	200	-
Total value in 2021	200	58
Accrued pension at 31 December 2021	-	60

Note 1 – The accrued pension at 31 December 2021 is the deferred annual pension to which the member would be entitled on ceasing pensionable service on 31 December 2021. It relates to the pension payable from the UK Plan. Normal retirement age is 62.

Note 2 – The value of defined benefit reflects the change in value over the period, less inflation.

Note 3 – Other allowances in lieu of pension represent the cash allowances paid.

Note 4 – Total value is the sum of the previous two rows and is disclosed in the single figure of remuneration table.

Pension Plans

Andy Bird – Payment in Lieu of Pension

Andy Bird receives a payment in lieu of pension at 16% of his base salary in line with the pension provision for UK employees of a similar age.

Sally Johnson – The Pearson Pension Plan

Sally is an existing member of the Final Pay Section of the Pearson Pension Plan. Her accrual rate is 1/60th of pensionable salary per annum, restricted to the Plan earnings cap (£172,800 per annum in 2021/22). There are no enhanced early retirement benefits.

Remuneration report for 2021 *continued*

Directors' interests in shares and value of shareholdings*

Shareholding guidelines

Executive Directors are expected to build up a substantial shareholding in the company in line with the policy of encouraging widespread employee share ownership and to align the interests of Executive Directors and shareholders. The current requirement is 300% of base salary for the Chief Executive and 200% of base salary for the Chief Financial Officer. Shares that count towards these guidelines include any shares held unencumbered by an Executive Director, the Director's spouse and/or dependent children plus any shares vested but held pending release under a share plan and any shares unvested but not subject to future performance conditions (on a net of tax basis). Executive Directors have five years from their date of appointment to the Board to reach the guideline. Once the guideline has been met, it is not re-tested, other than when shares are sold.

Executive Directors are expected to retain their current guideline (or actual shareholding if lower) for two years following stepping down as an Executive Director. This guideline does not apply to shares purchased by the Director.

The shareholding guidelines do not apply to the Chair and Non-Executive Directors. However, a minimum of 25% of the Chair's and Non-Executive Directors' basic fee is paid in Pearson shares that the Chair and Non-Executive Directors have committed to retain for the period of their directorships.

Directors' interests

The share interests of the Directors and their connected persons are as follows:

Director	Current shareholding (ordinary shares) at 31 Dec 21	Conditional shares subject to performance at 31 Dec 21	Conditional shares subject to employment only at 31 Dec 21	Total number of ordinary and conditional shares at 31 Dec 21	Guideline % salary	Guideline met?
Chair						
Sidney Taurel	234,894	–	–	–	–	–
Executive Directors						
Andy Bird	586,437	1,541,177	–	2,127,614	300%	Yes n/a (see note 6)
Sally Johnson	20,265	374,915	9,740	404,920	200%	
Non-Executive Directors						
Dame Elizabeth Corley	39,206	–	–	–	–	–
Sherry Coutu	6,566	–	–	–	–	–
Vivienne Cox	9,220	–	–	–	–	–
Linda Lorimer	15,435	–	–	–	–	–
Michael Lynton	20,820	–	–	–	–	–
Graeme Pitkethly	9,162	–	–	–	–	–
Tim Score	54,593	–	–	–	–	–
Lincoln Wallen	13,490	–	–	–	–	–
Annette Thomas	–	–	–	–	–	–

Note 1: Share interests are shown as at 31 December 2021. For Directors who stepped down from the Board during the year, share interests are shown as at the date of their stepping down. Vivienne Cox and Michael Lynton stepped down from the Board on 30 April 2021. Dame Elizabeth Corley stepped down from the Board on 31 December 2021.

Note 2: Ordinary shares include both ordinary shares listed on the London Stock Exchange and American Depositary Receipts (ADRs) listed on the New York Stock Exchange. The figures include both shares and ADRs acquired by individuals under the Long Term Incentive Plan and any other share plans they might have participated in.

Note 3: Conditional shares subject to performance means unvested shares which remain subject to performance conditions and/or performance underpins and continuing employment for a pre-defined period. This includes the LTIP awards granted in 2020 and 2021, and in respect of Andy Bird, his co-investment award.

Note 4: Conditional shares subject to employment only means unvested shares which are subject to a holding period and continued employment. For Sally Johnson this includes share awards granted before her appointment to the Board in May 2020.

Note 5: Sally Johnson also holds 2,658 options under the Pearson Save For Shares scheme, a savings-related share acquisition programme open to all employees. These are not subject to future performance conditions.

Note 6: Sally Johnson has five years from the date of her appointment as an Executive Director on 24 April 2020 to reach the shareholding guideline.

Note 7: Andy Bird's first tranche of the Co-investment plan, 412,933 shares (including 9,386 dividend equivalent shares), vested on 25 February 2022, taking his conditional share subject to employment only to 207,584 shares (after the sales of shares to cover any tax liability) and conditional shares subject to performance to 1,138,224 shares. The vested co-investment shares are subject to a holding period until 31 December 2023 and are subject to continued employment. There have been no other changes in the interests of any Director between 31 December 2021 and 4 March 2022, being the latest practicable date prior to the publication of this report.

Chair and Non-Executive Director remuneration*

The remuneration paid to the Chair and Non-Executive Directors in respect of the financial years ended 31 December 2021 and 31 December 2020 is as set out in the table below

Director £000s	2021		2020	
	Total fees	Taxable benefits	Total	Total
Sidney Taurel	500	–	500	516
Andy Bird	–	–	–	41
Dame Elizabeth Corley	111	–	111	116
Sherry Coutu	92	–	92	90
Vivienne Cox	43	–	43	132
Josh Lewis	–	–	–	35
Linda Lorrimer	100	–	100	107
Michael Lynton	31	–	31	95
Gracme Pirkethly	93	–	93	93
Tim Score	130	–	130	117
Lincoln Wallen	93	–	93	92
Annette Thomas	21	–	21	–
Total	1,215	–	1,215	1,434

Note 1: A minimum of 25% of the Chair's and Non-Executive Directors' basic fee is paid in shares

Note 2: Taxable benefits refer to travel, accommodation and subsistence expenses incurred while attending Board meetings during the period that were paid or reimbursed by the company which are deemed by HMRC to be taxable in the UK. The amounts in the table above include the grossed-up cost of UK tax to be paid by the company on behalf of the Directors

Note 3: Andy Bird joined the Pearson Board as a Non-executive Director with effect from 1 May 2020. He was appointed Chief Executive Officer and an Executive Director of Pearson on 19 October 2020. The table above reflects remuneration paid to him in respect of his Non-executive Director role

Note 4: Annette Thomas joined the Pearson Board as Non-executive Director with effect from 1 October 2021. Dame Elizabeth Corley stepped down from the Board on 31 December 2021. Vivienne Cox and Michael Lynton stepped down from the Board on 30 April 2021. Josh Lewis retired from the Board at the AGM in May 2020

Payments to former Directors*

There were no payments to former Directors in 2021

Payments for loss of office*

There were no payments for loss of office made to or agreed for Directors in 2021

Service contracts

The terms and conditions of appointment of our current Directors are available for inspection at the company's registered office during normal business hours and at the AGM

The Executive Directors have notice periods in their service contracts of 12 months from the company and six months from the Executives. Their contracts are dated 23 August 2020 (Andy Bird) and 15 January 2020 (Sally Johnson).

Non-Executive Directors serve Pearson under letters of appointment which are renewed annually and do not have service contracts. The Non-Executive Directors' letters of appointment do not contain provision for notice periods or for compensation if their appointments are terminated. The Chair's appointment may be terminated on 12-months' notice.

Executive Directors' non-executive directorships

Neither of the current Executive Directors, Andy Bird nor Sally Johnson, hold any notable external commitments

Remuneration report for 2021 *continued*

Historical performance and remuneration

Total shareholder return performance

Set out below is Pearson's total shareholder return (TSR) performance relative to the FTSE All-Share index on an annual basis over the 10-year period 1 January 2012 to 31 December 2021. This comparison has been chosen because the FTSE All-Share represents the broad market index within which Pearson shares are traded. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends (source: Datastream)

In accordance with the reporting regulations, this section also presents Pearson's TSR performance alongside the single figure of total remuneration for the Chief Executive over the last 10 years and a summary of the variable pay outcomes relative to the prevailing maximum at the time

chart removed

	Marjorie Scardino		David Harrison		John Fallon		Andy Bird			
Chief executive remuneration	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration (single figure, £000s)	5,330	1,727	1,895	1,263	1,518	1,758	3,094	1,616	855	334
Annual incentive (% of maximum)	24%	34%	51%	Nil	24%	44%	45%	Nil	Nil	N/A
Long-term incentive (% of maximum)	37%	Nil	Nil	Nil	Nil	Nil	42%	33%	Nil	N/A

Note 1: Total remuneration is as reflected in the single total figure of remuneration table. The 2021 figure for Andy Bird includes the full vesting of the first tranche of the long-term incentive award.

Note 2: Annual incentive is the actual annual incentive received by the incumbent as a percentage of maximum opportunity.

Note 3: Long-term incentive is the payout of performance-related share awards where the year shown is the final year of the performance period for the purposes of calculating the single total figure of remuneration.

Note 4: The single figure remuneration for 2021 for Andy Bird has been converted using a USD/GBP exchange rate of 1.3753 (average exchange rate for 2021).

Comparative information

The following information is intended to provide additional context regarding the total remuneration for Directors.

Relative percentage change in remuneration of Directors and employees

The following table sets out the percentage change in base salary/fees, allowances and benefits and annual incentives between 2020 and 2021 in respect of all Directors of the Company during the year compared to the average percentage change for all employees of Pearson plc. The figures for all Directors are calculated based on remuneration received in the relevant year as set out in the tables on page 120 and page 127. For base salary/fees, part-year figures have been annualised for the purposes of this disclosure. Part-year allowances and benefits have not been annualised and have been excluded from the table.

While the Committee reviews base pay for the Executive Directors relative to the broader employee population, benefits are driven by local practices, and eligibility is determined by level and individual circumstances which do not lend themselves to comparison.

	Percentage change in pay for Directors compared to the average employee of the company					
	2021			2020		
	Base salary/fees	Allowances and benefits	Annual incentives	Base salary/fees	Allowances and benefits	Annual incentives
Average employee¹	4%	17%	38%	1%	6%	9%
Executive Directors						
Andy Bird	0%	-	-	-	-	-
Sally Johnson	1%	-	-	-	-	-
Chair and Non-Executive Directors						
Sidney Taurel	0%	-	-	0%	95%	-
Darne Elizabeth Corley ²	-3%	-	-	0%	-	-
Sherry Coutu	5%	-	-	5%	-	-
Vivienne Cox	2%	-	-	1%	159%	-
Linda Lorimer	1%	-	-	1%	102%	-
Michael Lynton	2%	-	-	1%	-	-
Graeme Pitkethly	1%	-	-	8%	-	-
Tim Score	13% ³	-	-	0%	-20%	-
Lincoln Wallen	1%	-	-	1%	-97%	-
Annette Thomas	-	-	-	-	-	-

Note 1 – The average employee percentage change for 2020 has been restated to ensure a consistent calculation method, on a constant exchange rate basis.

Note 2 – Changes in NEOs during the year are a result of changes in Committee Chairs and membership.

Note 3 – Increase due to Tim Score taking over as Senior Independent Director in April 2021.

Relative importance of pay spend

The Committee considers Directors' remuneration in the context of the company's allocation and disbursement of resources to different stakeholders. We chose adjusted operating profit because this is a measure of our ability to reinvest in the company. We include dividends because these constitute an important element of our return to shareholders.

	2021	2020	Headline change	
			£	%
Adjusted operating profit	385	313	72m	23%
Dividend per share	20.5p	19.5p	1.0p	5%
Share buybacks	Nil	176	-	-
Total wages and salaries	1,180	1,152	28	2%

Notes to the table

Adjusted operating profit as set out in the financial statements.

The Board has approved a £250m share buyback programme in February, 2022.

Wages and salaries include continuing operations only and include Directors. Average employee numbers for continuing operations for 2021 were 20,444 (2020: 21,131). Further details are set out in Note 5 to the financial statements on page 162.

Chief Executive to employee pay ratio

The table below illustrates the ratio of Chief Executive to employee pay for 2021, using the single total figure of remuneration as disclosed on page 120 compared to the full-time equivalent total reward of employees whose pay is ranked at the 25th, 50th and 75th percentiles (as identified by the gender pay gap methodology) in the Great Britain ('GB') workforce.

Year	Method	Chief Executive pay ratio		
		25 th percentile	50 th percentile	75 th percentile
2021	B: Gender pay gap methodology	150.1	145.0	88.4
2020	B: Gender pay gap methodology	42.5	31.9	19.5
2019	B: Gender pay gap methodology	65.9	47.2	36.0

— GB gender pay gap data from April 2021 was used to identify the employees at the 25th, 50th and 75th percentiles. Data was analysed for a number of employees around each quartile figure to ensure that there were no anomalies.

— Using the gender pay gap data to identify the quartile employees is considered appropriate as this is a good representation of the relevant employee population at the year end, and is the most practicable methodology given the timing of the disclosure and determination of remuneration outcomes for the wider workforce.

Remuneration report for 2021 *continued*

- Total remuneration for each employee, which was calculated with reference to 31 December 2021, has been compared to the Chief Executive's single figure. Last year, the Chief Executive's single figure was a combined figure for Andy Bird and John Fallon, recognising the change in leadership during the year. This year's pay ratio has been calculated using Andy Bird's single figure only. Andy Bird's single figure has been converted using a USD:GBP exchange rate of 1.3753 (the average exchange rate for 2021)
- For the quartile employees, total remuneration has been calculated on a similar basis to the Chief Executive's single figure. Base salary, pension and benefits are based on full year figures taken from payroll. Annual bonus figures are based on the relevant manager recommendations and relate to performance in 2021. None of the employees at the 25th, 50th or 75th percentile had share awards vesting in 2021
- Total remuneration figures for the 25th, 50th and 75th percentile employees are as follows: £34,420, £35,625 and £58,419. The respective base salaries are: £27,500, £33,150 and £48,712
- A significant proportion of the Chief Executive's pay is linked to performance and, in respect of the LTIP and co-investment award, share price performance. Therefore, the Chief Executive's pay can vary significantly year-on-year based on company performance. The increase in this year's pay ratio reflects a payout under the AIP (63% of maximum) and the vesting of the first tranche of the co-investment award, which was granted to Andy Bird to support his recruitment. This reflects the strong strategic, operational and financial progress of the business during 2021. In comparison, last year's single figure for the Chief Executive comprised fixed pay only. There was no payout for Executive Directors under either the AIP or the LTIP last year, reflecting the unforeseen impact of COVID-19 on the business during 2020
- The company considers the median pay ratio consistent with the company's wider policies on employee pay, reward and progression. The Committee remains focused on ensuring that remuneration arrangements in place for the broader employee population are consistent with the need to attract and retain the right talent for the company's digital future

Dilution and use of equity

Pearson can use existing shares bought in the market, treasury shares or newly issued shares to satisfy awards under the company's various share plans. For restricted stock awards under the LTIP, the company would normally expect to use market purchased shares. There are limits on the amount of new-issue equity we can use. In any rolling 10-year period, no more than 10% of Pearson equity will be issued, or be capable of being issued, under all Pearson's share plans, and no more than 5% of Pearson equity will be issued, or be capable of being issued, under Executive or discretionary plans. The headroom available for all Pearson plans, Executive or discretionary, and shares held in trust is as follows:

Headroom	2021
All Pearson plans	7.8%
Executive or discretionary plans	4.7%
Shares held in trust	4.8%

The Remuneration Committee in 2021

Role	Name	Title
Chair (from 1 September 2021)	Sherry Court	Independent Non-Executive Directors
Chair (to 1 September 2021)	Dame Elizabeth Corley (until 31 December 2021)	
	Tim Score	
	Sidney Taurel	Chair of the Board
Internal attendees	Andy Bird	Chief Executive
	Sally Johnson	Chief Financial Officer
	Anna Vikstrom Persson (until June 2021)	Chief Human Resources Officer
	Paul Christian	Senior Vice President, Reward
	Graeme Baldwin	Company Secretary
External advisers	Deloitte LLP	

Note 1 – Sidney Taurel was a member of the Committee throughout 2021 as permitted under the UK Corporate Governance Code

Advisers to the Remuneration Committee

During 2021, the Remuneration Committee received advice from independent Remuneration Committee advisers, Deloitte LLP. Deloitte LLP were appointed by the Committee in July 2017 following a tender process. The Committee also received legal advice from Freshfields Bruckhaus Deringer LLP in the course of the year.

Deloitte LLP supplied the Committee with advice on current market trends and developments, incentive plan design and target setting, investor engagement and other general Executive remuneration matters. In respect of their services to the Committee during 2021, Deloitte LLP were paid fees, which were charged on a time spent basis, of £109,400. During the year, separate teams within Deloitte LLP also provided Pearson plc with certain tax and other advisory and consultancy services.

Deloitte LLP are founding members of the Remuneration Consultants' Group and adhere to its Code of Conduct.

The Committee remains satisfied that the advice provided by Deloitte LLP was objective and independent, and that the provision of other services in no way compromised their independence. It is the view of the Committee that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Pearson or its Directors that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Terms of reference

The Committee's full charter and terms of reference are available on the Governance page of the company's website. A summary of the Committee's responsibilities is set out below.

The terms of reference reflect the provisions of the 2018 Code.

Committee responsibilities

Determine and review policy

Determine and regularly review the remuneration policies for the Executive Directors, the presidents and other members of Pearson's Executive Management (who report directly to the Chief Executive). These policies include base salary, annual and long-term incentives, pension arrangements, any other benefits, and termination of employment. When setting remuneration policy, the Committee also takes into account remuneration practices and related policies for the wider workforce.

Shareholder engagement

Ensure the company maintains an appropriate level of engagement with its shareholders and shareholder representative bodies in relation to the remuneration policy and its implementation.

Review and approve implementation

Regularly review the implementation and operation of the remuneration policy and approve the individual remuneration and benefits packages of Executive Management.

Approve performance-related plans

Approve the design of, and determine targets for, any performance-related pay plans operated by the Group for the Pearson Executive Management team and approve the total payments to be made under such plans.

Set termination arrangements

Advise and decide on general and specific remuneration arrangements in connection with the termination of employment of Executive Management.

Determine Chair's remuneration

Delegate responsibility for determining the remuneration and benefits package of the Chair of the Board.

Appoint remuneration consultants

Appoint and set the terms of engagement for any remuneration consultants who advise the Committee, and monitor the cost of such advice.

Talent, retention and gender pay gap

Review updates from management on talent, retention and gender pay gap.

Workforce remuneration

Have oversight of workforce remuneration, policies and practice for the wider organisation.

Remuneration Committee meeting focus during 2021

During the year the Committee undertook the following activities:

- Reviewed and approved 2020 annual and long-term performance and payouts to Executive Directors and senior management.
- Reviewed and approved incentive arrangements for the company and how this will apply to Executive Directors and senior management for 2021.
- Engaged extensively with shareholders following the 2020 EGM and 2021 AGM results, to further understand the views of shareholders and how Pearson can engage constructively with its shareholders and advisors going forward. Continued monitoring of shareholder views throughout the year.
- Approved remuneration arrangements for a number of new appointments to the Executive Committee.
- Reviewed and considered all feedback received from shareholder engagement exercises as part of Committee's discussions and considered ongoing shareholder engagement strategy.

- Received updates on the financial performance of the business and progress against strategic measures. Noted and reviewed the status of in-flight incentives.
- Received updates on pay and conditions across the company as a whole and took these into account when determining executive remuneration.
- Noted updates on corporate governance, including a review of the 2021 AGM remuneration reporting season.
- Reviewed the company's gender pay gap disclosures and noted the actions being taken to address the gap.
- Noted the activity of the Standing Committee of the Board in relation to the operation of the company's equity-based reward programmes and noted the company's use of equity for employee share plans.

Committee evaluation

Annually, the Committee reviews its performance, constitution and charter and terms of reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval. Overall, following its review in 2021, it was considered that the Committee is operating effectively with strong processes in place and a high quality of discussion. The review recognised the Committee's considerable efforts during 2021, including its contribution towards ongoing shareholder engagement and transition of Remuneration Committee Chair during the year.

In 2022, the Committee will have significant focus on the triennial renewal of the Remuneration Policy at the 2023 AGM. The Committee will also continue to ensure remuneration arrangements for senior management and the wider workforce support the attraction of key talent as well as the delivery of the company's strategy. The Committee remains vigilant in assessing the extent to which its activities support and enable progress in the company.

Voting on remuneration resolutions

The following table summarises the details of votes cast in respect of the remuneration resolutions.

	% of votes cast for	% of votes cast against	Notes
Annual report on Remuneration (2021 AGM)	62.75%	37.25%	181,301
2020 Remuneration Policy (2020 AGM)	95.12%	4.88%	219,641
Amendment to 2020 Remuneration Policy (2020 GM)	67.22%	32.78%	370,074

The Directors' remuneration report has been approved by the Board on 8 March 2022 and signed on its behalf by:

Sherry Coutu

Sherry Coutu CBE

Chair of Remuneration Committee

Additional disclosures

Pages 73-136 of this document comprise the Directors' report for the year ended 31 December 2021.

Set out below is other statutory and regulatory information that Pearson is required to disclose in its Directors' report

Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern and consider it appropriate to adopt the going concern basis of accounting

Viability statement

As set out on page 69, the board has reviewed the prospects of Pearson over the five-year period to December 2026. The board analysed a variety of downside scenarios, including a 'Severe but plausible' scenario where the Group is impacted by all principal risks from 2022, as well as reverse stress testing to identify what would be required to either breach covenants or run out of liquidity. The 'Severe but plausible' scenario modelled an impact from risks which in aggregate were significantly greater than those seen in 2021 continuing throughout the five-year period.

Even under a severe downside case, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment, even before modelling the mitigating effect of actions that the management would take in the event that these downside risks were to crystallise. The downside scenarios assume that revolving credit facilities will be available throughout the period to 31 December 2026.

Share capital

Details of share issues and cancellations are given in note 27 to the financial statements on page 201. The company has a single class of shares which is divided into ordinary shares of 25p each. The ordinary shares are in registered form. As at 31 December 2021, 756,801,964 ordinary shares were in issue. At the AGM held on 30 April 2021, the company was authorised, subject to certain conditions, to acquire up to 75,373,162 ordinary shares by market purchase and to issue up to 502,487,753 ordinary shares. Shareholders will be asked to renew this authority at the AGM on 29 April 2022.

Share buyback

On 25 February 2022, the company announced its intention to commence a £350m share buyback programme. The programme will commence in 2022. It is currently anticipated that the repurchased shares will be cancelled and the nominal value of the shares will be transferred to the capital redemption reserve.

In 2020, approximately 30m shares were bought back and cancelled at a cost of £176m. The nominal value of these shares, £7m was transferred to the capital redemption reserve.

The Board believes that the company's strategic priorities, combined with the disciplined approach to capital allocation, will enable Pearson to create sustainable, long-term value for every stakeholder.

We have set out clear capital allocation priorities as follows:

- Maintaining a strong balance sheet and solid investment-grade credit ratings through an appropriate capital structure
- Investing in the business to drive organic growth
- A focused and disciplined approach to value enhancing acquisitions
- Delivering shareholder returns through a sustainable and progressive dividend policy
- Returning surplus cash to shareholders where appropriate through buybacks or special dividends

Major shareholders

Information provided to the company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR) is published on a Regulatory Information Service and on the company's website.

As at 31 December 2021, the company had been notified under DTR 5 of the following holders of significant voting rights in its shares:

	Number of voting rights	Percentage as at date of notification
Lindsell Train Limited	75,608,454	9.99%
Schroders plc	75,127,663	9.98%
Silchester International Investors LLP	75,051,050	9.97%
BlackRock, Inc. ¹	52,766,197	7.00%
Cevian Capital II GP Limited	40,623,241	5.40%
Ameriprise Financial, Inc. and its group	41,236,375	5.02%
Libyan Investment Authority ²	24,431,000	3.01%

¹ Includes 32,725 (0.004%) qualifying financial instruments to which voting rights are attached

² Includes 14,580,372 (1.93%) qualifying financial instruments to which voting rights are attached

³ Based on notification to the company dated 7 June 2010. We have been notified of a change to this holding since that date. Assets belonging to, or owned, held or controlled on 16 September 2011 by the Libyan Investment Authority and located outside Libya on that date, are frozen in accordance with the Libya (Sanctions) (EU Exit) Regulations 2020.

Between 31 December 2021 and 7 March 2022, being the latest practicable date before the publication of this report, the company received further notifications under DTR 5, with the most recent positions being as follows:

	Number of voting rights	Percentage as at date of notification
Lindsell Train Limited	36,743,604	<5%
Cevian Capital II GP Limited	77,163,275	10.19%

Annual General Meeting

The notice convening the AGM to be held at 10:30am on Friday, 29 April 2022 at IET London, 2 Savoy Place, London WC2R 0BL, is contained in a circular to shareholders to be dated 24 March 2022.

Registered auditors

In accordance with section 489 of the Companies Act 2006 (the Act), a resolution proposing the appointment of Ernst & Young LLP as auditors to the company will be proposed at the AGM, at a level of remuneration to be agreed by the Audit Committee.

Amendment to Articles of Association

Any amendments to the Articles of Association of the company (the Articles) may be made in accordance with the provisions of the Act by way of a special resolution.

Rights attaching to shares

The rights attaching to the ordinary shares are defined in the Articles. A shareholder whose name appears on the company's register of members can choose whether his/her shares are evidenced by share certificates (i.e. in certificated form) or held electronically (i.e. uncertificated form) in CRFST (the electronic settlement system in the UK).

Subject to any restrictions below, shareholders may attend any general meeting of the company and, on a show of hands, every shareholder (or his/her representative) who is present at a general meeting has one vote on each resolution and, on a poll, every shareholder (whether an individual or a corporation) present in person or by proxy shall have one vote for every 25p of nominal share capital held. A resolution put to the vote at a general meeting held partly by means of electronic facility or facilities shall, unless the chair of the meeting determines that it shall be decided on a show of hands, be decided on a poll. Subject to this, at any general meeting, a resolution put to the vote at the meeting shall be decided on a show of hands, unless before, or on the declaration of the result of, a vote on a show of hands, a poll is demanded. A poll can be demanded by the Chair of the meeting, or by at least three shareholders (or their representatives) present in person and having the right to vote, or by any shareholders (or their representatives) present in person having at least 10% of the total voting rights of all shareholders, or by any shareholders (or their representatives) present in person holding ordinary shares on which an aggregate sum has been paid up of at least 10% of the total sum paid up on all ordinary shares. At this year's AGM, voting will again be conducted on a poll, consistent with best practice.

Shareholders can declare a final dividend by passing an ordinary resolution but the amount of the dividend cannot exceed the amount recommended by the Board. The Board can pay interim dividends on any class of shares of the amounts and on the dates and for the periods they decide. In all cases, the distributable profits of the company must be sufficient to justify the payment of the relevant dividend.

The Board may, if authorised by an ordinary resolution of the shareholders, offer any shareholder the right to elect to receive new ordinary shares, which will be credited as fully paid, instead of their cash dividend.

Any dividend which has not been claimed for 8 years after it became due for payment will be forfeited and will then belong to the company, unless the Directors decide otherwise.

If the company is wound up, the liquidator can, with the sanction of a special resolution passed by the shareholders, divide among the shareholders in specie all or any part of the assets of the company and can value assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders.

The liquidator can also, with the same sanction, transfer the whole or any part of the assets to trustees upon such trusts for the benefit of the shareholders.

Voting at general meetings

Any form of proxy sent by the shareholders to the company in relation to any general meeting must be delivered to the company (via its registrars), whether in written or electronic form, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote.

The Board may decide that a shareholder is not entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if they or any person with an interest in shares has been sent a notice under section 793 of the Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and they or any interested person failed to supply the company with the information requested within 14 days after delivery of that notice.

The Board may also decide, where the relevant shareholding comprises at least 0.25% of the nominal value of the issued shares of that class, that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered unless the shareholder is not himself in default as regards supplying the information requested and the transfer, when presented for registration, is accompanied by a certificate from the shareholder in such form as the Board of Directors may require to the effect that after due and careful inquiry, the shareholder is satisfied that no person in default is interested in any of the ordinary shares which are being transferred, or the transfer is an approved transfer as defined in the Articles, or the registration of the transfer is required by the Uncertificated Securities Regulations 2001.

Pearson operates an employee benefit trust to hold shares pending employees becoming entitled to them under the company's employee share plans. There were 1,739,072 shares held as at 31 December 2021. The trust has an independent trustee which has full discretion in relation to the voting of such shares. A dividend waiver operates on the shares held in the trust.

Pearson also operates nominee shareholding arrangements which hold shares on behalf of employees. As at 31 December 2021, there were 2,512,370 shares held in the Sharestore account administered by Equiniti Limited (Equiniti). The beneficial owners of shares held in Sharestore are invited to submit voting instructions online at www.shareview.co.uk. If no instructions are given by the beneficial owner by the date specified, the trustees holding these shares will not exercise the voting rights.

The Company's share scheme administration was transferred from Equiniti to Computershare Investor Services plc (Computershare) on 31 December 2020. As part of the transfer, the closure of the Global Nominees account administered by Equiniti was initiated. As at 31 December 2021, 839 shares were remaining in the Global Nominees account.

As at 31 December 2021, there were 2,513,857 shares held in the Computershare Share Plan Account (SPA), which is administered by Computershare. Beneficial holders of shares held in the Computershare Share Plan Account (SPA) are invited to submit voting instructions online at www.equateplus.com. If no instructions are given by the beneficial owner by the date specified, the nominee holding these shares will not exercise the voting rights.

Transfer of shares

The Board may refuse to register a transfer of a certificated share which is not fully paid, provided that the refusal does not prevent dealings in shares in the company from taking place on an open and proper basis. The Board may also refuse to register a transfer of a certificated share unless (i) the instrument of transfer is lodged, duly stamped (if stampable) or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, at the registered office of the company or any other place decided by the Board, and is accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) it is in respect of only one class of shares, and (iii) it is in favour of not more than four transferees.

Transfers of uncertificated shares must be carried out using CREST and the Board can refuse to register a transfer of an uncertificated share in accordance with the regulations governing the operation of CREST.

Additional disclosures *continued*

Variation of rights

if at any time the capital of the company is divided into different classes of shares, the special rights attaching to any class may be varied or revoked either

- (i) with the written consent of the holders of at least 75% in nominal value of the issued shares of the relevant class or
- (ii) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the relevant class.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share may be issued with such preferred, deferred or other special rights, or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the company may from time to time by ordinary resolution determine.

Appointment and replacement of Directors

The Articles contain the following provisions in relation to Directors

Directors shall be no less than two in number. Directors may be appointed by the company by ordinary resolution or by the Board.

A Director appointed by the Board shall hold office only until the next AGM and shall then be eligible for re-appointment. The Board may from time to time appoint one or more Directors to hold Executive office with the company for such period (subject to the provisions of the Act) and upon such terms as the Board may decide and may revoke or terminate any appointment so made.

The Articles provide that, at every AGM of the company, every Director shall retire from office and, unless not willing to act, be eligible for re-appointment.

If a Director is not re-appointed, they shall, subject to the Articles, retain office until the meeting appoints someone in their place, or, if it does not do so, until the end of the meeting, or if the meeting is adjourned, the end of the adjourned meeting. Where a Director has been appointed after notice of the annual general meeting has been given, that Director shall retire at the next annual general meeting of which notice is first given after his or her appointment as Director.

If there is an insufficient number of appointed or re-appointed Directors at any of the company's annual general meetings thus rendering the Board inquorate, all Directors shall be automatically re-appointed only for the purposes of filling vacancies and convening general meetings of the company and to perform such duties as are appropriate to maintain the company as a going concern and to enable it to comply with its legal and regulatory obligations. The Directors are required to convene a further general meeting of the company as soon as reasonably practicable to allow new Directors to be appointed, and such Directors who were not appointed at the original general meeting shall subsequently retire.

The company may by ordinary resolution remove any Director before the expiration of their term of office. In addition, the Board may terminate an agreement or arrangement with any Director for the provision of their services to the company.

Powers of the Directors

Subject to the Articles, the Act and any directions given by special resolution, the business of the company will be managed by the Board who may exercise all the powers of the company, including powers relating to the issue and/or buying back of shares by the company (subject to authorisation, and any statutory restrictions or restrictions imposed by shareholders in a general meeting).

Directors' indemnities

A qualifying third-party indemnity (QTPI), as permitted by the Articles and sections 232 and 234 of the Act, has been granted by the company to each of its Directors. Under the provisions of the QTPI, the company undertakes to indemnify each Director against liability to third parties (excluding criminal and regulatory penalties) and to pay Directors' costs as incurred, provided that they are reimbursed to the company if the Director is found guilty, the court refuses to grant the relief sought or, in an action brought by the company, judgement is given against the Director. The indemnity has been in force for the financial year ended 31 December 2021 and is currently in force. The company has purchased and maintains Directors' and Officers' insurance cover against certain legal liabilities and costs for claims in connection with any act or omission by such Directors and Officers in the execution of their duties.

Significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise term nation or other rights in the event of a change of control of the company.

At 31 December 2021, the Group's principal bank facility, the \$1,190m revolving credit facility agreement, allowed that upon a change of control of the company, any participating bank may require its outstanding advances together with accrued interest and any other amounts payable in respect of such facility, and its commitments, to be cancelled, each within 60 days of notification to the banks by the agent. The facility was undrawn at year end. The group's outstanding Fixed Rate Notes (See note 18 Borrowings for more information) also contain a provision requiring that, in the event of a change of control which leads to a downgrade in credit rating below Baa3 (Moody's) or BBB- (Fitch Ratings), the company is required to make an offer to investors to repurchase outstanding instruments at par plus accrued interest, which investors are not obliged to accept. For these purposes, a 'change of control' occurs if the company becomes a subsidiary of any other company, or one or more persons acting either individually or in concert obtains control (as defined in section 1124 of the Corporation Tax Act 2010) of the company.

Shares acquired through the company's employee share plans rank pari passu with shares in issue and have no special rights. For legal and practical reasons, the rules of these plans set out the consequences of a change of control of the company.

Other statutory information

Other information that is required by the Act and by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) to be included in the Directors' report, and which is incorporated by reference, can be located as follows:

Summary disclosures index	See more
Dividend recommendation	Page 59
Financial instruments and financial risk management	Page 188
Important events since year end	Page 59
Future development of the business	Page 17
Research and development activities	Page 46
Employment of disabled persons	Page 49
Employee involvement	Page 48
Greenhouse gas emissions and energy consumption data	Page 53
Statement describing employee engagement	Page 17
Statement describing regard to suppliers, customers and other stakeholders' interests	Page 19

With the exception of the dividend waiver described on page 133 there is no information to be disclosed in accordance with Listing Rule 9.8.4

No political donations or contributions were made or expenditure incurred by the company or its subsidiaries during the year.

Our disclosures are consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are set out on pages 70-72.

Fair, balanced and understandable reporting and disclosure of information

As required by the Code, we have established arrangements to ensure that all information we report to investors and regulators is fair, balanced and understandable. A process and timetable for the production and approval of this year's report was agreed by the Board at its meeting in December 2021. The full Board then had the opportunity to review and comment on the report as it progressed.

The Audit Committee is also available to advise the Board on certain aspects of the report, to enable the Directors to fulfil their responsibility in this regard. The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Representatives from Financial Reporting, Corporate Affairs, Company Secretarial, Legal, Internal Audit, Compliance and Risk, and Reward are involved in the preparation and review of the annual report to ensure a cohesive and balanced approach and, as with all of our financial reporting, a thorough verification of narrative and financial statements is conducted. We also have procedures in place to ensure the timely release of inside information, through our Market Disclosure Committee.

The Directors also confirm that, for each Director in office at the date of this report:

- so far as the Director is aware, there is no relevant audit information of which the Group and company's auditors are unaware
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group and the company's auditors are aware of that information.

Directors in office

The following Directors were in office during the year:

A Bird	M M Lynton – resigned on 30 April 2021
E P L Corley – resigned on 31 December 2021	G D Pitkethly
S L Coult	T Score
V Cox – retired on 30 April 2021	S Taurel
S K M Johnson	A C Thomas – appointed on 1 October 2021
L K Lorimer	L A Wallen

The Directors' report has been approved by the Board on 8 March 2022 and signed on its behalf by:



Graeme Baldwin
Company Secretary

Statement of Directors' responsibilities in respect of the financial statements

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report and accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and company financial statements in accordance with UK-adopted international accounting standards. In preparing the Group and company financial statements, the Directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

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 Group and company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable UK-adopted international accounting standards and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business

The Directors are responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and company's transactions, and disclose with reasonable accuracy at any time the financial position of the Group and company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

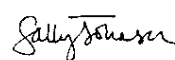
The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names and functions are listed in the Governance report, confirms that, to the best of their knowledge:

- the Group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards and IFRSs issued by IASB, give a true and fair view of the assets, liabilities and financial position of the Group and company, and of the profit of the Group
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and company, together with a description of the principal risks and uncertainties that it faces

This responsibility statement has been approved by the Board on 8 March 2022 and signed on its behalf by:



Sally Johnson
Chief Financial Officer

Financials Statements

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Independent auditors' report to the members of Pearson plc

Report on the audit of the Financial Statements

Opinion

In our opinion, Pearson plc's consolidated financial statements and company financial statements (the "financial statements"),

- give a true and fair view of the state of the Group's and company's affairs at 31 December 2021 and of the Group's profit and the Group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and company balance sheets at 31 December 2021; the consolidated income statement; and consolidated statement of comprehensive income, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which include the FRC's Ethical Standard, as applicable to listed public interest entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 4 to the consolidated financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted our Group audit work in two key territories, being the UK and US. This included full scope audits at three reporting components and specified audit procedures at a further seven components. We identified one shared service centre where audit procedures were performed over shared service functions for transaction processing. The territories where we conducted audit procedures, together with work performed at corporate functions and at the Group level, accounted for approximately: 70% of the Group's revenue, 73% of the Group's statutory profit before tax, and 72% of the Group's adjusted profit before tax.
- For the purposes of the company audit, we performed a full scope audit in the UK of all material financial statement line items

Key audit matters

- Carrying value of goodwill (Group)
- Property impairment (Group)
- Acquisitions and disposals (Group)
- US Student Assessment revenue recognition (Group)
- Carrying value of investments in subsidiaries (company)

Materiality

- Overall Group materiality: £18.5 million (2020: £19 million) based on approximately 5% of the Group's three year weighted average adjusted profit before tax.
- Overall company materiality: £44 million (2020: £45 million) based on approximately 1% of net assets.
- Performance materiality: £13.8 million (Group) and £33 million (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

US Student Assessment revenue recognition, property impairment and acquisitions and disposals are new key audit matters this year. The impact of COVID-19, which was a key audit matter last year, is no longer included because of the market recovery from the impact of COVID-19 resulting in the Group's improved trading performance during 2021. Where relevant, the ongoing impact of COVID-19 has been assessed as part of our audit in 2021, including in relation to each key audit matter. In addition, we have removed the key audit matter related to returns provisioning given lower residual risk in this area due to the continued and ongoing decline in print copy sales across the Group's Higher Education businesses. We have removed the key audit matter related to provisions for uncertain tax positions as there have been no material unexpected developments in 2021 in respect of the two material unprovided tax exposures related to EU state aid and a Brazilian tax authority assessment related to goodwill amortisation deductions. We have also removed the key audit matter related to recoverability of product development assets, which are amortised over their useful economic lives, given that there has been no trigger for impairment in 2021 unlike in 2020 when COVID-19 gave rise to an impairment trigger. Otherwise, the key audit matters are consistent with last year.

Key audit matter

Carrying value of goodwill (Group)

Refer to note 11 in the consolidated financial statements

At 31 December 2021, the Group had £2,145m (2020: £2,094m) of goodwill. The carrying value of goodwill is dependent on estimates of future cash flows of the underlying cash generating units (CGUs) or aggregated CGUs to which goodwill is allocated. If management does not achieve these cash flow estimates, there is a risk that there could be further impairment charges. This risk increases in periods when the Group's trading performance and projections do not meet expectations.

The impairment reviews performed by management contain a number of significant judgements and estimates. Changes in these assumptions can result in materially different impairment charges or available headroom.

In addition, there is incremental complexity and judgement in this area in 2021 as management has changed the level at which certain reporting units are monitored and reported as a result of the new strategy that was announced in March 2021. The business restructuring that has been undertaken by management in response to the new strategy has given rise to the creation of a new divisional structure, thereby requiring a change in CGU determination and a reallocation of goodwill to the newly identified CGUs or aggregated CGUs. This has resulted in five new aggregated CGUs mapping to the new divisional structure and a further five CGUs that comprise the businesses under strategic review. The process of reallocating goodwill, net assets and cash flows to these new CGUs is judgemental and complex.

No impairment charge has been recorded in 2021

How our audit addressed the key audit matter

We tested management's CGU reassessment and we evaluated the methodology applied by management to reallocate goodwill. We assessed whether return on asset measures encompassing goodwill are monitored or measured at a level lower than management's revised CGUs or aggregated CGUs.

We obtained management's value in use impairment model at 31 December 2021 and we tested its mathematical integrity. We validated the carrying amounts of the net assets subject to impairment testing to the underlying accounting records, making sure that there was appropriate consistency between the assets and liabilities that were included in management's assessment; and the related cash flows. We agreed the forecast cash flows to board approved budgets and strategic plans and we assessed how these budgets and strategic plans are compiled. We evaluated management's estimates related to short-term revenue and operating profit growth rates, cash conversion and corporate cost allocations. We compared management's forecasts and key assumptions to industry projections and comparable companies where this information was available and we evaluated the historical accuracy of management's budgeting and forecasting.

We deployed valuation experts to assess the perpetuity growth rate and discount rate for each CGU or aggregated CGU by comparison with third party information, past performance and relevant risk factors. We compared management's valuations with third party valuations implied by trading and transaction multiples of the Group's competitors where this information was available for specific CGUs or aggregated CGUs.

We performed our own independent sensitivity analysis to understand the impact of reasonably possible changes to key assumptions. As part of this analysis, we specifically evaluated the impact of the COVID-19 pandemic on management's future cash flow projections and we performed independent sensitivity analysis to evaluate the impact of different COVID-19 scenarios on the Group's impairment judgements.

Our procedures focused on the five CGUs that comprise the businesses under strategic review where headroom was lower or more sensitive to changes in key assumptions. We compared management's value in use valuations with initial third party bids received after year-end less estimated disposal costs to identify whether these net bid values provided contradictory evidence to indicate that the strategic review CGUs were impaired at 31 December 2021.

We considered whether the disclosures in note 11 complied with IAS 36.

Based on the procedures performed, we noted no material issues arising from our work.

Independent auditors' report to the members of Pearson plc *continued*

Key audit matter

Property impairment (Group)

Refer to note 10 in the consolidated financial statements.

At 31 December 2021, the Group held £465m (2020: £439m) of right-of-use assets in relation to land and buildings.

In March 2021, the Group announced its intention to restructure its property portfolio, with the largest impacts arising on the Group's properties in London and New Jersey. A total impairment charge of £119m has been recognised in 2021.

The impairment reviews performed by management contain a number of significant judgements and estimates. Changes in these assumptions can result in materially different impairment charges.

How our audit addressed the key audit matter

We understood management's plans for the Group's property restructure, including what properties have been or will be vacated and sublet. We particularly focused on the Group's properties in London (80 Strand) and New Jersey (Hoboken) which contributed the majority of the impairment charge in 2021.

For the separable lease components at the 80 Strand and Hoboken properties which have been or will be vacated, we obtained management's right-of-use asset impairment model and we tested its mathematical integrity. We validated the carrying amounts of the net assets subject to impairment testing to the underlying accounting records. We understood and evaluated management's judgements and estimates included in the model, including the amount of vacated space, the potential rental value, rent free periods and expected sub-lease duration. We deployed real estate valuation experts to assess the assumptions used by management. We considered the competency and qualifications of the real estate experts deployed by the Group to inform management's assumptions. We performed our own independent sensitivity analysis to understand the impact of reasonably possible changes to key assumptions.

In addition to 80 Strand and Hoboken, we tested a sample of other properties subject to impairment in 2021 and we separately reviewed management's impairment trigger assessment for the Group's remaining property portfolio not subject to impairment in 2021 to confirm that no further material impairment charges were required.

Based on the procedures performed, we noted no material issues arising from our work.

Acquisitions and disposals (Group)

Refer to notes 30 and 31 in the consolidated financial statements.

In September 2021, the Group completed the acquisition of Faethm Holdings, increasing its ownership interest from 9% to 100% for a total purchase price of £65m. Management engaged a third party expert to perform a valuation of the intangible assets acquired. The Group has provisionally recognised goodwill of £38m and intangible assets of £21m at 31 December 2021 in connection with this acquisition. Judgement is required to determine the fair value of assets acquired, including intangible assets.

In October 2021, the Group completed the disposal of Pearson's sistemas business in Brazil. Total proceeds and profit on disposal amounted to £108m and £84m respectively.

In March 2021, the Group announced a strategic review of its international courseware local publishing business. At 31 December 2021, there is judgement as to whether the businesses under strategic review meet the criteria to be classified as held for sale in accordance with IFRS 5.

We obtained management's valuation model prepared for the step acquisition of Faethm Holdings and we tested its mathematical integrity. We validated the inputs into the valuation model to the signed purchase price agreement and underlying accounting records, including the cash consideration. We deployed valuation experts to assess the intangible asset valuation prepared by management's third party expert, including challenging the valuation methodology and key underlying assumptions. We considered the competency and qualifications of the valuation expert deployed by the Group to inform management's assumptions. We considered whether management's step acquisition accounting was in line with IFRS 3.

We obtained and reviewed the sale agreement and evidence of proceeds received for the disposal of Pearson's sistemas business in Brazil. We reviewed the contractual agreements to assess any accounting implications for the disposal accounting. We evaluated whether disposal costs booked against the gain on disposal were directly attributable to the disposal.

We obtained evidence to evaluate management's judgement that the businesses under strategic review do not meet the IFRS 5 criteria to be classified as held for sale at 31 December 2021.

Based on the procedures performed, we noted no material issues arising from our work.

Key audit matter**US Student Assessment revenue recognition (Group)**

Refer to note 3 in the consolidated financial statements

Certain of the Group's businesses enter into contracts that span year-end, where revenue is recognised using estimated percentage of completion based on costs. These include contracts to design, develop and deliver testing and accreditation services. These contracts generate material deferred revenue balances. Changes to the underlying assumptions or estimation calculations could have a material effect on the consolidated financial statements.

We have continued to focus on this area because management has decided to change its revenue recognition methodology for US Student Assessment in 2021 from percentage of completion based on actual costs incurred by contract to percentage of completion based on a historical cost profile by customer category. The portfolio approach is an acceptable practical expedient under IFRS 15 as long as any difference to accounting at the contract level would not have a material effect on the financial statements.

How our audit addressed the key audit matter

For new contracts in 2021 to which the portfolio approach has been applied, we understood management's rationale for changing methodology. We considered how contracts have been grouped based on similar performance obligations and cost delivery profile and we tested management's historical cost profile calculations by contract grouping.

We tested management's assessment of the difference between the previous approach of determining percentage of completion by contract and the portfolio approach applied to new contracts in 2021. We evaluated whether an immaterial difference arises and whether the portfolio approach is therefore appropriate under IFRS 15.

For a selection of the larger and more judgemental contracts at US Student Assessment, we read the contracts and we assessed the accounting methodology applied to calculate the proportion of revenue being recognised in 2021. We tested costs incurred to date and management's estimates of forecast costs and revenues by reference to historical experience and current contract status. We recalculated management's percentage of completion estimates and we performed look-back tests to assess management's historical accuracy of forecasting for these types of arrangement. In addition, we performed manual journals testing focusing on unusual or unexpected entries to revenue.

Based on the procedures performed, we noted no material issues arising from our work.

Carrying value of investments in subsidiaries (company)

Refer to note 2 in the company financial statements

The company holds investments in subsidiaries amounting to £6.632m (2020: £6.619m) at 31 December 2021.

Investments in subsidiaries are accounted for at cost less provision for impairment in the company balance sheet. Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of investments in subsidiaries are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement.

The impairment assessment was identified as a key audit matter given the size of the underlying investment carrying values and the differential to the Group's market capitalisation at 31 December 2021. Further impairment indicators were identified in connection with certain of the investments in subsidiaries due to the carrying value of investments exceeding the net assets of the underlying subsidiaries. The assessment required the application of management judgement, particularly in determining whether any impairment indicators have arisen that trigger the need for an impairment assessment and in assessing whether the carrying value of each investment can be supported by its recoverable amount. Changes to these judgements and estimates could have a material impact on the company financial statements.

We evaluated management's assessment whether any indicators of impairment existed by comparing the carrying values of investments in subsidiaries with the net assets of the underlying subsidiaries at 31 December 2021.

For investments where the net assets were lower than the carrying values, we assessed their recoverable value by reference to the value in use of the investments compared to their carrying values at 31 December 2021. Where applicable, we verified that the recoverable values of investments were consistent with the recoverable values of the related CGUs tested for goodwill impairment purposes, leveraging the audit work undertaken as part of the Group audit.

We separately evaluated the difference between the carrying value of the company's investments in subsidiaries and the Group's market capitalisation.

Based on the procedures performed, we noted no material issues arising from our work.

Independent auditors' report to the members of Pearson plc *continued*

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the company, the accounting processes and controls and the industry in which they operate.

The consolidated financial statements are a consolidation of approximately 530 reporting units, each of which is considered to be a component. We identified three components in the UK and US that required a full scope audit due to their size and risk. Specified audit procedures over specific financial statement line items were performed at a further seven components in the UK and US to achieve appropriate audit coverage. In addition, we have undertaken certain unpredictable audit procedures on a rotational basis covering components that have not historically been included in Group audit scope.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the components by us, as the Group engagement team, or by component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

We performed full scope audits in respect of NCS Pearson (encompassing the US businesses that form part of the Assessment & Qualifications segment), Pearson Education US (encompassing the US business that forms part of the Higher Education segment) and Pearson Education UK (encompassing the UK businesses that form part of the Assessment & Qualifications and Workforce Skills segments).

We performed specified audit procedures at seven components within the Virtual Learning and Assessment & Qualifications segments and across the Group's central functions. The individual balances included in scope in these seven components included revenue, trade and other receivables, cash, inventory, trade and other liabilities, intangible assets and amortisation, product development and amortisation, fixed assets and depreciation, cost of sales and operating expenses. We identified one shared service centre where audit procedures were performed over shared service functions for transaction processing and we audited selected US balances related to payroll and tax on the basis of the Group's aggregated US operations. This ensured that sufficient and appropriate audit procedures were performed to achieve sufficient coverage over these financial statement line items. In addition to instructing and reviewing the reporting from our component audit teams, we conducted file reviews and participated in key meetings with local management both remotely and in person. We also had regular dialogue with component teams throughout the year.

The Group consolidation, financial statement disclosures and corporate functions were audited by the Group engagement team. This included our work over taxation, goodwill and acquired intangible assets, post-retirement benefits and major transactions. Taken together, the components and corporate functions where we conducted audit procedures accounted for approximately 70% of the Group's revenue, 13% of the Group's statutory profit before tax and 77% of the Group's adjusted profit before tax. This provided the evidence we needed for our opinion on the consolidated financial statements taken as a whole. This was before considering the contribution to our audit evidence from performing audit work at the Group level, including a disaggregated analytical review procedures, which covered certain of the Group's smaller and lower risk components that were not directly included in our Group audit scope.

Our audit of the company financial statements was undertaken in the UK and included substantive procedures of all material balances and transactions.

In planning our audit, we considered the potential impact of climate change on the Group's business as the operations and strategy of the Group adapt to address the physical and transition risks associated with climate change. In addition, the Group has set out its commitments to be net carbon zero across scope 1, 2 and 3 by 2030. Management considers that the impact of climate change does not give rise to a material financial statement impact in 2021. However, management's climate change initiatives and commitments will impact the Group in a variety of ways. Enhanced narrative and disclosure of the impact of climate change risk is incorporated in the TCFD section of the Annual Report.

As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate change on the financial statements, including reviewing management's climate change risk assessment which was prepared with support from The Carbon Trust. We used our knowledge of the Group and we engaged with our sustainability specialists to evaluate the risk assessment performed by management. We assessed that the key financial statement line items and estimates which are more likely to be materially impacted by climate change are those areas that are based on future cash flows. As a result, we particularly considered how climate change risks and the impact of climate commitments made by the Group would impact the assumptions made in the forecasts prepared by management that are used in the Company's impairment analysis and for going concern purposes. Our procedures did not identify any material impact on our key audit matters for the year ended 31 December 2021. We also reviewed the disclosures included in the TCFD section of the Annual Report and we considered the consistency of these disclosures with the relevant financial statement disclosures, including in note 1c, and with our understanding of the business.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows

	Consolidated Financial Statements	Company Financial Statements
Overall materiality	£18.5 million (2020: £19 million)	£4.4 million (2020: £4.5 million)
How we determined it	Approximately 5% of the Group's three year weighted average adjusted profit before tax	Approximately 1% of net assets
Rationale for benchmark applied	<p>The Group's principal measure of performance is adjusted operating profit, which excludes one-off gains and losses, costs of major restructuring and acquired intangible asset amortisation and impairment charges, in order to present results from operating activities on a consistent basis. We have also excluded the results of Penguin Random House from this benchmark for each of the three years following its disposal. We have taken this measure into account in determining our materiality as it is the metric against which the performance of the Group is most commonly assessed by management and reported to shareholders. From adjusted operating profit, we deducted net finance costs.</p> <p>Given the volatility in profitability in 2020 and 2021 as a result of COVID-19, we based our materiality calculation on a three year weighted average of the Group's adjusted profit before tax.</p>	<p>Pearson plc is the ultimate parent company which holds the Group's investments. Therefore, the entity is not in itself profit-oriented. The strength of the balance sheet is the key measure of financial health that is important to shareholders, since the primary concern for the Company is the payment of dividends. We therefore consider net assets to be an appropriate benchmark.</p> <p>Certain account balances were included in scope for the audit of the consolidated financial statements and were therefore audited to a materiality level set below overall materiality established for the Group audit. However, we determined that the company did not require a full scope audit of its complete financial information for the purposes of the audit of the consolidated financial statements.</p>

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was approximately £3 million to £16 million.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £13.8 million (2020: £14 million) for the consolidated financial statements and £3.3 million (2020: £3.4 million) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.8 million for the Group and company audits (2020: £2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Evaluation of management's base case and downside case scenarios, understanding and evaluating the key assumptions, including assumptions related to COVID-19;
- Validation that the cash flow forecasts used to support management's impairment, going concern and viability assessments were consistent;
- Assessment of the historical accuracy and reasonableness of management's forecasting;
- Consideration of the Group's available financing and debt maturity profile;
- Testing of the mathematical integrity of management's liquidity headroom, covenant compliance, sensitivity and stress testing calculations;
- Assessment of the reasonableness of management's planned or potential mitigating actions in response to downside risk factors.

- Consideration whether climate change is expected to have any significant impact during the period of the going concern assessment; and
- Review of the related disclosures in the Annual Report.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the company's ability to continue as a going concern.

In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the

Independent auditors' report to the members of Pearson plc *continued*

financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Governance Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Governance Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Governance Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Governance Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;

- The disclosures in the Annual Report and Accounts that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement, checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and company and the environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for the members to assess the Group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the Group and industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to failure to comply with UK and international tax regulations; adherence to data protection requirements in the jurisdictions in which the Group operates and holds data and compliance with anti-bribery and corruption legislation in the jurisdictions in which the Group operates and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and we determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting for estimates, including estimates relating to revenue recognition. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal advisors, including considerations of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of correspondence received from regulators and consideration of the impact, if any, on our audit and the disclosures made in the financial statements;
- Evaluation and testing of the effectiveness of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Identification and testing of significant manual journal entries; and
- Testing of assumptions and judgements made by management in making significant accounting estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or

risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- We have not obtained all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the company or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- The company's financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 6 February 1996 to audit the financial statements for the year ended 31 December 1996 and subsequent financial periods. The period of total uninterrupted engagement is 26 years, covering the years ended 31 December 1996 to 31 December 2021.

Other matters

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ("ESEF RTS"). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Giles Harnam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
8 March 2022

Financial statements

Consolidated income statement

Year ended 31 December 2021

All figures in £ millions	Notes	2021	2020
Continuing operations			
Sales	2,3	3,428	3,397
Cost of goods sold	4	(1,747)	(1,767)
Gross profit		1,681	1,630
Operating expenses	4	(1,562)	(1,402)
Other net gains and losses	4	63	178
Share of results of joint ventures and associates	12	1	5
Operating profit	2	183	411
Finance costs	6	(68)	(107)
Finance income	6	42	50
Profit before tax		157	354
Income tax	7	3	(44)
Profit for the year		160	310
Attributable to:			
Equity holders of the company		159	310
Non-controlling interest		1	–
Earnings per share attributable to equity holders of the company during the year (expressed in pence per share)			
– basic	8	21.1p	41.0p
– diluted	8	20.9p	41.0p

Consolidated statement of comprehensive income

Year ended 31 December 2021

All figures in £ millions	Notes	2021	2020
Profit for the year		160	310
Items that may be reclassified to the income statement			
Net exchange differences on translation of foreign operations		(6)	(109)
Currency translation adjustment disposed		4	(70)
Attributable tax	7	10	(13)
Items that are not reclassified to the income statement			
Fair value gain on other financial assets		24	14
Attributable tax	7	(3)	(6)
Remeasurement of retirement benefit obligations	25	149	(23)
Attributable tax	7	(61)	2
Other comprehensive income/(expense) for the year	29	117	(205)
Total comprehensive income for the year		277	105
Attributable to:			
Equity holders of the company		276	105
Non-controlling interest		1	-

Financial statements

Consolidated balance sheet

As at 31 December 2021

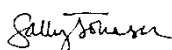
All figures in £ millions	Notes	2021	2020
Assets			
Non-current assets			
Property, plant and equipment	10	366	515
Intangible assets	11	2,769	2,742
Investments in joint ventures and associates	12	24	6
Deferred income tax assets	13	57	32
Financial assets – derivative financial instruments	16	30	45
Retirement benefit assets	25	537	410
Other financial assets	15	113	138
Income tax assets		97	–
Trade and other receivables	22	129	223
		4,122	4,111
Current assets			
Intangible assets – product development	20	894	905
Inventories	21	98	129
Trade and other receivables	22	1,257	1,118
Financial assets – derivative financial instruments	16	2	18
Income tax assets		26	–
Cash and cash equivalents (excluding overdrafts)	17	937	1,097
		3,214	3,267
Assets classified as held for sale	32	7	73
Total assets		7,343	7,451
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	18	(1,245)	(1,397)
Financial liabilities – derivative financial instruments	16	(30)	(40)
Deferred income tax liabilities	13	(40)	(62)
Retirement benefit obligations	25	(66)	(85)
Provisions for other liabilities and charges	23	(7)	(8)
Other liabilities	24	(95)	(80)
		(1,483)	(1,672)

Consolidated balance sheet continued

As at 31 December 2021

All figures in £ millions	Notes	2021	2020
Current liabilities			
Trade and other liabilities	24	(1,256)	(1,196)
Financial liabilities – borrowings	18	(155)	(254)
Financial liabilities – derivative financial instruments	16	(4)	(12)
Income tax liabilities		(125)	(84)
Provisions for other liabilities and charges	23	(40)	(25)
		(1,580)	(1,571)
Liabilities classified as held for sale	32	–	(74)
Total liabilities		(3,063)	(3,317)
Net assets		4,280	4,134
Equity			
Share capital	27	189	188
Share premium	27	2,626	2,620
Treasury shares	28	(12)	(7)
Capital redemption reserve		18	18
Fair value reserve		33	53
Translation reserve		386	388
Retained earnings		1,030	865
Total equity attributable to equity holders of the company		4,270	4,125
Non-controlling interest		10	9
Total equity		4,280	4,134

These financial statements have been approved for issue by the Board of Directors on 8 March 2022 and signed on its behalf by



Sally Johnson
Chief Financial Officer

Pearson plc
Registered number: 00053723

Financial statements

Consolidated statement of changes in equity

Year ended 31 December 2021

All figures in £ millions	Equity attributable to equity holders of the company								Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve	Translation reserve	Retained earnings	Total		
At 1 January 2021	188	2,620	(7)	18	53	388	865	4,125	9	4,134
Profit for the year	–	–	–	–	–	–	159	159	1	160
Other comprehensive income/(expense)	–	–	–	–	24	(2)	95	117	–	117
Total comprehensive income/(expense)	–	–	–	–	24	(2)	254	276	1	277
Equity-settled transactions	–	–	–	–	–	–	28	28	–	28
Issue of ordinary shares under share option schemes	1	6	(1)	–	–	–	–	6	–	6
Buyback of equity	–	–	–	–	–	–	–	–	–	–
Purchase of treasury shares	–	–	(16)	–	–	–	–	(16)	–	(16)
Release of treasury shares	–	–	12	–	–	–	(12)	–	–	–
Transfer of gain on disposal of FVOCI investment	–	–	–	–	(44)	–	44	–	–	–
Dividends	–	–	–	–	–	–	(149)	(149)	–	(149)
At 31 December 2021	189	2,626	(12)	18	33	386	1,030	4,270	10	4,280

All figures in £ millions	Equity attributable to equity holders of the company								Non-controlling interest	Total equity
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Fair value reserve	Translation reserve	Retained earnings	Total		
At 1 January 2020	195	2,614	(24)	11	39	567	911	4,313	10	4,323
Profit for the year	–	–	–	–	–	–	310	310	–	310
Other comprehensive income/(expense)	–	–	–	–	14	(179)	(40)	(205)	–	(205)
Total comprehensive income/(expense)	–	–	–	–	14	(179)	270	105	–	105
Equity-settled transactions	–	–	–	–	–	–	29	29	–	29
Issue of ordinary shares under share option schemes	–	6	–	–	–	–	–	6	–	6
Buyback of equity	(7)	–	–	7	–	–	(176)	(176)	–	(176)
Purchase of treasury shares	–	–	(6)	–	–	–	–	(6)	–	(6)
Release of treasury shares	–	–	23	–	–	–	(23)	–	–	–
Dividends	–	–	–	–	–	–	(146)	(146)	(1)	(147)
At 31 December 2020	188	2,620	(7)	18	53	388	865	4,125	9	4,134

The capital redemption reserve reflects the nominal value of shares cancelled in the Group's share buyback programme. The fair value reserve arises on revaluation of other financial assets. The translation reserve includes exchange differences arising from the translation of the net investment in foreign operations and of borrowings and other currency instruments designated as hedges of such investments.

Consolidated cash flow statement

Year ended 31 December 2021

All figures in £ millions	Notes	2021	2020
Cash flows from operating activities			
Net cash generated from operations	33	570	450
Interest paid		(67)	(63)
Tax (paid)/received		(177)	2
Net cash generated from operating activities		326	389
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	30	(55)	(6)
Acquisition of associates	12	(10)	-
Purchase of investments		(4)	(6)
Purchase of property, plant and equipment		(64)	(53)
Purchase of intangible assets		(112)	(81)
Disposal of subsidiaries, net of cash disposed	31	83	100
Proceeds from sale of joint ventures and associates	31	-	531
Proceeds from sale of investments		48	-
Lease receivables repaid including disposals		21	41
Loans repaid by related parties		-	48
Interest received		13	13
Dividends from joint ventures and associates		-	4
Net cash (used in)/generated from investing activities		(80)	591
Cash flows from financing activities			
Proceeds from issue of ordinary shares	27	6	6
Buyback of equity	27	-	(176)
Purchase of treasury shares	28	(16)	(6)
Proceeds from borrowings		-	346
Repayment of borrowings		(167)	(230)
Repayment of lease liabilities		(88)	(92)
Dividends paid to company's shareholders	9	(149)	(146)
Dividends paid to non-controlling interest		-	(1)
Net cash used in financing activities		(414)	(299)
Effects of exchange rate changes on cash and cash equivalents		(8)	(2)
Net (decrease)/increase in cash and cash equivalents		(176)	679
Cash and cash equivalents at beginning of year		1,113	434
Cash and cash equivalents at end of year	17	937	1,113

Financial statements

Notes to the consolidated financial statements

General information

Pearson plc (the company), its subsidiaries and associates (together the Group) are international businesses covering educational courseware, assessments and services.

The company is a public limited company incorporated and domiciled in the United Kingdom. The address of its registered office is 80 Strand, London WC2R 0RL.

The company has its primary listing on the London Stock Exchange and is also listed on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 8 March 2022.

1a. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of preparation

These consolidated financial statements, and the company financial statements, have been prepared on the going concern basis (see note 1b) and in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards (IASs), with future changes being subject to endorsement by the UK Endorsement Board. The Group and company transitioned to UK-adopted IASs on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The consolidated and company financial statements have also been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB). In respect of accounting standards applicable to the Group, there is no difference between UK-adopted IASs and IFRSs as issued by the IASB.

These consolidated financial statements, and the company financial statements, have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

These accounting policies have been consistently applied to all years presented, unless otherwise stated.

1. Interpretations and amendments to published standards effective 2021

– No new standards were adopted in 2021.

'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' is effective from 1 January 2021 (see note 19) and in addition, the Group has early adopted the amendment to IFRS 16 'COVID-19 related rent concessions beyond 30 June 2021'. The amendments do not have a material impact on the consolidated financial statements, or the company financial statements.

The Group has also considered the IFRIC agenda decision on 'Configuration and Customisation costs in a Cloud Computing Arrangement', and concluded that it does not have a material impact on the consolidated or company financial statements.

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

– The following new accounting standards and amendments to new accounting standards have been issued but are not yet effective and have not yet been endorsed by the UK Endorsement Board:

- IFRS 17 'Insurance contracts';
- Amendments to IFRS 3 'Reference to the conceptual framework';
- Amendments to IAS 1 'Disclosure of accounting policies';
- Amendments to IAS 1 'Classification of liabilities as current or non-current';
- Amendments to IAS 8 'Definition of accounting estimates';
- Amendments to IAS 12 'Deferred tax related to assets and liabilities arising from a single transaction';
- Amendments to IAS 16 'Proceeds before intended use';
- Amendments to IAS 37 'Onerous contracts – costs of fulfilling a contract'; and
- Annual improvements to IFRS 2018-2020.

The Group is currently assessing the impact of the above changes, but they are not expected to have a material impact. The Group has not adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

3. Critical accounting assumptions and judgements – The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions and estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

All assumptions and estimates constitute management's best judgement at the date of the financial statements, however, in the future, actual experience may deviate from these estimates and assumptions.

The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are:

- Intangible assets: Goodwill
- Taxation
- Revenue: Provisions for returns
- Employee benefits: Pensions
- Property, plant and equipment: Right-of-use assets

The recoverability of product development assets and in particular, the assessment of the useful economic lives of the product development assets, is no longer considered to be a key area of estimation uncertainty as the impact of COVID-19 on the business, and in particular, on future sales, has lessened and therefore it is no longer considered that there is a significant risk of a material adjustment to the carrying value of the product development assets within the next year.

The key judgements and key areas of estimation are set out below, as well as in the relevant accounting policies and in the notes to the accounts where appropriate.

■ Key judgements

- The application of tax legislation in relation to provisions for uncertain tax positions (see notes 7 and 34)
- The allocation of goodwill to the cash-generating units and groups of cash-generating units (see note 11)
- Whether the Group will be eligible to receive the surplus associated with the UK Group Pension Plan in recognising a pension asset (see note 25)

■ Key areas of estimation

- The recoverability of goodwill balances. Key assumptions used in goodwill impairment testing are discount rates, perpetuity growth rates, forecast sales growth rates and forecast operating profits. See note 11 for further details.
- The level of provisions required in relation to uncertain tax positions is complex and each matter is separately assessed. The estimation of future settlement amounts is based on a number of factors including the status of the unresolved matter, clarity of legislation, range of possible outcomes and the statute of limitations. See notes 7 and 34 for further details.
- The level of provisions required for anticipated returns is estimated based on historical experience, customer buying patterns and retailer behaviours including stock levels. See note 3 for further details.
- The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity. See note 25 for further details.
- 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.

The Group has assessed the impact of the uncertainty presented by the continued COVID-19 pandemic on the financial statements, specifically considering the impact on key judgements and significant estimates along with other areas of increased risk as follows:

- Recoverable value of right-of-use assets and investment in finance lease receivable balances;
- Financial instruments in particular counterparty risk and hedge effectiveness;
- Working capital provisions including expected credit losses on trade and other debtors and inventory obsolescence; and
- The assessment of the useful economic lives of product development assets.

No material accounting impacts relating to the areas assessed above were recognised in the year. The Group will continue to monitor these areas of increased judgement, estimation and risk.

Consolidation

1. Business combinations – The acquisition method of accounting is used to account for business combinations.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred in the operating expenses line of the income statement. Identifiable assets acquired and identifiable liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The determination of fair values often requires significant judgements and the use of estimates, and, for material acquisitions, the fair value of the acquired intangible assets is determined by an independent valuer. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (see note 30).

See the 'Intangible assets' policy for the accounting policy on goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

IFRS 3 'Business Combinations' has not been applied retrospectively to business combinations before the date of transition to IFRS.

Management exercises judgement in determining the classification of its investments in its businesses, in line with the following:

2. Subsidiaries – Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

3. Transactions with non-controlling interests – Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. Any surplus or deficit arising from disposals to a non-controlling interest is recorded in equity. For purchases from a non-controlling interest, the difference between consideration paid and the relevant share acquired of the carrying value of the subsidiary is recorded in equity.

4. Joint ventures and associates – Joint ventures are entities in which the Group holds an interest on a long-term basis and has rights to the net assets through contractually agreed sharing of control. Associates are entities over which the Group has significant influence but not the power to control the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights. Ownership percentage is likely to be

Financial statements

Notes to the consolidated financial statements *continued*

1a. Accounting policies continued

Consolidation continued

the key indicator of investment classification, however, other factors, such as Board representation, may also affect the accounting classification. Judgement is required to assess all of the qualitative and quantitative factors which may indicate that the Group does, or does not, have significant influence over an investment. Investments in joint ventures and associates are accounted for by the equity method and are initially recognised at the fair value of consideration transferred.

The Group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves.

The Group's share of its joint ventures' and associates' results is recognised as a component of operating profit as these operations form part of the core publishing business of the Group and are an integral part of existing wholly-owned businesses. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture or associate equals or exceeds its interest in the joint venture or associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in these entities.

5. Contribution of a subsidiary to an associate or joint venture

– The gain or loss resulting from the contribution or sale of a subsidiary to an associate or a joint venture is recognised in full. Where such transactions do not involve cash consideration, significant judgements and estimates are used in determining the fair values of the consideration received.

Foreign currency translation

1. Functional and presentation currency – Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

2. Transactions and balances – Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

3. Group companies – The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet.
- Income and expenses are translated at average exchange rates.
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. The Group treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The principal overseas currency for the Group is the US dollar. The average rate for the year against sterling was \$1.38 (2020 \$1.28) and the year-end rate was \$1.35 (2020 \$1.37).

Property, plant and equipment

Property, plant and equipment 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:

Buildings (freehold):	20–50 years
Buildings (leasehold):	over the period of the lease
Plant and equipment:	3–10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

Intangible assets

1. Goodwill – For the acquisition of subsidiaries made on or after 1 January 2010, goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. For the acquisition of subsidiaries made from the date of transition to IFRS to 31 December 2009, goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates and joint ventures represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired.

Goodwill on acquisitions of associates and joint ventures is included in investments in associates and joint ventures

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. An impairment loss is recognised to the extent that the carrying value of goodwill exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. These calculations require the use of estimates in respect of forecast cash flows and discount rates and significant management judgement in respect of cash-generating unit (CGU) and cost allocation, impairment is a key source of estimation uncertainty and has a significant risk of resulting in a material adjustment to the carrying amount of relevant assets within the next financial year. A summary of these assets by CGU and a description of the key assumptions and sensitivities is included in note 11

Goodwill is allocated to aggregated CGUs for the purpose of impairment testing. The allocation is made to those aggregated CGUs that are expected to benefit from the business combination in which the goodwill arose. Where there are changes to CGUs, goodwill is reallocated to the new CGUs and aggregation of CGUs using a relative value method.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold

2. Acquired software – Software separately acquired for internal use is capitalised at cost. Software acquired in material business combinations is capitalised at its fair value as determined by an independent valuer. Acquired software is amortised on a straight-line basis over its estimated useful life of between three and eight years

3. Internally developed 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 Group expects economic benefits from the development. Capitalisation in the application development stage begins once the Group can reliably measure the expenditure attributable to the software development and has demonstrated its intention to complete and use the software. Internally developed software is amortised on a straight-line basis over its estimated useful life of between three and ten years

4. Acquired intangible assets – Acquired intangible assets include customer lists, contracts and relationships, trademarks and brands, publishing rights, content, technology and software rights. These assets are capitalised on acquisition at cost and included in intangible assets. Intangible assets acquired in material business combinations are capitalised at their fair value as determined by an independent valuer. Intangible assets are amortised over their estimated useful lives of between two and 20 years, using an amortisation method that reflects the pattern of their consumption

5. Product development assets – Product development assets represent direct costs incurred in the development of educational programmes and titles prior to their publication. These costs are recognised as current intangible assets where the title will generate probable future economic benefits and costs can be measured reliably

Product development assets relating to content are amortised upon publication of the title over estimated economic lives of seven years or less, being an estimate of the expected operating lifecycle of the title, with a higher proportion of the amortisation taken in the earlier years. Product development assets relating to product platforms are amortised over 10 years or less, being an estimate of the expected useful life

The assessment of the useful economic life and the recoverability of product development assets involves judgement and is based on historical trends and management estimation of future potential sales.

Product development assets are assessed for impairment triggers on an annual basis or when triggering events occur. The carrying amount of product development assets is set out in note 20

The investment in product development assets has been disclosed as part of cash generated from operations in the cash flow statement (see note 33).

Other financial assets

Other financial assets are non-derivative financial assets classified and measured at estimated fair value

Marketable securities and cash deposits with maturities of greater than three months are classified and subsequently measured at fair value through profit and loss (FVTPL). They are remeasured at each balance sheet date by using market data and the use of established valuation techniques. Any movement in the fair value is immediately recognised in finance income or finance costs in the income statement

Investments in the equity instruments of other entities are classified and subsequently measured at fair value through other comprehensive income (FVOCI). Changes in fair value are recorded in equity in the fair value reserve via other comprehensive income. On subsequent disposal of the asset, the net fair value gains or losses are reclassified from the fair value reserve to retained earnings. Any dividends received from equity investments classified as FVOCI are recognised in the income statement unless they represent a return of capital

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method or an approximation thereof, such as the first in first out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Provisions are made for slow-moving and obsolete stock

Royalty advances

Advances of royalties to authors are included within trade and other receivables when the advance is paid less any provision required to adjust the advance to its net realisable value. The realisable value of royalty advances relies on a degree of management estimation in determining the profitability of individual author contracts. If the estimated realisable value of author contracts is overstated, this will have an adverse effect on operating profits as these excess amounts will be written off

Financial statements

Notes to the consolidated financial statements *continued*

1a. Accounting policies continued

Royalty advances continued

The recoverability of royalty advances is based upon an annual detailed management review of the age of the advance, the future sales projections for new authors and prior sales history of repeat authors.

The royalty advance is expensed at the contracted or effective royalty rate as the related revenues are earned. Royalty advances which will be consumed within one year are held in current assets. Royalty advances which will be consumed after one year are held in non-current assets.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement include cash in hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included in borrowings in current liabilities in the balance sheet.

Short-term deposits and marketable securities with maturities of greater than three months do not qualify as cash and cash equivalents and are reported as financial assets. Movements on these financial assets are classified as cash flows from financing activities in the cash flow statement where these amounts are used to offset the borrowings of the Group or as cash flows from investing activities where these amounts are held to generate an investment return.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Ordinary shares purchased under a buyback programme are cancelled and the nominal value of the shares is transferred to a capital redemption reserve.

Borrowings

Borrowings are recognised initially at fair value, which is proceeds received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Accrued interest is included as part of borrowings.

Where a debt instrument is in a fair value hedging relationship, an adjustment is made to its carrying value in the income statement to reflect the hedged risk.

Where a debt instrument is in a net investment hedge relationship, gains and losses on the effective portion of the hedge are recognised in other comprehensive income.

Derivative financial instruments

Derivatives are recognised at fair value and remeasured at each balance sheet date. The fair value of derivatives is determined by using market data and the use of established estimation techniques such as discounted cash flow and option valuation models.

For derivatives in a hedge relationship, the currency basis spread is excluded from the designation as a hedging instrument.

Changes in the fair value of derivatives are recognised immediately in finance income or costs. However, derivatives relating to borrowings and certain foreign exchange contracts are designated as part of a hedging transaction.

The accounting treatment is summarised as follows.

Typical reason for designation	Reporting of gains and losses on effective portion of the hedge	Reporting of gains and losses on disposal
Net investment hedge		
The derivative creates a foreign currency liability which is used to hedge changes in the value of a subsidiary which transacts in that currency.	Recognised in other comprehensive income.	On the disposal of foreign operations or subsidiaries, the accumulated value of gains and losses reported in other comprehensive income is transferred to the income statement.
Fair value hedges		
The derivative transforms the interest profile on debt from fixed rate to floating rate. Changes in the value of the debt as a result of changes in interest rates and foreign exchange rates are offset by equal and opposite changes in the value of the derivative. When the Group's debt is swapped to floating rates, the contracts used are designated as fair value hedges.	Gains and losses on the derivative are reported in finance income or finance costs. However, an equal and opposite change is made to the carrying value of the debt (a 'fair value adjustment') with the benefit/cost reported in finance income or finance costs. The net result should be a zero charge on a perfectly effective hedge.	If the debt and derivative are disposed of, the value of the derivative and the debt (including the fair value adjustment) are reset to zero. Any resultant gain or loss is recognised in finance income or finance costs.
Non-hedge accounted contracts		
These are not designated as hedging instruments. Typically, these are short-term contracts to convert debt back to fixed rates or foreign exchange contracts where a natural offset exists.	Recognised in the income statement. No hedge accounting applies.	

Taxation

Current tax is recognised at 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 balance sheet liability method, on temporary differences arising between the tax bases of 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 income 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.

Deferred income tax is provided in respect of the undistributed earnings of subsidiaries, associates and joint ventures other than where it is intended that those undistributed earnings will not be remitted in the foreseeable future.

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited directly to equity or other comprehensive income, in which case the tax is also recognised in equity or other comprehensive income.

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the estimates in relation to the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises tax provisions when it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are based on management's best judgement of the application of tax legislation and best estimates of future settlement amounts (see note 7). Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities require management judgement and estimation in determining the amounts to be recognised. In particular, when assessing the extent to which deferred tax assets should be recognised, significant judgement is used when considering the timing of the recognition and estimation is used to determine the level of future taxable income together with any future tax planning strategies (see note 13).

Employee benefits

1. Pensions – The retirement benefit asset and obligation recognised in the balance sheet represent the net of the present value of the defined benefit obligation and the fair value of plan assets at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting estimated future cash flows using yields on high-quality corporate bonds which have terms to maturity approximating the terms of the related liability.

When the calculation results in a potential asset, the recognition of that asset is limited to the asset ceiling – that is the present value of any economic benefits available in the form of refunds from the plan or a reduction in future contributions. Management uses judgement to determine the level of refunds available from the plan in recognising an asset.

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity (see note 25).

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. The service cost, representing benefits accruing over the year, is included in the income statement as an operating cost. Net interest is calculated by applying the discount rate to the net defined benefit obligation and is presented as finance costs or finance income.

Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the income statement as incurred.

2. Other post-retirement obligations – The expected costs of post-retirement medical and life assurance benefits are accrued over the period of employment, using a similar accounting methodology as for defined benefit pension obligations. The liabilities and costs relating to significant other post-retirement obligations are assessed annually by independent qualified actuaries.

3. Share-based payments – The fair value of options or shares granted under the Group's share and option plans is recognised as an employee expense after taking into account the Group'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 shares awarded is measured using the share price at the date of grant unless another method is more appropriate. Any proceeds received are credited to share capital and share premium when the options are exercised.

Financial statements

Notes to the consolidated financial statements *continued*

1a. Accounting policies continued

Provisions

Provisions are recognised if the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the effect is material.

Revenue recognition

The Group's revenue streams are courseware, assessments and services. Courseware includes curriculum materials provided in book form and/or via access to digital content. Assessments includes test development, processing and scoring services provided to governments, educational institutions, corporations and professional bodies. Services includes the operation of schools, colleges and universities, including sistemas in Brazil, as well as the provision of online learning services in partnership with universities and other academic institutions.

Revenue is recognised in order to depict the transfer of control of promised goods and services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods and services. This process begins with the identification of our contract with a customer, which is generally through a master services agreement, customer purchase order, or a combination thereof. Within each contract, judgement is applied to determine the extent to which activities within the contract represent distinct performance obligations to be delivered and the total amount of transaction price to which we expect to be entitled.

The transaction price determined is net of sales taxes, rebates and discounts, and after eliminating sales within the Group. Where a contract contains multiple performance obligations such as the provision of supplementary materials or online access with textbooks, revenue is allocated on the basis of relative standalone selling prices. Where a contract contains variable consideration, significant estimation is required to determine the amount to which the Group is expected to be entitled.

Revenue is recognised on contracts with customers when or as performance obligations are satisfied, which is the period or the point in time where control of goods or services transfers to the customer. 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. Where an input method is used, significant estimation is required to determine the progress towards delivering the performance obligation.

Revenue from the sale of books is recognised net of a provision for anticipated returns. This provision is based primarily on historical return rates, customer buying patterns and retailer behaviours including stock levels (see note 24). If these estimates do not reflect actual returns in future periods then revenues could be understated or overstated for a particular period. When the provision for returns is remeasured at each reporting date to reflect changes in estimates, a corresponding adjustment is also recorded to revenue.

The Group may enter into contracts with another party in addition to our customer. In making the determination as to whether revenue should be recognised on a gross or net basis, the contract with the customer is analysed to understand which party controls the relevant good or service prior to transferring to the customer. This judgement is informed by facts and circumstances of the contract in determining whether the Group has promised to provide the specified good or service or whether the Group is arranging for the transfer of the specified good or service, including which party is responsible for fulfilment, has discretion to set the price to the customer and is responsible for inventory risk. On certain contracts, where the Group acts as an agent, only commissions and fees receivable for services rendered are recognised as revenue. Any third-party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in revenue.

Income from recharges of freight and other activities which are incidental to the normal revenue-generating activities is included in other income.

Additional details on the Group's revenue streams are also included in note 3.

Leases

The Group as a lessee

The Group 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 Group 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 Group 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 Group'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.

Management uses judgement to determine the lease term where extension and termination options are available within the lease.

The Group as a lessor

When the Group is an intermediate lessor, the head lease and sublease are accounted for as two separate contracts. The head lease is accounted for as per the lessee policy above. The sublease 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 subleases are recognised as receivables at the amount of the Group'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.

Dividends

Final dividends are recorded in the Group's financial statements in the period in which they are approved by the company's shareholders. Interim dividends are recorded when paid.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or meets the criteria to be classified as held for sale

When applicable, discontinued operations are presented in the income statement as a separate line and are shown net of tax

Assets and liabilities held for sale

Assets and liabilities are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. No depreciation is charged in respect of non-current assets classified as held for sale. Amounts relating to non-current assets and liabilities held for sale are classified as discontinued operations in the income statement where appropriate.

Trade receivables

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. A provision for anticipated future sales returns is included within trade and other liabilities (also see Revenue recognition policy).

1b. Going concern

In assessing the Group's ability to continue as a going concern for the period to 30 June 2023, the Board analysed a variety of downside scenarios including a severe but plausible scenario where the Group is impacted by a combination of all principal risks from 2022 as well as reverse stress testing to identify what would be required to either breach covenants or run out of liquidity. The severe but plausible scenario modelled a severe reduction in revenue, profit and operating cash flow from risks which in aggregate were significantly greater than seen in 2021 continuing throughout 2022 to 2023.

At 31 December 2021, the Group had available liquidity of c£1.6bn, comprising central cash balances and its undrawn \$1.19bn Revolving Credit Facility (RCF). In February 2022, the Group renegotiated its revolving credit facility, extending the maturity of \$1bn of the facility by one year to February 2026. Even under a severe downside case, the Group would maintain comfortable liquidity headroom and sufficient headroom against covenant requirements during the period under assessment even before modelling the mitigating effect of actions that management would take in the event that these downside risks were to crystallise.

The directors have confirmed that there are no material uncertainties that cast doubt on the Group's going concern status and that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for a minimum of the next 12 months.

1c. Climate change

The Group has assessed the impacts of climate change on the Group's financial statements of our commitment to achieving net zero by 2030, and the actions the Group intends to take to achieve those targets. The assessment did not identify any material impact on the Group's significant judgements or estimates at 31 December 2021, or the assessment of going concern for the period to June 2023 and the Group's viability over the next five years. Specifically, we have considered the following areas:

- The physical and transition risks associated with climate change, and
- The actions the Group is taking to meet its carbon reduction and net zero targets

As a result, the Group has assessed the impacts of climate change on the financial statements, and in particular, on the following areas:

- The impact on the Group's future cash flows, and the resulting impact that such adjustments to our future cash flows would have on the outcome of the annual impairment testing of our goodwill balances (see note 11 for further details), the recognition of deferred tax assets and our assessment of going concern;
- The carrying value of the Group's assets, in particular the recoverable amounts of inventories, product development assets, intangible assets and property, plant and equipment; and
- Any changes to our estimates of the useful economic lives of product development assets, intangible assets and property, plant and equipment

Financial statements

Notes to the consolidated financial statements *continued*

2. Segment information

On 8 March 2021, the Group announced a new strategy, which included a new management structure and operating model. As a result, the primary operating segments reported to the Group's chief operating decision-maker, the Pearson Executive Management team, have changed from 1 July 2021 to reflect the new Group structure. There are now five main global business divisions, which are each considered separate operating segments for management and reporting purposes. These five divisions are Assessment & Qualifications, Virtual Learning, English Language Learning, Higher Education and Workforce Skills. In addition, the International Courseware local publishing businesses are under strategic review and during this time are being managed as a separate division, known as Strategic Review. For the comparative period, the Group has separately disclosed the results from the Penguin Random House associate to the point of disposal in April 2020. Comparative figures for 2020 have been restated to reflect the new segments.

The following describes the principal activities of the five main operating segments

- Assessment & Qualifications – Pearson VUE, US Student Assessment, Clinical Assessment, UK GCSE and A Levels and International academic qualifications.
- Virtual Learning – Virtual Schools and Online Program Management
- English Language Learning – Pearson Test of English, Institutional Courseware and English Online Solutions
- Higher Education – US, Canadian and International Higher Education Courseware businesses.
- Workforce Skills – BTEC, GED, TalentLens, Faethm, Pearson College and Apprenticeships

For more detail on the services and products included in each operating segment, refer to the strategic report.

									2021
All figures in £ millions	Notes	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Penguin Random House	Group
Sales	3	1,204	713	238	172	849	252	–	3,428
Adjusted operating profit		216	32	15	27	73	22	–	385
Cost of major restructuring		(48)	(48)	(27)	(28)	(63)	–	–	(214)
Intangible charges		(13)	(25)	(3)	(7)	(2)	(1)	–	(51)
Other net gains and losses		–	–	–	(2)	–	65	–	63
Operating profit/(loss)		155	(41)	(15)	(10)	8	86	–	183
Finance costs	6								(68)
Finance income	6								42
Profit before tax									157
Income tax	7								3
Profit for the year									160
Other segment items									
Share of results of joint ventures and associates	12	–	(1)	3	(1)	–	–	–	1
Depreciation and impairment	10	92	48	14	9	63	15	–	241
Amortisation and impairment	11, 20	129	67	34	25	165	26	–	446

									2020
All figures in £ millions	Notes	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Penguin Random House	Group
Sales	3	1,082	692	218	163	956	286	–	3,397
Adjusted operating profit		147	29	1	26	93	16	1	313
Cost of major restructuring		–	–	–	–	–	–	–	–
Intangible charges		(29)	(30)	(7)	(8)	(3)	(3)	–	(80)
Other net gains and losses		–	–	–	–	–	(2)	180	178
Operating profit/(loss)		118	(1)	(6)	18	90	11	181	411
Finance costs	6								(107)
Finance income	6								50
Profit before tax									354
Income tax	7								(44)
Profit for the year									310
Other segment items									
Share of results of joint ventures and associates	12	–	–	4	–	–	–	1	5
Depreciation and impairment	10	53	21	7	5	28	11	–	125
Amortisation and impairment	11, 20	148	64	34	24	167	35	–	472

There were no material inter-segment sales in either 2021 or 2020

Corporate costs are allocated to business segments on an appropriate basis depending on the nature of the cost and therefore the total segment result is equal to the Group operating profit.

For additional detailed information on the calculation of adjusted operating profit as shown in the above tables, see pages 224–228 (Financial key performance indicators).

Adjusted operating profit is shown in the above tables as it is the key financial measure used by management to evaluate the performance of the Group. The measure also enables investors to more easily, and consistently, track the underlying operational performance of the Group and its business segments over time by separating out those items of income and expenditure relating to acquisition and disposal transactions, major restructuring programmes and certain other items that are also not representative of underlying performance, which are explained below and reconciled in note 8.

Cost of major restructuring – In March 2021, the Group announced a restructuring programme, to run primarily in 2021. The programme includes the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio. The restructuring costs in 2021 of £214m mainly relate to the impairment of right-of-use property assets, the write-down of product development assets and staff redundancies. The costs of this restructuring programme are significant enough to exclude from the adjusted operating profit measure so as to better highlight the underlying performance (see note 4)

Intangible charges – These represent charges relating to intangibles acquired through business combinations and intangibles relating to associates. These charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year performance of the Group. Intangible amortisation charges in 2021 were £51m, which included no impairment charges. In 2020, intangible charges were £80m including impairment charges of £12m.

Other net gains and losses – These represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets and are excluded from adjusted operating profit as they distort the performance of the Group as reported on a statutory basis. Other net gains and losses also includes costs related to business closures and acquisitions. Other net gains in 2021 largely relate to gains from the disposal of PHE and the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethim and the wind-down of certain strategic review businesses. In 2020, they largely relate to the sale of the remaining interest in Penguin Random House (£180m gain).

Financial statements

Notes to the consolidated financial statements *continued*

2. Segment information continued

The Group operates in the following main geographic areas

All figures in £ millions	Sales		Non-current assets	
	2021	2020	2021	2020
UK	355	319	582	669
Other European countries	240	216	123	129
US	2,182	2,335	2,146	2,362
Canada	111	91	225	147
Asia Pacific	359	251	192	149
Other countries	172	185	20	30
Total	3,428	3,397	3,288	3,486

Sales are allocated based on the country in which the customer is located. This does not differ materially from the location where the order is received. The geographical split of non-current assets is based on the subsidiary's country of domicile. This is not materially different to the location of the assets. Non-current assets comprise property, plant and equipment, intangible assets, investments in joint ventures and associates and trade and other receivables.

3. Revenue from contracts with customers

The following tables analyse the Group's revenue streams. Courseware includes curriculum materials provided in book form and/or via access to digital content. Assessments includes integrated test development, processing and scoring services provided to governments, educational institutions, corporations and professional bodies. Services includes the operation of schools, colleges and universities, including sistemas in Brazil, as well as the provision of online learning services in partnership with universities and other academic institutions. Comparative figures for 2020 have been restated to reflect the new segments.

The Group derived revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

All figures in £ millions	2021						Total
	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	
Courseware							
Products transferred at a point in time	44	–	109	–	283	198	634
Products and services transferred over time	14	–	26	–	558	33	631
	58	–	135	–	841	231	1,265
Assessments							
Products transferred at a point in time	173	–	6	16	–	–	195
Products and services transferred over time	973	–	72	119	–	–	1,164
	1,146	–	78	135	–	–	1,359
Services							
Products transferred at a point in time	–	–	22	–	–	14	36
Products and services transferred over time	–	713	3	37	8	7	768
	–	713	25	37	8	21	804
Total	1,204	713	238	172	849	252	3,428

							2020
All figures in £ millions	Assessment & Qualifications	Virtual learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Courseware							
Products transferred at a point in time	43	–	106	–	313	208	670
Products and services transferred over time	14	–	24	–	630	28	696
	57	–	130	–	943	236	1,366
Assessments							
Products transferred at a point in time	138	–	3	7	–	–	148
Products and services transferred over time	887	–	61	123	–	–	1,071
	1,025	–	64	130	–	–	1,219
Services							
Products transferred at a point in time	–	–	22	–	–	22	44
Products and services transferred over time	–	692	2	33	13	28	768
	–	692	24	33	13	50	812
Total	1,082	692	218	163	956	286	3,397

a. Nature of goods and services

The following is a description of the nature of the Group's performance obligations within contracts with customers broken down by revenue stream, along with significant judgements and estimates made within each of those revenue streams.

Courseware

■ Key areas of estimation

The level of provisions required for anticipated returns is estimated based on historical experience, customer buying patterns and retailer behaviours including stock levels.

Revenue is generated from customers through the sales of print and digital courseware materials to schools, bookstores and direct to individual learners. Goods and services may be sold separately or purchased together in bundled packages. The goods and services included in bundled arrangements are considered distinct performance obligations, except for where Pearson provides both a licence of intellectual property and an ongoing hosting service. As the licence of intellectual property is only available with the concurrent hosting service, the licence is not treated as a distinct performance obligation separate from the hosting service.

The transaction price is allocated between distinct performance obligations on the basis of their relative standalone selling prices.

In determining the transaction price, variable consideration exists in the form of discounts and anticipated returns. Discounts reduce the transaction price on a given transaction. A provision for anticipated returns is made based primarily on historical return rates, customer buying patterns and retailer behaviours including stock levels (see note 24). If these estimates do not reflect actual returns in future periods then revenues could be understated or

overstated for a particular period. Variable consideration as described above is determined using the expected value approach. The sales return liability at the end of 2021 was £83m (2020: £86m) (see note 24). This represents 13% of courseware sales transferred at a point in time.

While payment for these goods and services generally occurs at the start of these arrangements, the length of time between payment and delivery of the performance obligations is generally short-term in nature or the reason for early payment relates to reasons other than financing, including customers securing a vendor in a longer-term arrangement or the transfer of goods or services is at the discretion of the customer. For these reasons and the use of the practical expedient on short-term financing, significant financing components are not recognised within Courseware transactions.

Revenue from the sale of physical books is recognised at a point in time when control passes. This is generally at the point of shipment when title passes to the customer, when the Group has a present right to payment and the significant risks and rewards of ownership have passed to the customer. Revenue from physical books sold through the direct print rental method is recognised over the rental period, as the customer is simultaneously receiving and consuming the benefits of this rental service through the passage of time.

Revenue from the sale of digital courseware products is recognised on a straight-line basis over the subscription period, unless hosted by a third-party or representative of a downloadable product, in which case Pearson has no ongoing obligation and recognises revenue when control transfers as the customer is granted access to the digital product.

Revenue from the sale of 'off-the-shelf' software is recognised on delivery or on installation of the software where that is a condition of the contract. In certain circumstances, where installation is complex, revenue is recognised when the customer has completed their acceptance procedures.

Financial statements

Notes to the consolidated financial statements *continued*

3. Revenue from contracts with customers *continued*

Assessments

Revenue is primarily generated from multi-year contractual arrangements related to large-scale assessment delivery, such as contracts to process qualifying tests for individual professions and government departments, and is recognised as performance occurs. Under these arrangements, while the agreement spans multiple years, the contract duration has been determined to be each testing cycle based on contract structure, including clauses regarding termination.

While in some cases the customer may have the ability to terminate during the term for convenience, significant financial or qualitative barriers exist limiting the potential for such terminations in the middle of a testing cycle.

Within each testing cycle, a variety of service activities are performed such as test administration, delivery, scoring, reporting, item development, operational services and programme management. These services are not treated as distinct in the context of the customer contract as Pearson provides an integrated managed service offering and these activities are accounted for together as one comprehensive performance obligation.

Within each testing cycle, the transaction price may contain both fixed and variable amounts. Variable consideration within these transactions primarily relates to expected testing volumes to be delivered in the cycle. The assumptions, risks and uncertainties inherent to long-term contract accounting can affect the amounts and timing of revenue and related expenses reported. Variable consideration is measured using the expected value method, except where amounts are contingent upon a future event's occurrence, such as performance bonuses. Such event-driven contingency payments are measured using the most likely amount approach. In estimating and constraining variable consideration, historical experience, current trends and local market conditions are considered. 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.

Customer payments are generally defined in the contract through a payment schedule, which may require customer acceptance for services rendered. Pearson has a history of providing satisfactory services which are accepted by the customer. While a delay between rendering of services and payment may exist, payment terms are within 12 months and the Group has elected to use the practical expedient available in IFRS 15 'Revenue from Contracts with Customers' and not identify a significant financing component on these transactions.

Revenue is recognised for Assessment contracts over time as the customer is benefiting as performance takes place through a continuous transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contracts which may allow the customer to terminate for convenience, compensate us for work performed to date, and take possession of work in process.

As control transfers over time, revenue is recognised based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the services provided. Revenue is recognised on a percentage of costs basis, calculated using the proportion of the total estimated costs incurred to date. From 2021, the proportion of estimated costs incurred to date is primarily based on historical cost analysis for similar groups of contracts, with regular true-ups to contract costs throughout the contract period. Previously, the proportion of estimated costs incurred to date was based on individual contract analysis. The change in input methodology has not resulted in a material impact on revenue recognition. Percentage of completion is used to recognise the transfer of control of services provided as these services are not provided evenly throughout the testing cycle and involve varying degrees of effort during the contract term.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated total costs of the contract exceed the estimated total revenues that will be generated.

In Assessments contracts driven primarily by transactions directly to end users, Pearson's main obligation to the customer involves test delivery and scoring. Test delivery and scoring are defined as a single performance obligation delivered over time whether the test is subsequently manually scored or digitally scored on the day of the assessment. Customers may also purchase print and digital supplemental materials. Print products in this revenue stream are recognised at a point in time when control passes to the customer upon shipment. Recognition of digital revenue will occur based on the extent of Pearson's ongoing hosting obligation.

Services

Revenue is primarily generated from multi-year contractual arrangements related to large-scale educational service delivery to academic institutions, such as schools and higher education universities. Under these arrangements, while an agreement may span multiple years, the contract duration has been determined to be each academic period based on the structure of contracts, including clauses regarding termination. While in some cases the customer may have the ability to terminate during the term for convenience, significant financial or qualitative barriers exist limiting the potential for such terminations in the middle of an academic period. The academic period for this customer base is normally an academic year for schools and a semester for higher education universities.

Within each academic period, a variety of services are provided such as programme development, student acquisition, education technology and student support services. These services are not distinct in the context of the customer contract as Pearson provides an integrated managed service offering and these activities are accounted for together as a comprehensive performance obligation.

Where Services are provided to university customers, volume and transaction price are fixed at the start of the semester. Where Services are provided to school customers, the transaction price may contain both fixed and variable amounts which require estimation during the academic period. Estimation is required where consideration is based upon average enrolments or other metrics which are not known at the start of the academic year. Variable consideration is measured using the expected value method. Historical experience, current trends, local circumstances and customer-specific funding formulas 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.

Customer payments are generally defined in the contract as occurring shortly after invoicing. Where there is a longer payment term offered to a customer through a payment schedule, payment terms are within 12 months and the Group has elected to use the practical expedient available in IFRS 15 and not identify a significant financing component on these transactions.

Revenue is recognised for Service contracts over time as the customer is benefiting as performance takes place through a continuous transfer of control to the customer. This continuous transfer of control to the customer is supported by clauses in the contracts which may allow the customer to terminate for convenience, compensate for work performed to date, and take possession of work in process.

As control transfers over time, revenue is recognised based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services provided. Within the comprehensive service obligation, the timing of services occurs relatively evenly over each academic period and, as such, time elapsed is used to recognise the transfer of control to the customer on a straight-line basis.

Losses on contracts are recognised in the period in which the loss first becomes foreseeable. Contract losses are determined to be the amount by which estimated total costs of the contract exceed the estimated total revenues that will be generated.

In cases of optional or add-on purchases, institutions may purchase physical goods priced at their standalone value, which are accounted for separately and recognised at the point in time when control passes to the customer upon shipment.

b. Disaggregation of revenue

The tables in notes 2 and 3 show revenue from contracts with customers disaggregated by operating segment, geography and revenue stream. These disaggregation categories are appropriate as they represent the key groupings used in managing and evaluating underlying performance of each of the businesses. The categories also reflect groups of similar types of transactional characteristics, among similar customers, with similar accounting conclusions.

c. Contract balances

Transactions within the Courseware revenue stream generally entail customer billings at or near the contract's inception and accordingly Courseware deferred income balances are primarily related to subscription performance obligations to be delivered over time.

Transactions within the Assessments and Services revenue streams generally entail customer billings over time based on periodic intervals, progress towards milestones or enrolment census dates. As the performance obligations within these arrangements are delivered over time, the extent of accrued income or deferred income will ultimately depend upon the difference between revenue recognised and billings to date.

Refer to note 22 for opening and closing balances of accrued income. Refer to note 24 for opening and closing balances of deferred income. Revenue recognised during the period from changes in deferred income was driven primarily by the release of revenue over time from digital subscriptions.

d. Contract costs

The Group capitalises incremental costs to obtain contracts with customers where it is expected these costs will be recoverable. Incremental costs to obtain contracts with customers are considered those which would not have been incurred if the contract had not been obtained. For the Group, these costs relate primarily to sales commissions. The Group has elected to use the practical expedient as allowable by IFRS 15 whereby such costs will be expensed as incurred where the expected amortisation period is one year or less. Where the amortisation period is greater than one year, these costs are amortised over the contract term on a systematic basis consistent with the transfer of the underlying goods and services within the contract to which these costs relate, which will generally be on a rateable basis.

The Group does not recognise any material costs to fulfil contracts with customers as these types of activities are governed by other accounting standards.

There were no deferred contract costs in 2021 or 2020.

e. Remaining transaction price

The below table depicts the remaining transaction price on unsatisfied or partially unsatisfied performance obligations from contracts with customers.

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Notes to the consolidated financial statements *continued*

3. Revenue from contracts with customers *continued*

					2021		
All figures in £ millions	Sales	Deferred income	Committed sales	Total remaining transaction price	2022	2023	2024 and later
Courseware							
Products transferred at a point in time	634	1	–	1	1	–	–
Products and services transferred over time	631	93	–	93	60	11	22
Assessments							
Products transferred at a point in time	195	–	–	–	–	–	–
Products and services transferred over time	1,164	255	442	697	503	191	3
Services							
Products transferred at a point in time	36	–	–	–	–	–	–
Products and services transferred over time – subscriptions	290	13	10	23	23	–	–
Products and services transferred over time – other ongoing performance obligations	478	24	220	244	244	–	–
Total	3,428	386	672	1,058	831	202	25

					2020		
All figures in £ millions	Sales	Deferred income	Committed sales	Total remaining transaction price	2021	2022	2023 and later
Courseware							
Products transferred at a point in time	670	–	–	–	–	–	–
Products and services transferred over time	696	105	14	119	84	14	21
Assessments							
Products transferred at a point in time	148	1	–	1	1	–	–
Products and services transferred over time	1,071	217	413	630	426	203	1
Services							
Products transferred at a point in time	44	–	–	–	–	–	–
Products and services transferred over time – subscriptions	323	18	10	28	27	1	–
Products and services transferred over time – other ongoing performance obligations	445	18	195	213	213	–	–
Total	3,397	359	632	991	751	218	22

Committed sales amounts are equal to the transaction price from contracts with customers, excluding those amounts previously recognised as revenue and amounts currently recognised in deferred income. The total of committed sales and deferred income is equal to the remaining transaction price. Time bands stated above represent the expected timing of when the remaining transaction price will be recognised as revenue

4. Operating expenses

All figures in £ millions

	2021	2020
By function:		
Cost of goods sold	1,747	1,767
Operating expenses		
Distribution costs	62	59
Selling, marketing and product development costs	521	572
Administrative and other expenses	802	816
Restructuring costs	214	-
Other income	(37)	(45)
Total net operating expenses	1,562	1,402
Other net gains and losses	(63)	(178)
Total	3,246	2,991

Other income includes freight income and sublet income. Included in administrative and other expenses are research and efficacy costs of £12m (2020: £11m). Other net gains and losses in 2021 largely relate to the sale of interests in PIH in South Africa and the school business in Brazil. In 2020, other net gains and losses largely relate to the sale of the remaining interest in Pearson Random House (£180m gain).

In March 2021, the Group announced a major restructuring programme to run in 2021, principally comprising the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio. The costs of this programme have been excluded from adjusted operating profit so as to better highlight the underlying performance (see note 8). An analysis of major restructuring costs are as follows:

All figures in £ millions

	2021	2020
By nature:		
Product costs	19	-
Employee costs	32	-
Impairment of non-current assets	145	-
Property and facilities	11	-
Technology and communications	3	-
Professional and outsourced services	4	-
Total restructuring – operating expenses	214	-

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Notes to the consolidated financial statements *continued*

4. Operating expenses continued

All figures in £ millions	Notes	2021	2020
By nature:			
Royalties expensed		185	191
Other product costs		353	349
Employee benefit expense	5	1,365	1,337
Contract labour		69	67
Employee-related expense		21	30
Promotional costs		239	233
Depreciation and impairment of property, plant and equipment	10	241	125
Amortisation and impairment of intangible assets – product development	20	279	280
Amortisation and impairment of intangible assets – software	11	117	112
Amortisation and impairment of intangible assets – other	11	50	80
Property and facilities		124	85
Technology and communications		215	216
Professional and outsourced services		477	498
Other general and administrative costs		58	71
Costs capitalised		(447)	(460)
Other net gains and losses		(63)	(178)
Other income		(37)	(45)
Total		3,246	2,991

During the year the Group obtained the following services from the Group's auditors, PwC:

All figures in £ millions	2021	2020
The audit of parent company and consolidated financial statements	5	5
The audit of the company's subsidiaries	2	2
Total audit fees	7	7
Audit-related and other assurance services	–	–
Other non-audit services	–	–
Total other services	–	–
Total non-audit services	–	–
Total	7	7

Reconciliation between audit and non-audit service fees is shown below:

All figures in £ millions	2021	2020
Group audit fees including fees for attestation under section 404 of the Sarbanes-Oxley Act	7	7
Non-audit fees	–	–
Total	7	7

Fees for attestation under section 404 of the Sarbanes-Oxley Act are allocated between fees payable for the audits of consolidated and subsidiary accounts

5. Employee information

All figures in £ millions	Notes	2021	2020
Employee benefit expense			
Wages and salaries (including termination costs)		1,180	1,152
Social security costs		95	96
Share-based payment costs	26	28	29
Retirement benefits – defined contribution plans	25	37	47
Retirement benefits – defined benefit plans	25	25	13
Total		1,365	1,337

The details of the emoluments of the Directors of Pearson plc are shown in the report on Directors' remuneration

Average number employed	2021	2020
Employee numbers		
UK	3,395	3,304
Other European countries	878	886
US	11,757	11,432
Canada	593	648
Asia Pacific	2,738	2,812
Other countries	1,383	2,109
Total	20,744	21,191

2020 employee numbers have been restated to be on a comparable basis to the current year.

6. Net finance costs

All figures in £ millions	Notes	2021	2020
Interest payable on financial liabilities at amortised cost and associated derivatives		(41)	(38)
Interest on lease liabilities		(27)	(41)
Net foreign exchange losses		–	(6)
Derivatives not in a hedge relationship		–	(22)
Finance costs		(68)	(107)
Interest receivable on financial assets at amortised cost		5	9
Interest on lease receivables		6	9
Net finance income in respect of retirement benefits	25	4	6
Fair value remeasurement of disposal proceeds		6	26
Net foreign exchange gains		1	–
Derivatives not in a hedge relationship		20	–
Finance income		42	50
Net finance costs		(26)	(57)
Analysed as:			
Net interest payable reflected in adjusted earnings		(57)	(61)
Other net finance income		31	4
Net finance costs		(26)	(57)

Net movement in the fair value of hedges is further explained in note 16. Derivatives not in a hedge relationship include fair value movements in the interest rate and cross-currency interest rate swaps. For further information on adjusted measures above, see note 8.

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Notes to the consolidated financial statements *continued*

7. Income tax

All figures in £ millions

	Notes	2021	2020
Current tax			
Charge in respect of current year		(96)	(18)
Adjustments in respect of prior years		(12)	4
Total current tax charge		(108)	(14)
Deferred tax			
In respect of temporary differences		98	(28)
Other adjustments in respect of prior years		13	(2)
Total deferred tax credit/(charge)	13	111	(30)
Total tax credit/(charge)		3	(44)

The adjustments in respect of prior years in both 2021 and 2020 primarily arise from revising the previous year's reported tax provision to reflect the tax returns subsequently filed. This results in a change between deferred and current tax as well as an absolute benefit to the total tax charge. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the UK tax rate as follows

	2021	2020
Profit before tax	157	354
Tax calculated at UK rate (2021: 19%, 2020: 19%)	(30)	(67)
Effect of overseas tax rates	(23)	(6)
Effect of UK rate change	25	(5)
Joint venture and associate income reported net of tax	-	1
Intra-group financing benefit	7	14
Movement in provisions for tax uncertainties	-	24
Net expense not subject to tax	(9)	(7)
Gains and losses on sale of businesses not subject to tax	4	21
Unrecognised tax losses	6	(21)
Benefit from changes in local tax law	11	-
Benefit from US accounting method changes	11	-
Adjustments in respect of prior years	1	2
Total tax credit/(charge)	3	(44)
UK	27	23
Overseas	(24)	(67)
Total tax credit/(charge)	3	(44)
Tax rate reflected in earnings	(1.8)%	12.5%

Key judgements

The application of tax legislation in relation to provisions for uncertain tax positions.

Key areas of estimation

The level of provisions required in relation to uncertain tax positions is complex and each matter is separately assessed. The estimation of future settlement amounts is based on a number of factors including the status of the unresolved matter, clarity of legislation, range of possible outcomes and the statute of limitations.

Included in net expense not subject to tax are foreign taxes not creditable, the tax impact of share-based payments and other expenses not deductible.

Factors which may affect future tax charges include changes in tax legislation, transfer pricing regulations, the level and mix of profitability in different countries, and settlements with tax authorities.

The movement in provisions for tax uncertainties primarily reflects releases due to the expiry of relevant statutes of limitation, settlement of certain audits and the establishment of provisions for new uncertain tax positions. The current tax liability of £125m (2020: £84m) includes £104m (2020: £104m) of provisions for tax uncertainties principally in respect of several matters in the US, the UK and China. The matters provided for include the allocation between territories of proceeds of historical business disposals and the potential disallowance of intra-group recharges.

The Group is currently under audit in several countries, and the timing of any resolution of these audits is uncertain. Of the balance of £104m, £80m relates to 2017 and earlier. In most countries, tax years up to and including 2017 are now statute barred from examination by tax authorities. Of the remaining balance, £3m relates to 2018, £13m to 2019, £6m to 2020 and £2m to 2021. If relevant enquiry windows pass with no audit, management believes it is reasonably possible that provision levels will reduce by an estimated £70m within the next 12 months. However, the tax authorities may take a different view from management and the final liability may be greater than provided.

Contingent liabilities relating to tax are disclosed in note 34.

The tax rate reflected in adjusted earnings is calculated as follows:

All figures in £ millions	2021	2020
Profit before tax	157	354
Adjustments:		
Cost of major restructuring	214	-
Other net gains and losses	(63)	(178)
Intangible charges	51	80
Other net finance income	(31)	(4)
Adjusted profit before tax	328	252
Total tax credit/(charge)	3	(44)
Adjustments:		
Tax benefit on cost of major restructuring	(47)	-
Tax charge on other net gains and losses	14	3
Tax benefit on intangible charges	(12)	(22)
Tax charge on other net finance costs	6	4
Tax amortisation benefit on goodwill and intangibles	8	24
Benefit from changes in local tax law	(11)	-
Tax benefit on UK tax rate change	(25)	-
Adjusted tax charge	(64)	(35)
Tax rate reflected in adjusted earnings	19.5%	13.7%

For further information on adjusted measures above, see note 8.

The tax benefit/(charge) recognised in other comprehensive income is as follows:

All figures in £ millions	2021	2020
Net exchange differences on translation of foreign operations	10	(13)
Fair value gain on other financial assets	(3)	(6)
Remeasurement of retirement benefit obligations	(61)	2
	(54)	(17)

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Notes to the consolidated financial statements *continued*

8. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders of the company (earnings) by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as treasury shares.

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares to take account of all dilutive potential ordinary shares and adjusting the profit attributable, if applicable, to account for any tax consequences that might arise from conversion of those shares. A dilution is not calculated for a loss.

All figures in £ millions	2021	2020
Earnings for the year	160	310
Non-controlling interest	(1)	–
Earnings attributable to equity shareholders	159	310
Weighted average number of shares (millions)	754.1	755.4
Effect of dilutive share options (millions)	5.0	–
Weighted average number of shares (millions) for diluted earnings	759.1	755.4
Earnings per share (in pence per share)		
Basic	21.1p	41.0p
Diluted	20.9p	41.0p

Adjusted

For additional detailed information on the calculation of adjusted measures, see pages 224-228 (Financial key performance indicators). See note 2 for details of specific items excluded from or included in adjusted operating profit in 2021 and 2020.

In order to show results from operating activities on a consistent basis, an adjusted earnings per share is presented. The Group's definition of adjusted earnings per share may not be comparable with other similarly titled measures reported by other companies.

Adjusted earnings is a non-GAAP (non-statutory) financial measure and is included as it is a key financial measure used by management to evaluate the performance of the Group. The measure also enables investors to more easily, and consistently, track the underlying operational performance of the Group and its business segments over time by separating out those items of income and expenditure relating to acquisition and disposal transactions, major restructuring programmes and certain other items that are also not representative of underlying performance.

Adjusted earnings per share is calculated as adjusted earnings divided by the weighted average number of shares in issue on an undiluted basis. The following items are excluded from or included in adjusted earnings:

Cost of major restructuring – In March 2021, the Group announced a restructuring programme, to run primarily in 2021. The programme includes the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio. The restructuring costs in 2021 of £214m mainly relate to the impairment of right-of-use property assets, the write-down of product development assets and staff redundancies. The costs of this restructuring programme are significant enough to exclude from the adjusted operating profit measure so as to better highlight the underlying performance (see note 4).

Other net gains and losses – These represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets and are excluded from adjusted earnings as they distort the performance of the Group as reported on a statutory basis. Other net gains and losses also includes costs related to business closures and acquisitions. Other net gains in 2021 largely relate to gains from the disposal of PIHE and the K12 Sistemas business in Brazil offset by costs related to the acquisition of Faethm and the wind-down of certain strategic review businesses. In 2020, they largely relate to the sale of the remaining interest in Penguin Random House (£180m gain). The tax charge of £14m in 2021 (2020: £3m) relates to other gains and losses.

Intangible charges – These represent charges relating to intangibles acquired through business combinations and intangibles relating to associates. These charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year performance of the Group. Intangible amortisation charges in 2021 were £51m, which included no impairment charges. In 2020, intangible charges were £80m including impairment charges of £12m.

Other net finance income/costs – These include finance costs in respect of retirement benefits, finance costs relating to acquisition and disposal transactions and foreign exchange and other net gains and losses. Net finance income relating to retirement benefits is excluded as management does not believe that the consolidated income statement presentation under IAS 19 reflects the economic substance of the underlying assets and liabilities. Finance costs associated with acquisition and disposal transactions are excluded as these relate to future earn-outs or acquisition expenses and are not part of the underlying financing. In 2021, and 2020, the fair value remeasurement of disposal proceeds relates to the US K-12 disposal in 2019. Foreign exchange and other net gains and losses are excluded as they represent short-term fluctuations in market value and are subject to significant volatility. Other net gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity. In 2021 and 2020, the foreign exchange gains and losses largely relate to foreign exchange differences on unhedged intercompany loans and cash and cash equivalents. Losses on derivatives not in a hedge relationship represent the unrealised mark to market of long-term interest rate hedges used to fix the interest rate of borrowings.

Tax – Tax on the above items is excluded from adjusted earnings. Where relevant, the Group also excludes the benefit from recognising previously unrecognised pre-acquisition and capital losses. The tax benefit from tax deductible goodwill and intangibles is added to the adjusted income tax charge as this benefit more accurately aligns the adjusted tax charge with the expected rate of cash tax payments. In addition, one off items such as the impact of the UK tax rate change and changes in local tax law have been excluded.

Non-controlling interest – Non-controlling interest for the above items is excluded from adjusted earnings

The following tables reconcile the statutory income statement to the adjusted income statement.

	2021								
All figures in £ millions	Statutory income statement	Cost of major restructuring	Other net gains and losses	Intangible charges	Other net finance income/ costs	Change in UK tax rate	Benefit from change in local tax law	Tax amortisation benefit	Adjusted income statement
Operating profit	183	214	(63)	51	–	–	–	–	385
Net finance costs	(26)	–	–	–	(31)	–	–	–	(57)
Profit before tax	157	214	(63)	51	(31)	–	–	–	328
Income tax	3	(47)	14	(12)	6	(25)	(11)	8	(64)
Profit for the year	160	167	(49)	39	(25)	(25)	(11)	8	264
Non-controlling interest	(1)	–	–	–	–	–	–	–	(1)
Earnings	159	167	(49)	39	(25)	(25)	(11)	8	263
Weighted average number of shares (millions)	754.1								754.1
Weighted average number of shares (millions) for diluted earnings	759.1								759.1
Earnings per share (basic)	21.1p								34.9p
Earnings per share (diluted)	20.9p								34.6p

	2020								
All figures in £ millions	Statutory income statement	Cost of major restructuring	Other net gains and losses	Intangible charges	Other net finance income/ costs	Change in UK tax rate	Benefit from change in local tax law	Tax amortisation benefit	Adjusted income statement
Operating profit	411	–	(178)	80	–	–	–	–	313
Net finance costs	(57)	–	–	–	(4)	–	–	–	(61)
Profit before tax	354	–	(178)	80	(4)	–	–	–	252
Income tax	(44)	–	3	(22)	4	–	–	24	(35)
Profit for the year	310	–	(175)	58	–	–	–	24	217
Non-controlling interest	–	–	–	–	–	–	–	–	–
Earnings	310	–	(175)	58	–	–	–	24	217
Weighted average number of shares (millions)	755.4								755.4
Weighted average number of shares (millions) for diluted earnings	755.4								755.4
Earnings per share (basic)	41.0p								28.7p
Earnings per share (diluted)	41.0p								28.7p

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Notes to the consolidated financial statements *continued*

9. Dividends

All figures in £ millions	2021	2020
Final paid in respect of prior year 13.5p (2020: 13.5p)	102	101
Interim paid in respect of current year 6.3p (2020: 6.0p)	47	45
	149	146

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2021 of 14.2p per equity share which will absorb an estimated £107m of shareholders' funds. It will be paid on 6 May 2022 to shareholders who are on the register of members on 25 March 2022. These financial statements do not reflect this dividend.

10. Property, plant and equipment

All figures in £ millions	Right-of-use assets		Owned assets			Total
	Land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Assets in the course of construction	
Cost						
At 1 January 2020	460	23	300	325	36	1,144
Exchange differences	(11)	(2)	(7)	(11)	(1)	(32)
Additions	62	-	7	5	37	111
Disposals and retirements	(13)	(9)	(23)	(29)	(1)	(75)
Reclassifications and transfers	-	-	20	21	(50)	(9)
Transfer to assets classified as held for sale	(59)	-	(1)	(3)	-	(63)
At 31 December 2020	439	12	296	308	21	1,076
Exchange differences	-	-	2	(3)	-	(1)
Additions	32	-	8	17	39	96
Disposals and retirements	(6)	(7)	(100)	(72)	-	(185)
Reclassifications and transfers	-	-	35	-	(31)	4
Transfer to assets classified as held for sale	-	-	(15)	-	-	(15)
At 31 December 2021	465	5	226	250	29	975

	Right-of-use assets		Owned assets			
	land and buildings	Plant and equipment	Land and buildings	Plant and equipment	Assets in the course of construction	Total

All figures in £ millions

Depreciation and impairment						
At 1 January 2020	(58)	(16)	(200)	(252)	–	(526)
Exchange differences	2	1	6	9	–	18
Charge for the year	(65)	(3)	(25)	(32)	–	(125)
Disposals and retirements	1	9	22	29	–	61
Reclassifications and transfers	–	–	(2)	2	–	–
<i>Impairment of assets to be classified as held for sale</i>	(4)	–	–	–	–	(4)
Transfer to assets classified as held for sale	14	–	–	1	–	15
At 31 December 2020	(110)	(9)	(199)	(243)	–	(561)
Exchange differences	(1)	1	(1)	1	–	–
Charge for the year	(46)	(3)	(16)	(30)	–	(95)
Disposals and retirements	7	6	99	71	–	183
Reclassifications and transfers	–	–	(5)	7	–	2
Impairment	(119)	–	(22)	(5)	–	(146)
<i>Transfer to assets classified as held for sale</i>	–	–	8	–	–	8
At 31 December 2021	(269)	(5)	(136)	(199)	–	(609)
Carrying amounts						
At 1 January 2020	402	7	100	73	36	618
At 31 December 2020	329	3	97	65	21	515
At 31 December 2021	196	–	90	51	29	366

Key areas of estimation

The recoverability of right-of-use assets and in particular assumptions related to the ability to sublease vacant leased assets in the future.

Depreciation expense of £40m (2020: £44m) has been included in the income statement in cost of goods sold and £55m (2020: £81m) in operating expenses. The impairment charge of £146m (2020: £nil) has been included within operating expenses within the income statement.

Property, plant and equipment assets are assessed for impairment triggers annually or when triggering events occur. In 2021, as part of a major restructuring programme, the Group 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 and impairment charges of £141m have been recognised within costs of major restructuring (see note 4 for details). The recoverability of certain of the Group's right-of-use assets is now based on the Group'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.

Where there is vacant space in the right-of-use-assets, the Group estimates that a 1% increase/decrease in the discount rate used would reduce/increase the recoverable value of the right-of-use assets by £10m. In addition, the Group estimates that a three month reduction/increase in the net sublet income (which could arise from changes to the achievable rent, lease incentives or sublet start dates) would reduce/increase the recoverable value of the right-of-use assets by £6m.

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Notes to the consolidated financial statements *continued*

11. Intangible assets

All figures in £ millions	Goodwill	Software	Acquired customer lists, contracts and relationships	Acquired trademarks and brands	Acquired publishing rights	Other intangibles acquired	Total
Cost							
At 1 January 2020	2,139	1,039	793	238	179	413	4,801
Exchange differences	(45)	(24)	(25)	(19)	(2)	(48)	(163)
Additions – internal development	–	80	–	–	–	–	80
Additions – purchased	–	1	–	–	–	–	1
Disposals and retirements	–	(6)	(17)	(21)	(80)	(16)	(140)
Transfers	–	14	–	–	–	–	14
At 31 December 2020	2,094	1,104	751	198	97	349	4,593
Exchange differences	8	5	4	(2)	–	(2)	13
Additions – internal development	–	110	–	–	–	–	110
Additions – purchased	–	2	–	–	–	–	2
Disposals and retirements	–	(135)	–	(25)	–	(43)	(203)
Acquisition of subsidiary	43	–	–	–	–	27	70
Disposal of subsidiary	–	–	(14)	(3)	–	(10)	(27)
Transfers	–	1	–	–	–	–	1
At 31 December 2021	2,145	1,087	741	168	97	321	4,559

All figures in £ millions	Goodwill	Software	Acquired customer lists, contracts and relationships	Acquired trademarks and brands	Acquired publishing rights	Other intangibles acquired	Total
Amortisation and impairment							
At 1 January 2020	–	(588)	(588)	(178)	(176)	(371)	(1,901)
Exchange differences	–	18	23	13	2	46	102
Charge for the year	–	(112)	(44)	(14)	(2)	(8)	(180)
Impairment charge	–	–	(2)	–	–	(10)	(12)
Disposals	–	6	17	21	81	15	140
At 31 December 2020	–	(676)	(594)	(158)	(95)	(328)	(1,851)
Exchange differences	–	(5)	(4)	1	(1)	4	(5)
Charge for the year	–	(113)	(34)	(8)	–	(8)	(163)
Impairment charge	–	(4)	–	–	–	–	(4)
Disposals and retirements	–	135	–	25	–	43	203
Disposal of subsidiary	–	–	12	2	–	10	24
Transfers	–	6	–	–	–	–	6
At 31 December 2021	–	(657)	(620)	(138)	(96)	(279)	(1,790)
Carrying amounts							
At 1 January 2020	2,139	451	205	60	3	42	2,900
At 31 December 2020	2,094	428	157	40	2	21	2,742
At 31 December 2021	2,145	430	121	30	1	42	2,769

Goodwill

The goodwill carrying value of £2.145m (2020: £2.094m) relates to acquisitions completed after 1 January 1998. Prior to 1 January 1998, all goodwill was written off to reserves on the date of acquisition. For acquisitions completed between 1 January 1998 and 31 December 2002, no value was ascribed to intangibles other than goodwill which was amortised over a period of up to 20 years. On adoption of IFRS on 1 January 2003, the Group chose not to restate the goodwill balance and at that date the balance was frozen (i.e. amortisation ceased). If goodwill had been restated, then a significant value would have been ascribed to other intangible assets, which would be subject to amortisation, and the carrying value of goodwill would be significantly lower. For acquisitions completed after 1 January 2003, value has been ascribed to other intangible assets which are amortised.

Software and acquired intangible assets

Acquired intangible assets are valued separately for each acquisition and the primary method of valuation used is the discounted cash flow method. The majority of acquired intangibles are amortised using an amortisation profile based on the projected cash flows underlying the acquisition date valuation of the intangible asset, which generally results in a larger proportion of amortisation being recognised in the early years of the asset's life. The Group keeps the expected pattern of consumption under review. Other intangibles acquired includes technology.

Amortisation of £25m (2020: £22m) is included in the income statement in cost of goods sold and £138m (2020: £158m) in operating expenses. Impairment charges of £4m (2020: £12m) are included in operating expenses within the income statement, of which £4m (2020: £nil) relates to software, £nil (2020: £2m) relates to customer lists, contracts and relationships, and £nil (2020: £10m) to other intangibles acquired.

The range of useful economic lives for each major class of intangible asset (excluding goodwill and software) is shown below:

	2021
Class of intangible asset	Useful economic life
Acquired customer lists, contracts and relationships	3–20 years
Acquired trademarks and brands	2–20 years
Acquired publishing rights	5–20 years
Other intangibles acquired	2–20 years

The expected amortisation profile of acquired intangible assets is shown below:

	2021		
	One to five years	Six to ten years	Total
All figures in £ millions			
Class of intangible asset			
Acquired customer lists, contracts and relationships	92	29	121
Acquired trademarks and brands	24	6	30
Acquired publishing rights	1	–	1
Other intangibles acquired	27	15	42

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Notes to the consolidated financial statements *continued*

11. Intangible assets continued

Impairment tests for cash-generating units (CGUs) containing goodwill

Impairment tests have been carried out where appropriate as described below. Goodwill was allocated to CGUs, or an aggregation of CGUs, where goodwill could not be reasonably allocated to individual business units. CGUs have been revised in 2021. Impairment reviews were conducted on these revised CGUs as summarised below.

2021 CGUs

All figures in £ millions	2021 Goodwill
Assessment & Qualifications	1,198
Virtual Learning	395
English Language Learning	153
Workforce Skills	223
Higher Education	68
Strategic Review (includes the separate CGUs of China, India, South Africa, Canada and Other Strategic Review)	108
Total	2,145

2020 CGUs

All figures in £ millions	2020 Goodwill
North American Courseware	—
OPM	18
Virtual Schools	374
Assessments	1,002
International (includes the separate CGUs of Brazil, China, India and South Africa)	700
Total	2,094

Goodwill is tested at least annually for impairment. The recoverable amount of each aggregated CGU is based on the higher of value in use and fair value less costs of disposal. The value in use was higher than the fair value less costs of disposal in each of the CGUs. Other than goodwill there are no intangible assets with indefinite lives. No impairments of goodwill were recorded in 2021 or 2020. In 2020, impairment charges of £12m were recognised in relation to acquired intangibles.

■ Key judgements

The allocation of goodwill to the cash-generating units and groups of cash-generating units.

■ Key areas of estimation

The recoverability of goodwill balances. Key assumptions used in goodwill impairment testing are discount rates, perpetuity growth rates, forecast sales growth rates and forecast operating profits.

Determination of CGUs and reallocation of goodwill

Pearson identifies its CGUs based on its operating model and how data is collected and reviewed for management reporting and strategic planning purposes in accordance with IAS 36 'Impairment of Assets'. In 2021, the CGUs and aggregations of CGUs were revised to take into account the announcement and implementation of a new strategy including five new business divisions and a strategic review division. The newly created CGUs and CGU aggregations reflect the level at which goodwill is monitored by management.

Goodwill has been reallocated to the new CGUs and aggregations of CGUs. The majority of the goodwill balances have been directly mapped from one previous CGU (or CGU aggregation) to one newly created CGU (or CGU aggregation). Where it was not possible to directly map the goodwill it has been reallocated using a relative value method. The key area where the relative value method has been used is for the goodwill related to the previous International CGU aggregation which has been reallocated across the newly created CGU aggregations where applicable.

Key assumptions

For the purpose of estimating the value in use of the CGUs, management has used an income approach based on present value techniques. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

The key assumptions used by management in the value in use calculations were:

Discount rates – The discount rate is based on the risk-free rate for government bonds, adjusted for a risk premium to reflect the increased risk in investing in equities. The risk premium adjustment is assessed for each CGU. Where CGUs cover multiple territories, blended inputs are used. The average pre-tax discount rates range from 8.9% to 17.1% (2020: pre-tax 9.3% to 17.2%). Discount rates are generally lower for those businesses which operate in more mature markets with low inflation and generally higher for those operating in emerging markets with higher inflation.

Perpetuity growth rates – The perpetuity growth rates are based on inflation trends. A perpetuity growth rate of 2% (2020: 2%) was used for cash flows subsequent to the approved budget period for CGUs operating primarily in mature markets. This perpetuity growth rate is a conservative rate and is considered to be lower than the long-term historical growth rates of the underlying territories in which the CGU operates and the long-term growth rate prospects of the sectors in which the CGU operates. CGU growth rates between 2.0% to 5.0% (2020: 2.2% to 4.5%) were used for cash flows subsequent to the approved budget period for CGUs operating in emerging markets with higher inflation. These growth rates are also generally below the long-term historical growth rates in these markets.

The key assumptions used by management in setting the financial budgets were as follows:

Forecast sales growth rates – Forecast sales growth rates are based on past experience adjusted for the strategic direction and near-term investment priorities within each CGU. Key assumptions include continued growth in Virtual Learning, post COVID-19 recovery in Assessment & Qualifications and English Language Learning, growth driven by recent acquisitions in Workforce Skills, and ongoing pressures in Higher Education partially offset by recapture of the secondary market. The sales forecasts use average nominal growth rates of low-mid single digits for mature businesses in mature markets, mid-high single digits for emerging businesses in mature markets, low-high single digits for mature businesses in emerging markets, and low double digits for Workforce Skills where there is significant organic investment and inorganic investment related to the acquisition of Faethm.

Operating profits – Operating profits are forecast based on historical experience of operating margins, adjusted for the impact of changes to product costs, committed restructuring plans, strategic developments and new business cases to the extent they have been formally approved prior to the balance sheet date. Management applies judgement in allocating corporate costs on a reasonable and consistent basis in order to determine operating profit at a CGU level. Forecasts generally assume a return to normality from 2022 onwards following the COVID-19 pandemic. Management have considered the impact of climate change risks (including physical and transition risks and the costs associated with achieving the Group's net zero commitment) and are satisfied that any related costs will not materially impact the Group's profit forecasts or impairment judgements at 31 December 2021.

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Notes to the consolidated financial statements *continued*

11. Intangible assets continued

The table below shows the key assumptions used by management in the value in use calculations.

	Discount rate	Perpetuity growth rate
Assessment & Qualifications	11.2%	2.0%
Virtual Learning	10.9%	2.0%
English Language Learning	9.1%	3.0%
Workforce Skills	8.9%	2.0%
Higher Education	11.1%	2.0%
Strategic Review	8.9 – 17.1%	2.0 – 5.0%

Sensitivities

Impairment testing for the year ended 31 December 2021 has shown none of the CGUs, or groups of CGUs, as being sensitive to reasonably possible changes in key assumptions, including those related to climate change.

The assets held in the Strategic Review CGUs are subject to a possible disposal process. Given the stage of the process the related assets have not been classified as held for sale at 31 December 2021. Valuation estimates obtained as part of this process were used by management to determine a fair value less costs to dispose valuation. This fair value less costs to dispose valuation results in a lower headroom position than the value in use method, however, it does not indicate impairment in any of the Strategic Review CGUs.

12. Investments in joint ventures and associates

The amounts recognised in the balance sheet are as follows:

All figures in £ millions	2021	2020
Associates	24	6
Total	24	6

The amounts recognised in the income statement are as follows:

All figures in £ millions	2021	2020
Associates	1	5
Total	1	5

The Group has no material associates or joint ventures.

In 2021, the Group acquired two associates. The largest of these is a 40% interest in the Academy of Pop (AOP) that was entered into on 31 August 2021, and had a year end carrying amount of £10m, of which £7m was still to be paid as at 31 December 2021 (see note 36). AOP is incorporated in Delaware and is a Limited Liability Company. It was set up with XIX Entertainment to create a new entertainment driven performing arts learning platform, which will offer coaching from renowned instructors, with a combination of physical locations and online learning.

The Group's 25% interest in Penguin Random House was disposed of in April 2020 (see note 31). Funds loaned to Penguin Random House were repaid at the point of disposal. Prior to the completion of the sale of Penguin Random House, the Group received dividends of £1m from Penguin Random House.

There were no other material transactions with associates or joint ventures during 2021 or 2020.

13. Deferred income tax

All figures in £ millions	2021	2020
Deferred income tax assets	57	32
Deferred income tax liabilities	(40)	(62)
Net deferred income tax asset/(liability)	17	(30)

Substantially all of the deferred income tax assets are expected to be recovered after more than one year.

Deferred income tax assets and liabilities shall be offset when there is a legally enforceable right to offset current income tax assets with current income tax liabilities and where the deferred income taxes relate to the same fiscal authority. At 31 December 2021, the Group has gross tax losses for which no deferred tax asset is recognised of £166m (2020: £166m) in respect of UK losses, £391m (2020: £369m) in respect of US losses and approximately £164m (2020: £300m) in respect of losses in other territories. The UK losses are capital losses which can be carried forward indefinitely. The US losses relate to federal and state taxes. Federal tax losses can be carried forward indefinitely, certain state tax losses may have expiry periods between one and 20 years.

In the UK March Budget 2021, the Government announced that from 1 April 2023 the UK corporation tax rate will increase to 25%, and this was substantively enacted on 24 May 2021. UK deferred tax balances have been remeasured at the enacted rate. The UK corporation tax rate increase has resulted in an increase of £27m in the UK deferred tax liability associated with the UK Group pension plan asset position, which has been recognised in other comprehensive income. The UK corporation tax rate change is beneficial to the Group's statutory tax rate as it increases the value of certain UK tax attributes of the Group, such as tax losses.

Other gross deductible temporary differences for which no deferred tax asset is recognised total £22m (2020: £56m). The amount of temporary differences associated with subsidiaries for which no deferred tax has been provided is not material.

Deferred income tax assets of £19m (2020: £20m) have been recognised in countries that reported a tax loss in either the current or preceding year. This primarily arises in Brazil in respect of tax deductible goodwill and tax losses. It is considered more likely than not that there will be sufficient future taxable profits to realise these assets.

The recognition of the deferred income tax assets is supported by management's forecasts of the future profitability of the relevant countries. In some cases deferred income tax assets are forecast to be recovered through taxable profits over a period that exceeds five years. Management consider these forecasts are sufficiently reliable to support the recovery of the assets. Where there are insufficient forecasts of future profits, deferred income tax assets have not been recognised.

The movement in deferred income tax assets and liabilities during the year is as follows:

All figures in £ millions	Trading losses	Accruals and other provisions	Retirement benefit obligations	Deferred revenue	Goodwill and intangibles	Interest limitations	Other	Total
Deferred income tax assets/(liabilities)								
At 1 January 2020	89	34	(38)	41	(199)	57	27	11
Exchange differences	2	(3)	(1)	(2)	2	(4)	(2)	(8)
Income statement (charge)/benefit	(44)	4	(12)	6	(12)	23	5	(30)
Tax benefit/(charge) in other comprehensive income	-	-	2	-	-	-	(5)	(3)
At 31 December 2020	47	35	(49)	45	(209)	76	25	(30)
Exchange differences	-	(1)	-	-	(2)	-	2	(1)
Acquisition of subsidiaries	1	-	-	-	4	-	-	5
Income statement benefit/(charge)	34	30	2	7	29	(21)	30	111
Tax charge in other comprehensive income	-	-	(61)	-	-	-	(7)	(68)
At 31 December 2021	82	64	(108)	52	(178)	55	50	17

Other deferred income tax items include temporary differences in respect of share-based payments, depreciation and royalty advances.

As at 31 December 2021, no deferred income tax assets or liabilities were classified as held for sale (2020: £nil).

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Notes to the consolidated financial statements *continued*

14. Classification of financial instruments

The accounting classification of each class of the Group's financial assets, and their carrying values, is as follows:

All figures in £ millions	Notes	2021					2020				
		Fair value			Amortised cost		Fair value			Amortised cost	
		Fair value through other comprehensive income	Fair value through profit and loss	Fair value – hedging instrument	Financial assets	Total carrying value	Fair value through other comprehensive income	Fair value through profit and loss	Fair value – hedging instrument	Financial assets	Total carrying value
Investments in unlisted securities	15	113	–	–	–	113	138	–	–	–	138
Cash and cash equivalents	17	–	84	–	853	937	–	93	–	1,004	1,097
Derivative financial instruments	16	–	–	32	–	32	–	2	61	–	63
Trade receivables	22	–	–	–	854	854	–	–	–	803	803
Investment in finance lease receivable	22	–	–	–	115	115	–	–	–	130	130
Other receivable		–	87	–	–	87	–	96	–	–	96
Total financial assets		113	171	32	1,822	2,138	138	191	61	1,937	2,327

The carrying value of the Group's financial assets is equal to, or approximately equal to, the market value. The other receivable relates to the receivable which arose on the disposal of the US K-12 business and is included in current other receivables in note 22.

The accounting classification of each class of the Group's financial liabilities, together with their carrying values and market values, is as follows:

All figures in £ millions	Notes	2021					2020				
		Fair value		Amortised cost		Total market value	Fair value		Amortised cost		Total market value
		Fair value through profit and loss	Fair value – hedging instrument	Other financial liabilities	Total carrying value		Fair value through profit and loss	Fair value – hedging instrument	Other financial liabilities	Total carrying value	
Derivative financial instruments	16	(12)	(22)	–	(34)	(34)	(30)	(22)	–	(52)	(52)
Trade payables	24	–	–	(351)	(351)	(351)	–	–	(340)	(340)	(340)
Bank loans and overdrafts	18	–	–	–	–	–	–	–	(3)	(3)	(3)
Other borrowings due within one year	18	–	–	(155)	(155)	(155)	–	–	(251)	(251)	(249)
Borrowings due after more than one year	18	–	–	(1,245)	(1,245)	(1,276)	–	–	(1,397)	(1,397)	(1,451)
Total financial liabilities		(12)	(22)	(1,751)	(1,785)	(1,816)	(30)	(22)	(1,991)	(2,043)	(2,095)

The market value of leases has been stated at book value.

Fair value measurement

As shown above, the Group's derivative assets and liabilities, unlisted securities and marketable securities are held at fair value. Financial instruments that are measured subsequently to initial recognition at fair value are grouped into levels 1 to 3, based on the degree to which the fair value is observable, as follows:

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's bonds valued at £767m (2020: £965m) and money market funds of £84m (2020: £93m) included within cash and cash equivalents are classified as level 1. The Group's derivative assets valued at £32m (2020: £63m) and derivative liabilities valued at £34m (2020: £52m) are classified as level 2. The Group's investments in unlisted securities are valued at £113m (2020: £138m) and the other receivable is valued at £87m (2020: £96m), both are classified as level 3.

The following table analyses the movements in level 3 fair value remeasurements

			2021	2020
All figures in £ millions	Other receivable	Investments in unlisted securities	Total	Total
At beginning of year	96	138	234	304
Exchange differences	1	1	2	(11)
Acquisition of investments and other receivable	-	4	4	6
Disposal of investments and other payables	(16)	(54)	(70)	(105)
Fair value movements	6	24	30	40
At end of year	87	113	200	234

The fair value of the investments in unlisted securities is determined by reference to the financial performance of the underlying asset, recent funding rounds and amounts realised on the sale of similar assets.

On initial recognition, the fair value of the other receivable, which arose on the disposal of the US K-12 business, was determined using present value techniques whereby the expected value of future cash flows was discounted using a rate which is representative of the creditworthiness of the US K-12 business. During the year, the Group received £16m as a partial repayment, with the remaining amounts reclassified as a current asset. The receivable was repaid in January 2022 (see note 37).

15. Other financial assets

All figures in £ millions	2021	2020
At beginning of year	138	122
Exchange differences	1	(4)
Acquisition of investments	4	6
Disposal of investments	(54)	-
Fair value movements	24	14
At end of year	113	138

Other financial assets are unlisted securities of £113m (2020: £138m) that are classified at fair value through other comprehensive income (FVOCI). The assets, which are not held for trading, relate to the Group's interests in new and innovative educational ventures across the world. These are strategic investments and the Group considers the classification as FVOCI to be more relevant. None of the investments are individually significant to the financial statements and therefore sensitivities have not been provided.

16. Derivative financial instruments and hedge accounting

The Group's approach to the management of financial risks is set out in note 19. The Group's outstanding derivative financial instruments are as follows

	2021			2020		
All figures in £ millions	Gross notional amounts	Assets	Liabilities	Gross notional amounts	Assets	Liabilities
Interest rate derivatives – in a fair value hedge relationship	168	5	-	354	12	-
Interest rate derivatives – not in a hedge relationship	217	-	(9)	550	-	(27)
Cross-currency rate derivatives – in a hedge relationship	331	24	(21)	516	44	(20)
FX derivatives – in a hedge relationship	237	3	(1)	193	5	(2)
FX derivatives – not in a hedge relationship	193	-	(3)	361	2	(3)
Total	1,146	32	(34)	1,974	63	(52)
Analysed as expiring:						
In less than one year	393	2	(4)	1,238	18	(12)
Later than one year and not later than five years	679	30	(26)	663	45	(32)
Later than five years	74	-	(4)	73	-	(8)
Total	1,146	32	(34)	1,974	63	(52)

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Notes to the consolidated financial statements *continued*

16. Derivative financial instruments and hedge accounting continued

The Group's treasury policies only allow derivatives to be traded where the objective is risk mitigation. These are then designated for hedge accounting using the following criteria:

- Where interest rate and cross-currency interest rate swaps are used to convert fixed rate debt to floating and we expect to receive inflows equal to the fixed rate debt interest, these are classified as fair value hedges
- Where derivatives are used to create a future foreign currency liability to provide protection against currency movements affecting the valuation of an overseas investment, these are designated as a net investment hedge
- If the derivative and the underlying hedged exposure would normally be revalued through the income statement and valuation changes are expected to be perfectly or near perfectly equal and opposite, these will not be classified in a hedge relationship.

The Group's fixed rate USD debt is held as fixed rate instruments at amortised cost

At 31 December 2021, £173m of the Group's fixed rate euro debt is converted to a floating rate exposure using interest rate and cross-currency swaps. The Group receives interest under its euro debt related swap contracts to match the interest of 1.375% on its euro 2025 notes and, in turn, pays a floating USD LIBOR+ a spread of 1.36%.

USD interest rate swaps are subsequently used to fix an element of the interest charge. The all-in rates (including the spread above LIBOR) that the Group pays is circa 3.6%. In addition to this, the Group has executed additional interest rate swaps to offset the floating rate borrowings paying circa 2%. At 31 December 2021, the Group had interest rate swap contracts to fix £217m of debt and a further £590m of outstanding fixed rate bonds, bringing the total fixed rate debt to £807m. These fixed interest rate derivatives are not designated in hedging relationships. Additionally, the Group uses FX derivatives including forwards, collars and cross-currency swaps to create synthetic USD debt as a hedge of its USD assets and to achieve certainty of USD currency conversion rates, in line with the Group's FX hedging policy. Outstanding contracts as at 31 December 2021 were held at an average GBP:USD rate of 1.46. The Group also uses FX derivatives to create synthetic BRL debt as a hedge of BRL assets; these are held at an average GBP:BRL rate of 7.71. These derivatives are in designated net investment hedging relationships. The weighted average rate achieved for the bonds in a net investment hedge relationship was GBP:USD 1.59 for the USD bonds and EUR:GBP 0.86 for the euro bonds. Outstanding contracts on the cross-currency swaps at 31 December 2021 were held at an average EUR:GBP rate of 0.72. These derivatives are in designated fair value hedging relationships.

The Group's portfolio of rate derivatives is diversified by maturity, counterparty and type. Natural offsets between transactions within the portfolio and the designation of certain derivatives as hedges significantly reduce the risk of income statement volatility. The sensitivity of the portfolio to changes in market rates is set out in note 19.

Fair value hedges

The Group uses interest rate swaps and cross-currency swaps as fair value hedges of the Group's euro issued debt.

Interest rate exposure arises from movements in the fair value of the Group's euro debt attributable to movements in euro interest rates. The hedged risk is the change in the euro bonds fair value attributable to interest rate movements. The hedged items are the Group's euro bonds which are issued at a fixed rate. The hedging instruments are fixed to floating euro interest rate swaps where the Group receives fixed interest payments and pays three-month Euribor.

As the critical terms of the interest rate swaps match the bonds, there is an expectation that the value of the hedging instrument and the value of the hedged item will move in the opposite direction as a result of movements in the zero coupon Euribor curve. The hedge ratio is therefore expected to be 100%. Potential sources of hedge ineffectiveness are a reduction or modification in the hedged item or a material change in the credit risk of swap counterparties.

A foreign currency exposure arises from foreign exchange fluctuations on translation of the Group's euro debt into GBP. The hedged risk is the risk of changes in the GBPEUR spot rate that will result in changes in the value of the euro debt when translated into GBP. The hedged items are a portion of the Group's euro bonds. The hedging instruments are floating to floating cross currency swaps which mitigates an exposure to the effect of euro strengthening against GBP within the hedge item.

As the critical terms of the cross-currency swap match the bonds, there is an expectation that the value of the hedging instrument and the value of the hedged item move in the opposite direction as a result of movements in the EUR:GBP exchange rate. The hedge ratio is 100%. Potential sources of hedge ineffectiveness are a reduction or modification in the hedged item or a material change in the credit risk of swap counterparties.

The Group held the following instruments to hedge exposures to changes in interest rates and foreign currency risk associated with borrowings:

			2021
All figures in £ millions	Carrying amount of hedging instruments	Change in fair value of hedging instrument used to determine hedge effectiveness	Nominal amounts of hedging instruments
Derivative financial instruments for interest rate risk	5	(5)	168
Derivative financial instruments for currency risk	24	(20)	168

			2020
All figures in £ millions	Carrying amount of hedging instruments	Change in fair value of hedging instrument used to determine hedge effectiveness	Nominal amounts of hedging instruments
Derivative financial instruments for interest rate risk	12	-	354
Derivative financial instruments for currency risk	44	19	354

The amounts at the reporting date relating to items designated as hedge items were as follows:

					2021
All figures in £ millions	Carrying amount of hedged items	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount	Change in fair value of hedged item used to determine hedge effectiveness	Hedge ineffectiveness	Line item in profit or loss that includes hedge ineffectiveness
Interest rate risk					
Financial liabilities – borrowings	(173)	(4)	5	-	n/a
Currency risk					
Financial liabilities – borrowings	(173)	n/a	20	-	n/a

					2020
All figures in £ millions	Carrying amount of hedged items	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount	Change in fair value of hedged item used to determine hedge effectiveness	Hedge ineffectiveness	Line item in profit or loss that includes hedge ineffectiveness
Interest rate risk					
Financial liabilities – borrowings	(367)	(9)	-	-	n/a
Currency risk					
Financial liabilities – borrowings	(367)	n/a	(19)	-	n/a

Hedge of net investment in a foreign operation

A foreign currency exposure arises from the translation of the Group's net investments in its subsidiaries which have USD, EUR and BRL functional currencies. The hedged risk is the risk of changes in the GBP/USD, GBP/EUR and GBP/BRL spot rates that will result in changes in the value of the Group's net investment in its USD, EUR and BRL assets when translated into GBP. The hedged items are a portion of the Group's assets which are denominated in USD, EUR and BRL. The hedging instruments are debt and derivative financial instruments, including cross-currency swaps, FX forwards (including non-deliverable forwards) and FX collars, which mitigates an exposure to the effect of a weakening USD, EUR or BRL on the hedged item against GBP.

It is expected that the change in value of each of these items will mirror each other as there is a clear and direct economic relationship between the hedging instrument and the hedged item in the hedge relationship.

Hedge ineffectiveness would arise if the value of the hedged items fell below the value of the hedging instruments, however, this is unlikely as the value of the Group's assets denominated in USD, EUR and BRL is significantly greater than the proposed net investment programme.

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Notes to the consolidated financial statements *continued*

16. Derivative financial instruments and hedge accounting continued

The amounts related to items designated as hedging instruments were as follows

	2021				
All figures in £ millions	Carrying amount of hedging instruments	Change in value of hedging instrument used to determine hedge ineffectiveness	Nominal amounts of hedging instruments	Hedging gains/(losses) recognised in OCI	Hedge ineffectiveness recognised in profit or loss
Derivative financial instruments	(19)	(2)	(400)	(2)	–
Financial liabilities – borrowings	(240)	4	(240)	4	–

	2020				
All figures in £ millions	Carrying amount of hedging instruments	Change in value of hedging instrument used to determine hedge ineffectiveness	Nominal amounts of hedging instruments	Hedging gains/(losses) recognised in OCI	Hedge ineffectiveness recognised in profit or loss
Derivative financial instruments	(17)	3	(355)	3	–
Financial liabilities – borrowings	(246)	1	(246)	1	–

In addition to the above, £9m (2020: £15m) of hedging gains were recognised in OCI in relation to derivative financial instruments that matured during the year. In 2020, £14m of losses accumulated in the translation reserve are reclassified to the income statement as a result of the disposal of Penguin Random House. Included in the translation reserve is a cost of hedging reserve relating to the time value of FX collars which is not separately disclosed due to materiality. The value of that reserve will decrease over the life of the hedge transaction. The balance as at 1 January and 31 December 2021 was £1m.

Offsetting arrangements with derivative counterparties

All of the Group's derivative financial instruments are subject to enforceable netting arrangements with individual counterparties, allowing net settlement in the event of default of either party. Derivative financial assets and liabilities subject to offsetting arrangements are as follows:

	2021			2020		
All figures in £ millions	Gross derivative assets	Gross derivative liabilities	Net derivative assets/liabilities	Gross derivative assets	Gross derivative liabilities	Net derivative assets/liabilities
Counterparties in an asset position	17	(12)	5	35	(10)	25
Counterparties in a liability position	15	(22)	(7)	28	(42)	(14)
Total as presented in the balance sheet	32	(34)	(2)	63	(52)	11

All of the Group's derivative financial instruments are subject to enforceable netting arrangements with individual counterparties, allowing net settlement in the event of default of either party. Offset arrangements in respect of cash balances are described in note 17.

Counterparty exposure from all derivatives is managed, together with that from deposits and bank account balances, within credit limits that reflect published credit ratings and by reference to other market measures (e.g. market prices for credit default swaps) to ensure that there is no significant exposure to any one counterparty's credit risk.

The Group has no material embedded derivatives that are required to be separately accounted for in accordance with IFRS 9 'Financial Instruments'.

17. Cash and cash equivalents (excluding overdrafts)

All figures in £ millions	2021	2020
Cash at bank and in hand	660	599
Short-term bank deposits	277	498
	937	1,097

Short-term bank deposits are invested with banks and earn interest at the prevailing short-term deposit rates.

At the end of 2021, the currency split of cash and cash equivalents was US dollar 37% (2020: 14%), sterling 24% (2020: 64%), and other 39% (2020: 22%).

Cash and cash equivalents have fair values that approximate to their carrying value due to their short-term nature.

Cash and cash equivalents include the following for the purpose of the cash flow statement:

All figures in £ millions	2021	2020
Cash and cash equivalents	937	1,116
Bank overdrafts	-	(3)
	937	1,113

There is no cash and cash equivalents balance classified as held for sale (2020: £19m). The Group has certain cash pooling arrangements in US dollars, sterling and Canadian dollars where both the company and the bank have a legal right of offset. Offsetting amounts are presented gross in the balance sheet. Offset arrangements in respect of derivatives are shown in note 16.

18. Financial liabilities – borrowings

The Group's current and non-current borrowings are as follows:

All figures in £ millions	2021	2020
Non-current		
3.75% US dollar notes 2022 (nominal amount \$117m)	-	86
3.25% US dollar notes 2023 (nominal amount \$94m)	70	69
1.375% euro notes 2025 (nominal amount €300m)	257	279
3.75% GBP notes 2030 (nominal amount £350m)	353	353
Lease liabilities (see note 35)	565	610
	1,245	1,397
Current (due within one year or on demand)		
Bank loans and overdrafts	-	3
1.875% euro notes 2021 (nominal amount €195m)	-	178
3.75% US dollar notes 2022 (nominal amount \$117m)	87	-
Lease liabilities (see note 35)	68	73
	155	254
Total borrowings	1,400	1,651

Included in the non-current borrowings above is £10m of accrued interest (2020: £11m). Included in the current borrowings above is £0.5m of accrued interest (2020: £2m). In addition to the above, there are no non-current borrowings (2020: £66m) or current borrowings (2020: £3m) classified as held for sale. The maturities of the Group's non-current borrowings are as follows:

All figures in £ millions	2021	2020
Between one and two years	140	160
Between two and five years	435	531
Over five years	670	706
	1,245	1,397

The carrying amounts and market values of borrowings are as follows.

All figures in £ millions	2021			2020		
	Effective interest rate	Carrying value	Market value	Effective interest rate	Carrying value	Market value
Bank loans and overdrafts	n/a	-	-	n/a	3	3
1.875% euro notes 2021	n/a	-	-	2.04%	178	176
3.75% US dollar notes 2022	3.94%	87	87	3.94%	86	88
3.25% US dollar notes 2023	3.36%	70	71	3.36%	69	71
1.375% euro notes 2025	1.44%	257	260	1.44%	279	278
3.75% GBP notes 2030	3.93%	353	380	3.93%	353	404
		767	798		968	1,020

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18. Financial liabilities – borrowings continued

The market values stated above are based on: clean market prices at the year end or, where these are not available, on the quoted market prices of comparable debt issued by other companies. The effective interest rates above relate to the underlying debt instruments.

The carrying amounts of the Group's borrowings before the effect of derivatives (see notes 16 and 19 for further information on the impact of derivatives) are denominated in the following currencies:

All figures in £ millions	2021	2020
US dollar	434	458
Sterling	674	686
Euro	268	472
Other	24	35
	1,400	1,651

The Group has \$1.19bn (£0.9bn) of undrawn capacity on its committed borrowing facilities as at 31 December 2021 (2020: \$1.19bn (£0.9bn) undrawn). In addition, there are a number of short-term facilities that are utilised in the normal course of business. All of the Group's borrowings are unsecured. In respect of lease obligations, the rights to the leased asset revert to the lessor in the event of default.

19. Financial risk management

The Group's approach to the management of financial risks together with sensitivity analyses of its financial instruments is set out below.

Treasury policy

Pearson's treasury policies set out the Group's principles for addressing key financial risks including capital risk, liquidity risk, foreign exchange risk and interest rate risk, and sets out measurable targets for each. The Audit Committee receives quarterly reports incorporating compliance with measurable targets and reviews and approves any changes to treasury policies annually.

The treasury function is permitted to use derivatives where their use reduces a risk or allows a transaction to be undertaken more cost effectively. Derivatives permitted include swaps, forwards and collars to manage foreign exchange and interest rate risk, with foreign exchange swap and forward contracts the most commonly executed. Speculative transactions are not permitted.

Capital risk

The Group's objectives when managing capital are:

- To maintain a strong balance sheet and a solid investment grade rating;
- To continue to invest in the business organically and through acquisitions; and
- To have a sustainable and progressive dividend policy.

In September 2021, Standard & Poor's Financial Services LLC withdrew its ratings at the request of the Group. Fitch Ratings Limited assigned a first-time Long-Term Issuer Default Rating ("IDR") of 'BBB-' (stable outlook) to the Group. The Group's bonds are rated Baa3 (stable outlook) and BBB- (stable outlook) by Moody's Investors Service and Fitch Ratings Limited respectively.

Net debt

The Group's net debt position is set out below:

All figures in £ millions	2021	2020
Cash and cash equivalents	937	1,116
Derivative financial instruments	(2)	11
Bank loans and overdrafts	-	(3)
Bonds	(767)	(965)
Investment in finance lease receivable	115	130
Lease liabilities	(633)	(752)
Net debt	(350)	(463)

At 31 December 2020, net debt presented above includes borrowings of £69m and cash and cash equivalents of £19m which are included in assets and liabilities held for sale. There are no balances held for sale as at 31 December 2021.

Interest and foreign exchange rate management

The Group's principal currency exposure is to the US dollar which represents more than 60% of the Group's sales

The Group's long-term debt is primarily held in US dollars to provide a natural hedge of this exposure, which is achieved through issued US dollar debt or converting euro debt to US dollars using cross-currency swaps, forwards and collars. As at 31 December 2021 and 2020, the Group's debt of £1,400m (2020: £1,651m) is all held at fixed rates.

See note 16 for details of the Group's hedging programme which addresses interest rate risk and foreign currency risk.

Overseas profits are converted to sterling to satisfy sterling cash outflows such as dividends at the prevailing spot rate at the time of the transaction. To the extent the Group has sufficient sterling, US dollars may be held as dollar cash to provide a natural offset to the Group's debt or to satisfy future US dollar cash outflows.

The Group does not have significant cross-border foreign exchange transactional exposures.

As at 31 December 2021, the sensitivity of the carrying value of the Group's financial instruments to fluctuations in interest rates and exchange rates is as follows:

All figures in £ millions	2021				
	Carrying value	Impact of 1% increase in interest rates	Impact of 1% decrease in interest rates	Impact of 10% strengthening in sterling	Impact of 10% weakening in sterling
Investments in unlisted securities	113	–	–	(9)	11
Other receivable	87	–	–	(8)	10
Cash and cash equivalents	937	–	–	(43)	53
Derivative financial instruments	(2)	6	(6)	(1)	1
Bonds	(767)	5	(5)	37	(45)
Other borrowings	(633)	–	–	57	(70)
Investment in finance lease receivable	115	–	–	(11)	13
Other net financial assets	503	–	–	(42)	51
Total	353	11	(11)	(20)	24

All figures in £ millions	2020				
	Carrying value	Impact of 1% increase in interest rates	Impact of 1% decrease in interest rates	Impact of 10% strengthening in sterling	Impact of 10% weakening in sterling
Investments in unlisted securities	138	–	–	(11)	13
Other receivable	96	–	–	(9)	11
Cash and cash equivalents	1,097	–	–	(55)	25
Derivative financial instruments	11	17	(19)	3	1
Bonds	(965)	9	(9)	54	(67)
Other borrowings	(686)	–	–	62	(76)
Investment in finance lease receivable	130	–	–	(12)	14
Other net financial assets	463	–	–	(44)	40
Total	284	26	(28)	(12)	(39)

The table above shows the sensitivities of the fair values of each class of financial instrument to an isolated change in either interest rates or foreign exchange rates. Other net financial assets comprises trade receivables less trade payables. A significant proportion of the movements shown above would impact equity rather than the income statement due to the location and functional currency of the entities in which they arise and the availability of net investment hedging.

The Group's income statement is reported at average rates for the year while the balance sheet is translated at the year-end closing rate. Differences between these rates can distort ratio calculations such as debt to EBITDA and interest cover. Adjusted operating profit translated at year-end closing rates would be £6m higher (2020: £25m lower) than the reported figure of £385m (2020: £313m) at £391m (2020: £288m). Adjusted EBITDA translated at year-end closing rates would be £8m higher (2020: £38m lower) than the reported figure of £598m (2020: £550m) at £606m (2020: £512m).

Financial statements

Notes to the consolidated financial statements *continued*

19. Financial risk management continued

Liquidity and refinancing risk management

The Group regularly reviews the level of cash and debt facilities required to fund its activities. This involves preparing a prudent cash flow forecast for the next three to five years, determining the level of debt facilities required to fund the business, planning for shareholder returns and repayments of maturing debt, and identifying an appropriate amount of headroom to provide a reserve against unexpected outflows.

At 31 December 2021, the Group had cash of £0.9bn (2020: £1.1bn) and no outstanding drawings (2020: £nil) on the US dollar denominated revolving credit facility due 2025 of \$1.19bn (2020: \$1.19bn).

The \$1.19bn facility contains interest cover and leverage covenants which the Group has complied with for the year ended 31 December 2021. The maturity of the carrying values of the Group's borrowings and trade payables are set out in notes 18 and 24 respectively.

At the end of 2021, the currency split of the Group's trade payables was US dollar £199m (2020: £195m), sterling £76m (2020: £76m)

and other currencies £76m (2020: £69m). Trade payables are all due within one year (2020: all due within one year).

The table below analyses the Group's bonds and derivative assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Short dated derivative instruments have not been included in this table. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest) and as such may differ from the amounts disclosed on the balance sheet.

Financial counterparty and credit risk management

Financial counterparty and credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables. Counterparty credit limits, which take published credit rating and other factors into account, are set to cover the Group's total aggregate exposure to a single financial institution. The limits applicable to published credit rating bands are approved by the Chief Financial Officer within guidelines approved by the Board. Exposures and limits applicable to each financial institution are reviewed on a regular basis.

All figures in £ millions	Analysed by maturity			Total	Analysed by currency			Total
	Greater than one month and less than one year	Later than one year but less than five years	Five years or more		USD	GBP	Other	
At 31 December 2021								
Bonds	107	386	403	896	162	468	266	896
Rate derivatives – inflows	(7)	(331)	–	(338)	(9)	(150)	(179)	(338)
Rate derivatives – outflows	12	339	4	355	203	150	2	355
FX forwards – inflows	(148)	–	–	(148)	–	(148)	–	(148)
FX forwards – outflows	148	–	–	148	90	–	58	148
Total	112	394	407	913	446	320	147	913
At 31 December 2020								
Bonds	200	497	416	1,113	166	481	466	1,113
Rate derivatives – inflows	(186)	(350)	(1)	(537)	(12)	(152)	(373)	(537)
Rate derivatives – outflows	180	350	12	542	209	330	3	542
FX forwards – inflows	(68)	–	–	(68)	–	(68)	–	(68)
FX forwards – outflows	68	–	–	68	36	–	32	68
Total	194	497	427	1,118	399	591	128	1,118

Cash deposits and derivative transactions are made with approved counterparties up to pre-agreed limits. To manage counterparty risk associated with cash and cash equivalents, the Group uses a mixture of money market funds as well as bank deposits. As at 31 December 2021, 81% (2020: 88%) of cash and cash equivalents was held with investment grade bank counterparties, 9% (2020: 9%) with AAA money market funds and 10% (2020: 3%) with non-investment grade bank counterparties.

For trade receivables and contract assets, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, risk associated with the industry and country in which customers operate may also influence the credit risk. The credit quality of customers is assessed by taking into account financial position, past experience and other relevant factors. Individual credit limits are set for each customer based on internal ratings. The compliance with credit limits is regularly

monitored by the Group. A default on a trade receivable is when the counterparty fails to make contractual payments within the stated payment terms. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. The carrying amounts of financial assets, trade receivables and contract assets represent the maximum credit exposure.

Trade receivables and contract assets are subject to impairment using the expected credit loss model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. See note 22 for further details about trade receivables and contract assets including movements in provisions for bad and doubtful debts.

Amendments to IFRS 9 and IFRS 7 Interest Rate Benchmark Reform

In August 2020, the IASB published 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments were effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

The Group has limited exposure to changes in the IBOR benchmark. At 31 December 2021, the Group holds interest rate and cross-currency interest rate swaps (£29m assets in fair value hedge relationships and £29m liabilities of which £21m are in net investment hedge relationships). In addition, the Group has a revolving credit facility which was not drawn on 31 December 2021, for which the terms were updated in the period in accordance with industry standards. The Group has signed up to the ISDA protocol. For GBP exposures the Group transitioned GBP LIBOR to SONIA. The Group's risk management strategy has not changed as a result of IBOR reform and the Group considers the impact of IBOR reform to be immaterial to the financial statements.

20. Intangible assets – product development

All figures in £ millions	2021	2020
Cost		
At 1 January	2,514	2,275
Exchange differences	–	(48)
Additions	287	323
Disposals and retirements	(92)	(31)
Disposal of subsidiary	(9)	–
Transfers	(2)	(5)
At 31 December	2,698	2,514
Amortisation		
At 1 January	(1,609)	(1,405)
Exchange differences	(3)	45
Charge for the year	(260)	(280)
Impairment	(19)	–
Disposals and retirements	92	31
Disposal of subsidiary	3	–
Transfers	(8)	–
At 31 December	(1,804)	(1,609)
Carrying amounts at 31 December 2021	894	905

Included in the above are product development assets amounting to £601m (2020: £607m) which will be realised in more than one year. Amortisation is included in the income statement in cost of goods sold.

Product development assets are assessed for impairment triggers on an annual basis or when triggering events occur. In 2021, of the £19m impairment charges, £14m have been recognised as a result of asset write-offs related to the major restructuring programme. The full annual impairment test showed that there is adequate headroom across all product development assets and accordingly no further impairment charges were recognised in 2021 (2020: £nil).

21. Inventories

All figures in £ millions	2021	2020
Raw materials	7	5
Work in progress	2	2
Finished goods	84	116
Returns asset	5	6
	98	129

The cost of inventories recognised as an expense and included in the income statement in cost of goods sold amounted to £171m (2020: £219m) including £22m (2020: £41m) of inventory provisions. None of the inventory is pledged as security. Included within the inventory balance is the estimation of the right to receive goods from contracts with customers via returns. The value of the returns asset is measured at the carrying amount of the assets at the time of sale aligned to the Group's normal inventory valuation methodology less any expected costs to recover the asset and any expected reduction in value. Impairment charges against the inventory returns asset are £nil in 2021 (2020: £nil). The returns asset all relates to finished goods. The obsolescence provision takes account of the Group's digital first strategy and the increasing shift towards print on demand. The year-on-year reduction in inventories is due to increased provisions for obsolescence and a reduction in the production of inventory due to the Group's digital first strategy and the increasing shift towards print on demand.

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Notes to the consolidated financial statements *continued*

22. Trade and other receivables

All figures in £ millions	2021	2020
Current		
Trade receivables	853	795
Royalty advances	2	2
Prepayments	198	189
Investment in finance lease receivable	15	18
Accrued income	14	12
Other receivables	175	102
	1,257	1,118
Non-current		
Trade receivables	1	8
Royalty advances	5	3
Prepayments	10	13
Investment in finance lease receivable	100	112
Accrued income	1	1
Interest receivable	8	–
Other receivables	4	86
	129	223

Accrued income represents contract assets which are unbilled amounts generally resulting from assessments and services revenue streams where revenue to be recognised over time has been recognised in excess of customer billings to date. Impairment charges on accrued income assets are £nil (2020: £nil). The carrying value of the Group's trade and other receivables approximates its fair value. Trade receivables are stated net of provisions for bad and doubtful debts. In addition to the above, there are trade receivables of £nil (2020: £6m) classified as held for sale (see note 32).

The movements in the provision for bad and doubtful debts are as follows:

All figures in £ millions	2021	2020
At beginning of year	(74)	(92)
Exchange differences	–	6
Income statement movements	(15)	(26)
Utilised	26	32
Disposal of subsidiary	–	6
At end of year	(63)	(74)

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed.

The ageing of the Group's gross trade receivables is as follows:

All figures in £ millions	2021	2020
Within due date	766	687
Up to three months past due date	58	73
Three to six months past due date	20	12
Six to nine months past due date	13	30
Nine to 12 months past due date	5	18
More than 12 months past due date	55	57
Gross trade receivables	917	877

The Group reviews its bad debt provision at least twice a year following a detailed review of receivable balances and historical payment profiles, and assessment of forward-looking risk factors including, where relevant, factors specifically related to COVID-19. Management believes all the remaining receivable balances are fully recoverable.

The increase in trade receivables held by the Group is driven by revenue growth which has increased debtors despite strong collections and an overall reduction in the bad debt provision. Other non-current receivables have decreased due to the receipt of deferred proceeds in relation to the US K-12 disposal; this receivable is now classified as current. Prepayments have increased due to timing differences on certain significant payments and lease receivables have decreased primarily due to payments received during the year.

23. Provisions for other liabilities and charges

All figures in £ millions	Property	Disposals and closures	Legal and other	Total
At 1 January 2021	8	4	21	33
Exchange differences	–	–	2	2
Provisions made during the year	9	1	36	46
Provisions reversed during the year	(2)	–	(2)	(4)
Provisions used during the year	–	–	(27)	(27)
Disposal of subsidiary	–	(3)	–	(3)
At 31 December 2021	15	2	30	47

Analysis of provisions:

All figures in £ millions	Property	Disposals and closures	Legal and other	Total
Current	11	2	27	40
Non-current	4	–	3	7
	15	2	30	47

	2020
Current	25
Non-current	8
	33

Property provisions in 2021 relate to the simplification of the Group's property portfolio (see note 4) and in 2020 relate primarily to dilapidations. Disposals and closures relate to the disposal of the Pearson Institute of Higher Education.

Legal and other includes legal claims, contract disputes and potential contract losses with the provisions utilised as the cases are settled. Also included in legal and other are other restructuring provisions that are generally utilised within one year.

The year on year increase in provisions is mainly due to the new property provisions (see note 10) and the 2021 major restructuring programme (see note 4).

24. Trade and other liabilities

All figures in £ millions	2021	2020
Trade payables	351	340
Sales return liability	83	86
Social security and other taxes	13	17
Accruals	317	290
Deferred income	386	356
Interest payable	42	30
Other liabilities	159	157
	1,351	1,276
Less: non-current portion		
Accruals	1	–
Deferred income	56	52
Other liabilities	38	28
	95	80
Current portion	1,256	1,196

The carrying value of the Group's trade and other liabilities approximates its fair value. The deferred income balance comprises contract liabilities in respect of advance payments in assessment, testing and training businesses; subscription income in school and college businesses; and obligations to deliver digital content in future periods. In addition to the above, there are accruals of £nil (2020: £2m) and deferred income of £nil (2020: £3m) classified as held for sale (see note 32). The increase in trade and other liabilities held by the Group is driven by timing differences which have increased deferred income, an increase in accruals related to severance and the recognition of deferred consideration in relation to acquisitions made in 2021.

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Notes to the consolidated financial statements *continued*

25. Retirement benefit and other post-retirement obligations

Background

The Group operates a number of defined benefit and defined contribution retirement plans throughout the world

The largest plan is the Pearson Pension Plan (UK Group plan) in the UK, which is sectionalised to provide both defined benefit and defined contribution pension benefits. The defined benefit section was largely closed to new members from 1 November 2006. The defined contribution section, opened in 2003, is open to new and existing employees. Finally, there is a separate section within the UK Group plan set up for auto-enrolment

The defined benefit section of the UK Group plan is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits depends on the length of service and final pensionable pay.

The defined contribution section of the UK Group plan operates a Reference Scheme Test (RST) pension underpin for its members. Where a member's fund value is insufficient to purchase the RST pension upon retirement, the UK Group plan is liable for the shortfall to cover the member's RST pension. In addition, in recent years, the scheme rules were amended to enable members who have sufficient funds to purchase an RST pension the ability to convert their fund value into a pension in the UK Group plan as an alternative to purchasing an annuity with an insurer. The Group recognises any assets and liabilities relating to these features of the defined contribution section as part of the overall UK Group plan obligation. From 1 January 2021, the Group will also recognise the assets and liabilities for all members of the defined contribution section of the UK Group plan, accounting for the whole defined contribution section as a defined benefit scheme under IAS 19 'Employee Benefits' as there is a risk the underpin will require the Group to pay further contributions to the scheme. The net impact of this on the balance sheet is £nil.

The UK Group plan is funded with benefit payments from trustee-administered funds. The UK Group plan is administered in accordance with the Trust Deed and Rules in the interests of its beneficiaries by Pearson Group Pension Trustee Limited.

At 31 December 2021, the UK Group plan had approximately 26,500 members, analysed in the following table:

All figures in %	Active	Deferred	Pensioners	Total
Defined benefit	–	18	33	51
Defined contribution	11	38	–	49
Total	11	56	33	100

The other major defined benefit plans are based in the US. These are also final salary pension plans which provide benefits to members in the form of a guaranteed pension payable for life, with the level of benefits dependent on length of service and final pensionable pay. The majority of the US plans are fully funded

The Group also has several post-retirement medical benefit plans (PRMBs), principally in the US. PRMBs are unfunded but are accounted for and valued similarly to defined benefit pension plans.

The defined benefit schemes expose the Group to actuarial risks, such as life expectancy, inflation risks and investment risk including asset volatility and changes in bond yields. The Group is not exposed to any unusual, entity-specific or plan-specific risks

■ Key judgements

Whether the Group will be eligible to receive the surplus associated with the UK Group Pension Plan in recognising a pension asset.

■ Key areas of estimation

The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions, which include the discount rate, inflation rate, salary growth and longevity.

Assumptions

The principal assumptions used for the UK Group plan and the US PRMB are shown below. Weighted average assumptions have been shown for the other plans, which primarily relate to US pension plans.

	2021			2020		
All figures in %	UK Group plan	Other plans	PRMB	UK Group plan	Other plans	PRMB
Inflation	3.3	1.4	-	2.9	0.6	-
Rate used to discount plan liabilities	1.9	2.8	2.6	1.4	2.2	2.1
Expected rate of increase in salaries	3.8	2.7	-	3.4	2.2	-
Expected rate of increase for pensions in payment and deferred pensions	2.35 to 5.10	-	-	2.05 to 5.05	-	-
Initial rate of increase in healthcare rate	-	-	6.3	-	-	6.5
Ultimate rate of increase in healthcare rate	-	-	5.0	-	-	5.0

The UK discount rate is based on corporate bond yields adjusted to reflect the duration of liabilities.

The inflation rate for the UK Group plan of 3.3% (2020: 2.9%) reflects the RPI rate. In line with changes to legislation in 2010, certain benefits have been calculated with reference to CPI as the inflationary measure and in these instances a rate of 2.6% (2020: 2.2%) has been used. The CPI rate is determined as a weighted average deduction from the RPI rate, and allows for the expected change to the formula for calculating RPI to be in line with CPIH from 2030 onwards.

The expected rate of increase in salaries has been set at 3.8% for 2021 (2020: 3.4%).

For the UK Group plan, the mortality base table assumptions have been updated and are derived from the SAPS S3 for males and females, adjusted to reflect the observed experience of the plan, with CMI model improvement factors. A 1.5% long-term rate improvement on the CMI 2020 model is applied for both males and females. The analysis of experience, and standard tables, do not reflect the impact of the ongoing COVID-19 pandemic, the ultimate impact of which remains uncertain.

For the US plans, the mortality table (Pri - 2012) and 2021 improvement scale (MP - 2021) with generational projection for male and female annuitants has been adopted.

Using the above tables, the remaining average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date for the UK Group plan and US plans is as follows:

	UK		US	
All figures in years	2021	2020	2021	2020
Male	22.6	24.0	20.5	20.4
Female	24.8	24.3	22.5	22.4

The remaining average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, for the UK and US Group plans is as follows:

	UK		US	
All figures in years	2021	2020	2021	2020
Male	24.2	25.6	22.0	21.9
Female	26.5	26.1	23.9	23.8

Although the Group anticipates that plan surpluses will be utilised during the life of the plan to address member benefits, the Group recognises its pension surplus in full in respect of the UK Group plan on the basis that it is management's judgement that there are no substantive restrictions on the return of residual plan assets in the event of a winding up of the plan after all member obligations have been met.

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Notes to the consolidated financial statements *continued*

25. Retirement benefit and other post-retirement obligations continued

Financial statement information

The amounts recognised in the income statement are as follows

						2021
All figures in £ millions	UK Group plan	Defined benefit other	Sub-total	Defined contribution	PRMB	Total
Current service cost	17	2	19	37	–	56
Past service cost	–	–	–	–	–	–
Curtailments	–	–	–	–	–	–
Administration expenses	6	–	6	–	–	6
Total operating expense	23	2	25	37	–	62
Interest on plan assets	(55)	(2)	(57)	–	–	(57)
Interest on plan liabilities	49	3	52	–	1	53
Net finance (income)/expense	(6)	1	(5)	–	1	(4)
Net income statement charge	17	3	20	37	1	58

						2020
All figures in £ millions	UK Group plan	Defined benefit other	Sub-total	Defined contribution	PRMB	Total
Current service cost	6	2	8	47	–	55
Past service cost	1	–	1	–	–	1
Curtailments	–	(1)	(1)	–	–	(1)
Administration expenses	5	–	5	–	–	5
Total operating expense	12	1	13	47	–	60
Interest on plan assets	(66)	(3)	(69)	–	–	(69)
Interest on plan liabilities	57	5	62	–	1	63
Net finance (income)/expense	(9)	2	(7)	–	1	(6)
Net income statement charge	3	3	6	47	1	54

The amounts recognised in the balance sheet are as follows

	2021				2020			
All figures in £ millions	UK Group plan	Other funded plans	Other unfunded plans	Total	UK Group plan	Other funded plans	Other unfunded plans	Total
Fair value of plan assets	4,125	120	–	4,245	3,588	119	–	3,707
Present value of defined benefit obligation	(3,588)	(123)	(20)	(3,731)	(3,178)	(135)	(21)	(3,334)
Net pension asset/(liability)	537	(3)	(20)	514	410	(16)	(21)	373
Other post-retirement medical benefit obligation				(34)				(39)
Other pension accruals				(9)				(9)
Net retirement benefit asset				471				325
Analysed as:								
Retirement benefit assets				537				410
Retirement benefit obligations				(66)				(85)

The following gains/(losses) have been recognised in other comprehensive income:

All figures in £ millions	2021	2020
Amounts recognised for defined benefit plans	145	(24)
Amounts recognised for post-retirement medical benefit plans	4	1
Total recognised in year	149	(23)

The fair value of plan assets comprises the following

	2021			2020		
All figures in %	UK Group plan	Other funded plans	Total	UK Group plan	Other funded plans	Total
Insurance	35	–	35	42	–	42
Equities	11	1	12	1	1	2
Fixed interest securities	7	2	9	5	1	6
Property	5	–	5	5	–	5
Pooled asset investment funds	30	–	30	34	–	34
Other	9	–	9	11	–	11

The plan assets do not include any of the Group's own financial instruments, or any property occupied by the Group. The table below further disaggregates the plan assets into those assets which have a quoted market price in an active market and those that do not:

	2021		2020	
All figures in %	Quoted market price	No quoted market price	Quoted market price	No quoted market price
Insurance	35	–	42	–
Equities	11	1	–	2
Fixed-interest securities	9	–	6	–
Property	–	5	–	5
Pooled asset investment funds	30	–	34	–
Other	–	9	–	11
Total	85	15	82	18

The liquidity profile of the UK Group plan assets is as follows:

All figures in %	2021	2020
Liquid – call <1 month	51	39
Less liquid – call 1–3 months	–	–
Illiquid – call >3 months	49	61

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25. Retirement benefit and other post-retirement obligations continued

Financial statement information continued

Changes in the values of plan assets and liabilities of the retirement benefit plans are as follows.

All figures in £ millions	2021			2020		
	UK Group plan	Other plans	Total	UK Group plan	Other plans	Total
Fair value of plan assets						
Opening fair value of plan assets	3,588	119	3,707	3,341	120	3,461
Recognition of Money Purchase assets	513	–	513	–	–	–
Exchange differences	–	2	2	–	(3)	(3)
Interest on plan assets	55	2	57	66	3	69
Return on plan assets excluding interest	71	6	77	297	8	305
Contributions by employer	14	1	15	3	5	8
Benefits paid	(123)	(10)	(133)	(119)	(14)	(133)
Contributions by employees	7	–	7	–	–	–
Closing fair value of plan assets	4,125	120	4,245	3,588	119	3,707
Present value of defined benefit obligation						
Opening defined benefit obligation	(3,178)	(156)	(3,334)	(2,912)	(157)	(3,069)
Recognition of Money Purchase liabilities	(513)	–	(513)	–	–	–
Exchange differences	–	(1)	(1)	–	3	3
Current service cost	(17)	(2)	(19)	(6)	(2)	(8)
Past service cost	–	–	–	(1)	–	(1)
Curtailments	–	–	–	–	1	1
Administration expenses	(6)	–	(6)	(5)	–	(5)
Interest on plan liabilities	(49)	(3)	(52)	(57)	(5)	(62)
Actuarial (losses)/gains – experience	(100)	3	(97)	(18)	(2)	(20)
Actuarial (losses)/gains – demographic	(1)	–	(1)	1	1	2
Actuarial gains/(losses) – financial	160	6	166	(299)	(11)	(310)
Contributions by employee	(7)	–	(7)	–	2	2
Benefits paid	123	10	133	119	14	133
Closing defined benefit obligation	(3,588)	(143)	(3,731)	(3,178)	(156)	(3,334)

From 1 January 2021, the Group has recognised the assets and liabilities for all members of the defined contribution section of the UK Group plan, accounting for the whole defined contribution section as a defined benefit scheme under IAS 19 'Employee Benefits'. The net impact on the balance sheet is £nil, however, the gross amounts of £513m can be seen in the table above. Subsequent movements to those assets and liabilities are included in the relevant lines in the table above.

The weighted average duration of the defined benefit obligation is 16 years for the UK and seven years for the US.

Changes in the value of the US PRMB are as follows:

All figures in £ millions	2021	2020
Opening defined benefit obligation	(39)	(43)
Exchange differences	(1)	1
Interest on plan liabilities	(1)	(1)
Actuarial gains – experience	2	3
Actuarial gains – demographic	–	1
Actuarial gains/(losses) – financial	2	(3)
Benefits paid	3	3
Closing defined benefit obligation	(34)	(39)

Funding

The UK Group plan is self-administered with the plan's assets being held independently of the Group in trust. The trustee of the UK Group plan is required to act in the best interest of the plan's beneficiaries. The most recent triennial actuarial valuation for funding purposes was completed as at 1 January 2021 and this valuation revealed a technical provisions funding surplus of £160m. The UK Group plan expects to be able to provide benefits (in accordance with the plan rules) with a very low level of reliance on future funding from the Group.

Assets of the UK Group plan are divided into two elements: matching assets, which are assets that produce cash flows that can be expected to match the cash flows for a proportion of the membership, and include a liability-driven investment mandate (UK bonds, interest rate/ inflation swaps and other derivative instruments), pensioner buy-in insurance policies, inflation-linked property and infrastructure, and return-seeking assets, which are assets invested with a longer-term horizon to generate the returns needed to provide the remaining expected cash flows for the beneficiaries, and include diversified growth funds, property and alternative asset classes. The UK Group plan's long-term investment strategy allocates 95% to matching assets and 5% to return-seeking assets.

Following the purchase of buy-in policies with Legal & General and Aviva in 2017 and 2019, 95% of the UK Group plan's pensioner liabilities are now matched with buy-in policies. These transfer significant longevity risk to Aviva and Legal & General, reducing the pension risks being underwritten by the Group and providing additional security for members.

Regular employer contributions to the UK Group plan in respect of the defined benefit sections are estimated to be £3m for 2022.

Sensitivities

The effect of a one percentage point increase and decrease in the discount rate on the defined benefit obligation and the total pension expense is as follows:

	2021	
	1% increase	1% decrease
All figures in £ millions		
Effect:		
(Decrease)/increase in defined benefit obligation – UK Group plan	(450)	616
(Decrease)/increase in defined benefit obligation – US plan	(9)	11

The effect of members living one year more or one year less on the defined benefit obligation is as follows:

	2021	
	One year increase	One year decrease
All figures in £ millions		
Effect:		
Increase/(decrease) in defined benefit obligation – UK Group plan	107	(108)
Increase/(decrease) in defined benefit obligation – US plan	4	(3)

The effect of a half percentage point increase and decrease in the inflation rate is as follows:

	2021	
	0.5% increase	0.5% decrease
All figures in £ millions		
Effect:		
Increase/(decrease) in defined benefit obligation – UK Group plan	142	(141)
Increase/(decrease) in defined benefit obligation – US plan	-	-

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant, although in practice this is unlikely to occur and changes in some assumptions may be correlated. When calculating these sensitivities, the same method has been applied to calculate the defined benefit obligation as has been applied when calculating the liability recognised in the balance sheet. This methodology is the same as prior periods.

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26. Share-based payments

The Group recognised the following charges in the income statement in respect of its equity-settled share-based payment plans:

All figures in £ millions	2021	2020
Pearson plans	28	29

The Group operates the following equity-settled employee option and share plans:

Worldwide Save for Shares Plan – 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 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.

Employee Stock Purchase Plan – In 2000, the Group established an Employee Stock Purchase Plan which allows all employees in the US to save a portion of their monthly salary over six-month periods. At the end of the period, the employee has the option to purchase American Depositary Receipts (ADRs) with their accumulated funds at a purchase price equal to 85% of the lower of the market prices prevailing at the beginning or end of the period.

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 2021 and May 2020 vest dependent on relative total shareholder return, return on invested capital and adjusted earnings per share growth. These awards are in addition to the 2020 one-off co-investment award for the Chief Executive, vesting in three equal tranches based on market and non-market performance criteria. The applicable market condition for the vesting of the final tranche is on total shareholder return. Other restricted shares awarded in 2021 and 2020 generally 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 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 Management Incentive Plan were granted in April 2021. In 2021 this scheme has been replaced by the Long-Term Incentive Plan for senior management.

The following shares were granted under restricted share arrangements:

	2021		2020	
	Number of shares 000s	Weighted average fair value £	Number of shares 000s	Weighted average fair value £
Long-Term Incentive Plan	6,394	7.27	5,598	4.94
Management Incentive Plan	630	7.71	696	5.29

The fair value of shares granted under the Long-Term Incentive Plan and the Management Incentive Plan that vest unconditionally is determined using the share price at the date of grant. The number of shares expected to vest is adjusted, based on historical experience, to account for potential forfeitures. Participants under the plans are entitled to dividends during the vesting period and therefore the share price is not discounted.

Restricted shares with a market performance condition were valued by an independent actuary using a Monte Carlo model. Restricted shares with a non-market performance condition were fair valued based on the share price at the date of grant. Non-market performance conditions are taken into consideration by adjusting the number of shares expected to vest based on the most likely outcome of the relevant performance criteria.

27. Share capital and share premium

	Number of shares 000s	Share capital £m	Share premium £m
At 1 January 2020	782,099	195	2,614
Issue of ordinary shares – share option schemes	1,236	–	6
Purchase of own shares	(30,077)	(7)	–
At 31 December 2020	753,258	188	2,620
Issue of ordinary shares – share option schemes	3,544	1	6
Purchase of own shares	–	–	–
At 31 December 2021	756,802	189	2,626

The ordinary shares have a par value of 25p per share (2020: 25p per share). All issued shares are fully paid. All shareholders are entitled to receive dividends and vote at general meetings of the company. All shares have the same rights.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme will commence in 2022. The shares bought back will be cancelled and the nominal value of the shares will be transferred to the capital redemption reserve. In 2020, approximately 30m shares were bought back and cancelled at a cost of £176m. The nominal value of these shares, £7m was transferred to the capital redemption reserve.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt (see note 18), cash and cash equivalents (see note 17) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group reviews its capital structure on a regular basis and will balance its overall capital structure through payments of dividends, new share issues as well as the issue of new debt or the redemption of existing debt in line with the financial risk policies outlined in note 19.

28. Treasury shares

	Number of shares 000s	£m
At 1 January 2020	3,258	24
Purchase of treasury shares	1,105	6
Release of treasury shares	(3,460)	(23)
At 31 December 2020	903	7
Purchase of treasury shares	2,158	16
Newly issued treasury shares	2,500	1
Release of treasury shares	(3,990)	(12)
At 31 December 2021	1,571	12

The Group holds Pearson plc shares in trust to satisfy its obligations under its restricted share plans (see note 26). These shares, representing 0.2% (2020: 0.1%) of called-up share capital, are treated as treasury shares for accounting purposes and have a par value of 25p per share.

The nominal value of Pearson plc treasury shares amounts to £0.4m (2020: £0.2m). Dividends on treasury shares are waived.

At 31 December 2021, the market value of Pearson plc treasury shares was £10m (2020: £6m).

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Notes to the consolidated financial statements *continued*

29. Other comprehensive income

						2021
	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
All figures in £ millions						
Items that may be reclassified to the income statement						
Net exchange differences on translation of foreign operations	–	(6)	–	(6)	–	(6)
Currency translation adjustment disposed	–	4	–	4	–	4
Attributable tax	–	–	10	10	–	10
Items that are not reclassified to the income statement						
Fair value gain on other financial assets	24	–	–	24	–	24
Attributable tax	–	–	(3)	(3)	–	(3)
Remeasurement of retirement benefit obligations	–	–	149	149	–	149
Attributable tax	–	–	(61)	(61)	–	(61)
Other comprehensive income/(expense) for the year	24	(2)	95	117	–	117
						2020
	Fair value reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total
All figures in £ millions						
Items that may be reclassified to the income statement						
Net exchange differences on translation of foreign operations	–	(109)	–	(109)	–	(109)
Currency translation adjustment disposed	–	(70)	–	(70)	–	(70)
Attributable tax	–	–	(13)	(13)	–	(13)
Items that are not reclassified to the income statement						
Fair value gain on other financial assets	14	–	–	14	–	14
Attributable tax	–	–	(6)	(6)	–	(6)
Remeasurement of retirement benefit obligations	–	–	(23)	(23)	–	(23)
Attributable tax	–	–	2	2	–	2
Other comprehensive income/(expense) for the year	14	(179)	(40)	(205)	–	(205)

30. Business combinations

In September 2021, Pearson completed the acquisition of 100% of the share capital of Faethm Holdings Pty Limited (Faethm), having already held 9% of the share capital previously. Faethm uses artificial intelligence and analytics services to help governments, companies and workers understand the dynamic forces shaping the labour market. Faethm will be part of the Workforce Skills division. The total consideration for the transaction was £65m, which included £10m of contingent consideration which is payable after two years, dependent upon meeting certain earnings targets. The contingent consideration has been valued at the net present value of the Group's best estimate of the amount that will be payable.

In addition, the Group made two additional acquisitions of subsidiaries for total consideration of £11m. In both cases, the Group acquired 100% of the share capital of the respective entities. Opinion Interactive LLC (also known as Spotlight Education) was acquired in February 2021. MZ Development Inc. was acquired in July 2021. Both will be part of the Assessment & Qualifications division.

The Group also made additional investments in associates, which are detailed in note 12, and are not included below.

Details of the fair values of the assets and liabilities recognised at the acquisition date and the related consideration is shown in the table below. The fair values of Faethm's net assets are provisional at this stage as management are finalising their review of the asset valuations. The provisional goodwill arising from the acquisition of Faethm represents assets and benefits that cannot be separately recognised. The goodwill is not deductible for tax purposes and at the acquisition date there were no material contingent liabilities.

There were no significant acquisitions in 2020.

All figures in £ millions	2021 Faethm	2021 Other	2021 Total	2020 Total
Intangible assets	21	6	27	-
Deferred tax asset	11	-	11	-
Trade and other receivables	1	1	2	-
Cash	4	-	4	-
Trade and other liabilities	(4)	(1)	(5)	-
Deferred tax liabilities	(6)	-	(6)	-
Net assets acquired	27	6	33	-
Goodwill	38	5	43	-
Total	65	11	76	-

Satisfied by:

Cash consideration	49	5	54	-
Contingent consideration	10	6	16	-
Fair value of existing investment	6	-	6	-
Total consideration	65	11	76	-

Faethm generated revenues of £1m and a loss before tax of £1m for the period from the acquisition date to 31 December 2021. If the acquisition had occurred on 1 January 2021, the Group's revenue and profit before tax for the year ended 31 December 2021 would not have been materially different. Total acquisition-related costs relating to the three transactions of £2m were recognised within other net gains and losses, in the consolidated income statement, all of which was recognised in the year ended 31 December 2021, and are excluded from adjusted operating profit.

The net cash outflows related to the acquisitions are set out in the table below. In addition to the current year acquisitions, the other net cash outflows on acquisition of subsidiaries in 2021 and 2020 relate to deferred payments for prior year acquisitions.

All figures in £ millions	2021 Faethm	2021 Other	2021 Total	2020 Total
Cash flow on acquisitions				
Cash – current year acquisitions	(49)	(5)	(54)	-
Cash and cash equivalents acquired	4	-	4	-
Deferred payments for prior year acquisitions and other items	-	(4)	(4)	(6)
Acquisition costs paid	(1)	-	(1)	-
Net cash outflow	(46)	(9)	(55)	(6)

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31. Disposals and business closures

The Group completed two significant disposals in 2021 and one in 2020. None of the disposals met the criteria to be considered a discontinued operation on the basis that they did not represent major lines of business or geographical areas of operations.

In February 2021, the Group completed the sale of its interests in the Pearson Institute of Higher Education (PIHE) in South Africa resulting in a pre-tax loss of £5m.

In October 2021, the sale of the Group's interests in K12 Sistemas in Brazil was also completed for consideration of £108 million, resulting in a gain on sale of £84m.

There were no other business disposals in 2021 and additional losses of £14m relate to other disposal costs including costs related to the wind-down of certain businesses under strategic review.

In April 2020, the Group completed the sale of the remaining 25% interest in Penguin Random House resulting in a pre-tax profit of £180m. There were no other material disposals in 2020. Deferred proceeds relating to the K12 sale were received in 2021 and 2020 (see note 14).

The table below shows a summary of the assets and liabilities disposed of:

All figures in £ millions	Notes	2021	2020
Disposal of subsidiaries and associates			
Intangible assets		(3)	–
Property, plant and equipment		(48)	–
Investments in joint ventures and associates		–	(418)
Intangible assets – product development		(6)	–
Inventories		(2)	–
Trade and other receivables		(6)	–
Cash and cash equivalents (excluding overdrafts)		(24)	–
Provisions for other liabilities and charges		3	–
Trade and other liabilities		4	–
Financial liabilities – borrowings		67	–
Cumulative currency translation adjustment	29	(4)	70
Net assets disposed		(19)	(348)
Cash proceeds		108	531
Costs of disposal		(24)	1
Gain on disposal		65	184

All figures in £ millions	2021	2020
Cash flow from disposals		
Proceeds – current year disposals	108	531
Proceeds – prior year disposals	16	105
Cash and cash equivalents disposed	(24)	–
Costs and other disposal liabilities paid	(17)	(5)
Net cash inflow	83	631
Analysed as:		
Cash inflow from sale of subsidiaries	83	100
Cash inflow from disposal of joint ventures and associates	–	531

32. Held for sale

Following the announcement of the sale of the Group's interests in K12 Sistemas (included within the Strategic Review segment) in March 2021, the business was classified as held for sale until the disposal completed in October 2021. At 31 December 2021, only one property, which is expected to be disposed of in 2022, was classified as held for sale. The businesses that are included in the Strategic Review segment did not meet the criteria for classification as held for sale as at 31 December 2021 on the basis that the Group was not sufficiently advanced in the sales process as at 31 December 2021 for the sale to be considered highly probable.

The held for sale assets and liabilities in 2020 are the Group's interests in the Pearson Institute of Higher Education in South Africa, which was completed on 5 February 2021.

The held for sale balances are analysed as follows:

All figures in £ millions	2021 Total	2020 Total
Non-current assets		
Property, plant and equipment	7	48
	7	48
Current assets		
Trade and other receivables	-	6
Cash and cash equivalents	-	19
	-	25
Assets classified as held for sale	7	73
Non-current liabilities		
Financial liabilities – borrowings	-	(66)
	-	(66)
Current liabilities		
Trade and other liabilities	-	(5)
Financial liabilities – borrowings	-	(3)
	-	(8)
Liabilities classified as held for sale	-	(74)
Net assets/(liabilities) classified as held for sale	7	(1)

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33. Cash generated from operations

All figures in £ millions	Notes	2021	2020
Profit		160	310
Adjustments for:			
Income tax		(3)	44
Depreciation and impairment of property, plant and equipment	10	241	125
Amortisation and impairment of acquired intangibles and goodwill	11	50	80
Amortisation and impairment of software	11	117	112
Net finance costs	6	26	57
Share of results of joint ventures and associates	12	(1)	(5)
Profit on disposal of subsidiaries, associates, investments and fixed assets		(61)	(182)
Other net gains and losses		2	6
Net profit on disposal of right-of-use assets including transfers to investment in finance lease receivable		–	(6)
Net foreign exchange adjustment from transactions		9	(34)
Share-based payment costs	26	28	29
Product development assets		(6)	(56)
Inventories		22	35
Trade and other receivables		(71)	(1)
Trade and other liabilities		37	(26)
Retirement benefit obligations		6	(1)
Provisions for other liabilities and charges		14	(37)
Net cash generated from operations		570	450
Dividends from joint ventures and associates		–	4
Purchase of property, plant and equipment		(64)	(53)
Addition of new right-of-use lease assets		(30)	(61)
Purchase of intangible assets		(112)	(81)
Net disposal of right-of-use lease assets including transfers to/from investment in finance lease receivable		–	18
Net costs paid for major restructuring		24	38
Operating cash flow		388	315
Operating tax paid		(60)	(10)
Net operating finance costs paid		(54)	(50)
Operating free cash flow		274	255
Non-operating tax (paid)/received		(117)	12
Net costs paid for major restructuring		(24)	(38)
Free cash flow		133	229
Dividends paid (including to non-controlling interests)		(149)	(147)
Net movement of funds from operations		(16)	82
Acquisitions and disposals		62	619
Disposal of lease liabilities		67	–
Loans repaid		–	48
New equity		6	6
Buyback of equity		–	(176)
Purchase of treasury shares		(16)	(6)
Other movements on financial instruments		20	(29)
Net movement of funds		123	544
Exchange movements on net debt		(10)	9
Movement in net debt		113	553
Opening net debt		(463)	(1,016)
Closing net debt		(350)	(463)

Net cash generated from operations is translated at an exchange rate approximating the rate at the date of cash flow. The difference between this rate and the average rate used to translate profit gives rise to a currency adjustment in the reconciliation between net profit and net cash generated from operations. This adjustment reflects the timing difference between recognition of profit and the related cash receipts or payments.

Operating cash flow, operating free cash flow and total free cash flow are non-GAAP (non-statutory) measures and have been disclosed and reconciled in the above table as they are commonly used by investors to measure the cash performance of the Group. In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

All figures in £ millions	2021	2020
Net book amount	4	2
Loss on sale of property, plant and equipment	(4)	(2)
Proceeds from sale of property, plant and equipment	-	-

The movements in the Group's current and non-current borrowings are as follows.

All figures in £ millions	2020	New leases/ a disposal of leases	Transfer from non-current to current	Financing cash flows	Foreign exchange movements	Fair value and other movements	2021
Financial liabilities							
Non-current borrowings	1,458	(36)	(160)	-	3	(20)	1,245
Current borrowings	248	(1)	160	(255)	(4)	9	157
Total	1,706	(37)	-	(255)	(1)	(11)	1,402

Non-current borrowings include bonds, derivative financial instruments and leases. Current borrowings include loans repayable within one year, derivative financial instruments and leases, but exclude overdrafts classified within cash and cash equivalents.

34. Contingencies and commitments

■ Key judgements

- The application of tax legislation in relation to provisions for uncertain tax positions.

■ Key areas of estimation

- The level of provisions required in relation to uncertain tax positions is complex and each matter is separately assessed. The estimation of future settlement amounts is based on a number of factors including the status of the unresolved matter, clarity of legislation, range of possible outcomes and the statute of limitations.

There are contingent Group liabilities that arise in the normal course of business in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries, joint ventures and associates. In addition, there are contingent liabilities of the Group in respect of unsettled or disputed tax liabilities, legal claims, contract disputes, royalties, copyright fees, permissions and other rights. None of these claims are expected to result in a material gain or loss to the Group.

On 25 April 2019, the European Commission published the full decision that the United Kingdom controlled foreign company group financing partial exemption (FCPE) partially constitutes State Aid. The Group has lodged an appeal. The Group has benefited from the FCPE in 2018 and prior years by approximately £116m.

(which does not include any additional interest that would be due if the appeal is lost). In February 2021, the Group received Charging Notices requiring a payment on account of materially all of the alleged State Aid to be made. Payments totalling £105m (comprising tax and interest) were made during 2021 and the Group expects to recover the funds in due course. The Group continues to be of the view that no provision is required in respect of this issue.

The Group is under assessment from the tax authorities in Brazil challenging the deduction for tax purposes of goodwill amortisation for the years 2012 to 2017. Similar assessments may be raised for other years. Potential total exposure (including possible interest and penalties) could be up to BRL 1,079m (£143m) up to 31 December 2021, with additional potential exposure of BRL 98m (£13m) in relation to deductions expected to be taken in future periods. Such assessments are common in Brazil. The Group believes that the likelihood that the tax authorities will ultimately prevail is low and that the Group's position is strong. At present, the Group believes no provision is required.

At the balance sheet date there were no commitments for capital expenditure contracted for but not yet incurred. Commitments in respect of leases are shown in note 35.

Financial statements

Notes to the consolidated financial statements *continued*

35. Leases

The Group's lease portfolio consists of approximately 730 property leases, mainly offices and test centres, together with a number of vehicle and equipment leases. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessee:

The amounts recognised in the income statement are as follows:

All figures in £ millions	Note	2021	2020
Interest on lease liabilities		(27)	(41)
Expenses relating to short-term leases		–	(1)
Depreciation of right-of-use assets	10	(49)	(68)
Impairment of right-of-use assets	10	(119)	(4)

Lease liabilities are included within financial liabilities – borrowings in the balance sheet, see note 18. The maturities of the Group's lease liabilities are as follows:

All figures in £ millions	2021	2020
Less than one year	92	100
One to five years	318	333
More than five years	394	441
Total undiscounted lease liabilities	804	874
Lease liabilities included in the balance sheet	633	683
Analysed as:		
Current	68	73
Non-current	565	610

In addition to the above, there are current lease liabilities of £nil (2020: £3m) and non-current lease liabilities of £nil (2020: £66m) classified as held for sale (see note 32).

The amounts recognised in the cash flow statement are as follows:

All figures in £ millions	2021	2020
Total cash outflow for leases as a lessee	115	133

At the balance sheet date commitments for capital leases contracted for but not yet incurred were £3m (2020: £3m). Extension and termination options and variable lease payments are not significant within the lease portfolio. Short-term leases to which the Group is committed at the balance sheet date are similar to the portfolio of short-term leases to which the short-term lease expense is disclosed above.

As a lessor:

In the event that the Group has excess capacity in its leased offices and warehouses, the Group subleases some of its properties under operating and finance leases.

The amounts recognised in the income statement are as follows:

All figures in £ millions	2021	2020
Interest on lease receivables	6	9
Income from subleasing right-of-use assets (within other income)	2	7

The amounts recognised in the cash flow statement are as follows:

All figures in £ millions	2021	2020
Total cash inflow for leases as a lessor	27	50

The following table sets out the maturity analysis of lease payments receivable for subleases classified as operating leases, showing the undiscounted lease payments to be received after the reporting date, and subleases classified as finance leases showing the undiscounted lease payments to be received after the reporting date and the net investment in the finance lease receivable. During the year the investment in finance lease receivable decreased by £15m (2020 decreased £66m), primarily due to payments received.

All figures in £ millions	Operating leases	Finance leases	2021 Total	2020 Total
Less than one year	1	20	21	24
One to two years	–	18	18	24
Two to three years	1	19	20	18
Three to four years	2	19	21	18
Four to five years	1	19	20	18
More than five years	2	39	41	56
Total undiscounted lease payments receivable	7	134	141	158
Unearned finance income		(19)		
Net investment in finance lease receivable		115		

36. Related party transactions

Joint ventures and associates

In 2021, the Group acquired a 40% interest in Academy of Pop and is accounting for the investment as an associate. At 31 December 2021, the Group had a current liability payable to Academy of Pop of £7m which relates to the Group's initial capital contribution that has not yet been paid. This balance is expected to be paid in the first half of 2022.

In 2020, the Group disposed of its interests in Penguin Random House and therefore Penguin Random House is no longer a related party. Prior to the completion of the sale of Penguin Random House, the Group received dividends of £1m and repaid loans to Penguin Random House at the point of disposal.

Key management personnel

Key management personnel are deemed to be the members of the Pearson Executive Management team (see pages 80-81). It is this committee which had responsibility for planning, directing and controlling the activities of the Group in 2021. Key management personnel compensation is disclosed below.

All figures in £ millions	2021	2020
Short-term employee benefits	6	6
Retirement benefits	1	1
Share-based payment costs	8	6
Total	15	13

There were no other material related party transactions. No guarantees have been provided to related parties.

37. Events after the balance sheet date

On 28 January 2022, the Group acquired 100% of the share capital in Credly Inc, having previously held a 19.9% interest in the company. Total consideration is c\$200m comprising upfront cash consideration of c\$142m, Pearson's existing interest valued at c\$42m and c\$16m of deferred consideration. Net assets acquired will mainly comprise of acquired intangible assets. The full acquisition accounting disclosures have not been provided as the valuation of acquired intangibles has not yet been completed.

In January 2022, the Group received \$117m in relation to full and final payment of the remaining receivable balance which arose on the disposal of the US K-12 business in 2019.

In February 2022, the Group renegotiated its revolving credit facility, extending the maturity of \$1bn of the facility by one year to 2026.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme will commence in 2022.

Financial statements

Notes to the consolidated financial statements *continued*

38. Accounts and audit exemptions

The Pearson plc subsidiary companies listed below are exempt from the requirements of the Companies Act 2006 relating to the audit of individual financial statements by virtue of section 479A.

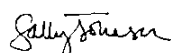
	Company number		Company number
Aldwych Finance Limited	04720439	Pearson Loan Finance No. 4 Limited	02635107
Edexcel Limited	04496750	Pearson Loan Finance No. 5 Limited	12017252
Education Development International plc	03914767	Pearson Loan Finance No. 6 Limited	12030662
Longman Group (Overseas Holdings) Limited	00690236	Pearson Loan Finance Unlimited	05144467
Major123 Limited	05333023	Pearson Management Services Limited	00096263
Pearson Australia Finance Unlimited	05578463	Pearson Overseas Holdings Limited	00145205
Pearson Books Limited	02512075	Pearson Pension Trustee Services Limited	10803853
Pearson Brazil Finance Limited	08848874	Pearson Professional Assessments Limited	04904325
Pearson Canada Finance Unlimited	05578491	Pearson Strand Limited	08561316
Pearson Dollar Finance plc	05111013	Pearson Real Estate Holdings Limited	09768242
Pearson Dollar Finance Two Limited	06507766	Pearson Services Limited	01341060
Pearson Education Holdings Limited	00210859	Pearson Shared Services Limited	04623186
Pearson Education Investments Limited	08444933	Pearson Strand Finance Limited	11091691
Pearson Education Limited	00872828	PVNT Limited	08038068
Pearson Funding Four Limited	07970304	TQ Catalis Limited	07307943
Pearson International Finance Limited	02496206	TQ Clapham Limited	07307925
Pearson Loan Finance No. 3 Limited	05052661	TQ Global Limited	07802458

Company balance sheet

As at 31 December 2021

All figures in £ millions	Notes	2021	2020
Assets			
Non-current assets			
Investments in subsidiaries	2	6,632	6,619
Amounts due from subsidiaries		2,387	2,164
Deferred income tax assets		27	11
Financial assets – derivative financial instruments	5	30	45
		9,076	8,839
Current assets			
Amounts due from subsidiaries		548	676
Current income tax assets		9	18
Cash and cash equivalents (excluding overdrafts)	4	310	541
Financial assets – derivative financial instruments	5	2	18
Other assets		-	3
		869	1,256
Total assets		9,945	10,095
Liabilities			
Non-current liabilities			
Amounts due to subsidiaries		(3,605)	(4,104)
Financial liabilities – derivative financial instruments	5	(30)	(40)
		(3,635)	(4,144)
Current liabilities			
Amounts due to subsidiaries		(1,853)	(1,382)
Other liabilities		(1)	(1)
Financial liabilities – derivative financial instruments	5	(4)	(12)
		(1,858)	(1,395)
Total liabilities		(5,493)	(5,539)
Net assets		4,452	4,556
Equity			
Share capital	6	189	188
Share premium	6	2,626	2,620
Treasury shares	7	(12)	(7)
Capital redemption reserve		18	18
Special reserve		447	447
Retained earnings – including profit for the year of £27m (2020: loss of £95m)		1,184	1,290
Total equity attributable to equity holders of the company		4,452	4,556

These financial statements have been approved for issue by the Board of Directors on 8 March 2022 and signed on its behalf by



Sally Johnson
Chief Financial Officer

Financial statements

Company statement of changes in equity

Year ended 31 December 2021

All figures in £ millions	Equity attributable to equity holders of the company						Total
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Special reserve	Retained earnings	
At 1 January 2021	188	2,620	(7)	18	447	1,290	4,556
Profit for the year	-	-	-	-	-	27	27
Equity-settled transactions	-	-	-	-	-	28	28
Issue of ordinary shares under share option schemes ¹	1	6	(1)	-	-	-	6
Purchase of treasury shares	-	-	(16)	-	-	-	(16)
Release of treasury shares	-	-	12	-	-	(12)	-
Dividends	-	-	-	-	-	(149)	(149)
At 31 December 2021	189	2,626	(12)	18	447	1,184	4,452

All figures in £ millions	Equity attributable to equity holders of the company						Total
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Special reserve	Retained earnings	
At 1 January 2020	195	2,614	21	11	447	1,656	4,944
Loss for the year	-	-	-	-	-	(95)	(95)
Equity-settled transactions	-	-	-	-	-	29	29
Issue of ordinary shares under share option schemes ¹	-	6	-	-	-	-	6
Buyback of equity	(7)	-	-	7	-	(176)	(176)
Purchase of treasury shares	-	-	(6)	-	-	-	(6)
Release of treasury shares	-	-	23	-	-	(23)	-
Transfer of contributions from subsidiaries	-	-	(45)	-	-	45	-
Dividends	-	-	-	-	-	(146)	(146)
At 31 December 2020	188	2,620	(7)	18	447	1,290	4,556

The capital redemption reserve reflects the nominal value of shares cancelled in the Group's share buyback programme. The special reserve represents the cumulative effect of cancellation of the company's share premium account.

¹ Full details of the share-based payment plans are disclosed in note 26 to the consolidated financial statements

Company cash flow statement

Year ended 31 December 2021

All figures in £ millions	Notes	2021	2020
Cash flows from operating activities			
Net profit/(loss)		27	(95)
Adjustments for:			
Income tax		(9)	(20)
Net finance costs		41	95
Share-based payment costs		28	29
Amounts due (to)/from subsidiaries		(93)	1,061
Net cash (used in)/generated from operations		(6)	1,070
Interest paid		(66)	(56)
Tax received		-	15
Net cash generated from/(used in) operating activities		(72)	1,029
Cash flows from investing activities			
Loans repaid by related parties		-	48
Net cash generated from investing activities		-	48
Cash flows from financing activities			
Proceeds from issue of ordinary shares	6	6	6
Buyback of equity		-	(176)
Purchase of treasury shares		(16)	(6)
Repayment of borrowings		-	(230)
Dividends paid to company's shareholders		(149)	(146)
Net cash used in financing activities		(159)	(552)
Effects of exchange rate changes on cash and cash equivalents		-	(2)
Net (decrease)/increase in cash and cash equivalents		(231)	523
Cash and cash equivalents at beginning of year		541	18
Cash and cash equivalents at end of year	4	310	541

Financial statements

Notes to the company financial statements

1. Accounting policies

The financial statements on pages 211-221 comprise the separate financial statements of Pearson plc

As permitted by section 408 of the Companies Act 2006, the consolidated income statement and statement of comprehensive income have not been presented.

The company has no employees (2020: nil)

The basis of preparation and accounting policies applied in the preparation of these company financial statements are the same as those set out in note 1a to the consolidated financial statements with the addition of the following:

Investments

Investments in subsidiaries are stated at cost less provision for impairment, with the exception of certain hedged investments that are held in a foreign currency and revalued at each balance sheet date.

2. Investments in subsidiaries

All figures in £ millions

At beginning of year

Currency revaluations

At end of year

2021 2020

6,619 6,664

13 (45)

6,632 6,619

There were no impairments in 2021 or 2020.

The recoverability of investments is tested annually for impairment in accordance with IAS 36 'Impairment of Assets'. The carrying value is compared to the asset's recoverable amount which is generally assessed on a value in use basis. Significant estimation is required to determine the recoverable amount. The value in use of the assets is calculated using a discounted cash flow methodology using financial information related to the subsidiaries including cash flow projections in conjunction with the goodwill impairment analysis performed by the Group. The key assumptions used in the cash flow projections are discount rates, perpetuity growth rates, forecast sales growth rates and forecast operating profits. See note 11 of the consolidated financial statements for further details.

Lending to/from subsidiaries is considered to be an operating activity and any movements are classified as cash flows from operating activities in the cash flow statement.

Amounts owed by subsidiaries

Amounts owed by subsidiaries generally mature within five years, but can be called upon on short notice, or are repayable on demand. Amounts owed by subsidiaries are classified as current if they mature within one year of the balance sheet date or if the company intends to call the loan within one year of the balance sheet date. All other amounts are classified as non-current. The company has assessed and concluded that these loans will be fully recovered. Therefore credit losses are considered to be immaterial.

New accounting standards

No new standards were adopted in 2021.

A number of other new pronouncements are effective from 1 January 2021 but they do not have a material impact on the company financial statements.

3. Financial risk management

The company's financial instruments comprise amounts due to/from subsidiary undertakings, cash and cash equivalents, derivative financial instruments and current borrowings. Derivative financial instruments are held at fair value, with all other financial instruments held at amortised cost, which approximates fair value. The company's approach to the management of financial risks is consistent with the Group's treasury policy, as discussed in note 19 to the consolidated financial statements. The company believes the value of its financial assets to be fully recoverable.

The carrying value of the company's financial instruments is exposed to movements in interest rates and foreign currency exchange rates (primarily US dollars). The company estimates that a 1% increase in interest rates would result in a £6m increase (2020: £17m increase) in the carrying value of its financial instruments, with a 1% decrease in interest rates resulting in a £6m decrease (2020: £19m decrease) in their carrying value. The company also estimates that a 10% strengthening in sterling would decrease the carrying value of its financial instruments by £117m (2020: £123m), while a 10% weakening in the value of sterling would increase the carrying value by £139m (2020: £146m). These increases and decreases in carrying value would be recorded through the income statement. Sensitivities are calculated using estimation techniques such as discounted cash flow and option valuation models. Where modelling an interest rate decrease of 1% led to negative interest rates, these points on the yield curve were adjusted to 0%

The following table analyses the company's derivative assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest) and as such may differ from the amounts disclosed on the balance sheet.

	Analysed by maturity				Analysed by currency				
	Greater than one month and less than one year	Later than one year but less than five years	Five years or more	Total	USD	GBP	Other	Total	
All figures in £ millions									
At 31 December 2021									
Rate derivatives – inflows	(7)	(331)	0	(338)	(9)	(150)	(179)	(338)	
Rate derivatives – outflows	12	339	4	355	203	150	2	355	
FX forwards – inflows	(148)	–	–	(148)	–	(148)	–	(148)	
FX forwards – outflows	148	–	–	148	90	–	58	148	
Total	5	8	4	17	284	(148)	(119)	17	
At 31 December 2020									
Rate derivatives – inflows	(186)	(350)	(1)	(537)	(12)	(152)	(373)	(537)	
Rate derivatives – outflows	180	350	12	542	209	330	3	542	
FX forwards – inflows	(68)	–	–	(68)	–	(68)	–	(68)	
FX forwards – outflows	68	–	–	68	36	–	32	68	
Total	(6)	–	11	5	233	110	(338)	5	

All cash flow projections shown above are on an undiscounted basis. Any cash flows based on a floating rate are calculated using interest rates as set at the date of the last rate reset. Where this is not possible, floating rates are based on interest rates prevailing at 31 December in the relevant year. All derivative amounts are shown gross, although the company not settles these amounts wherever possible.

Fair value hedge accounting

A foreign currency exposure arises from foreign exchange fluctuations on translation of the company's investments in subsidiaries denominated in USD into GBP. The hedged risk is the risk of changes in the GBP:USD spot rate that will result in changes in the value of the USD investments when translated into GBP. The hedged items are a portion of the company's equity investment in subsidiaries denominated in USD. The hedging instruments are a portion of the company's intercompany loans due from subsidiaries which are denominated in USD.

It is expected that the change in value of each of these items will mirror each other as there is a clear and direct economic

relationship between the hedge and the hedged item in the hedge relationship. The hedge ratio is 100%. Hedge ineffectiveness would arise if the value of the hedged items fell below the value of the hedging instruments, however, this is unlikely as the value of the company's investments denominated in USD is significantly greater than the proposed fair value hedge programme.

The value of the hedged items and the hedging instruments is £1.3bn (2020: £1.3bn) and the change in value during the year which was used to assess hedge ineffectiveness was £1.3m (2020: £45m). There was no hedge ineffectiveness.

Credit risk management

The company's main exposure to credit risk relates to lending to subsidiaries. Amounts due from subsidiaries are stated net of provisions for bad and doubtful debts. The credit risk of each subsidiary is influenced by the industry and country in which they operate; however, the company considers the credit risk of subsidiaries to be low as it has visibility of, and the ability to influence, their cash flows.

4. Cash and cash equivalents (excluding overdrafts)

All figures in £ millions		2021	2020
Cash at bank and in hand		310	541
		310	541

At the end of 2021, the currency split of cash and cash equivalents was US dollar 66% (2020: 21%), sterling 32% (2020: 76%) and other 2% (2020: 3%).

Cash and cash equivalents have fair values that approximate their carrying amounts due to their short-term nature. Cash and cash equivalents include the following for the purpose of the cash flow statement:

All figures in £ millions		2021	2020
Cash and cash equivalents		310	541
Bank overdrafts		–	–
		310	541

Financial statements

Notes to the company financial statements *continued*

5. Derivative financial instruments

The company's outstanding derivative financial instruments are as follows

	2021			2020		
All figures in £ millions	Gross notional amounts	Assets	Liabilities	Gross notional amounts	Assets	Liabilities
Interest rate derivatives	385	5	(9)	904	12	(27)
Cross-currency rate derivatives	331	24	(21)	516	44	(20)
FX derivatives	430	3	(4)	554	7	(5)
Total	1,146	32	(34)	1,974	63	(52)
Analysed as expiring:						
In less than one year	393	2	(4)	1,238	18	(12)
Later than one year and not later than five years	679	30	(26)	663	45	(32)
Later than five years	74	–	(4)	73	–	(8)
Total	1,146	32	(34)	1,974	63	(52)

The carrying value of the above derivative financial instruments equals their fair value. Derivatives are categorised as level 2 on the fair value hierarchy. Fair values are determined by using market data and the use of established estimation techniques such as discounted cash flow and option valuation models.

6. Share capital and share premium

	Number of shares 000s	Share capital £m	Share premium £m
At 1 January 2020	782,099	195	2,614
Issue of ordinary shares – share option schemes	1,236	–	6
Purchase of own shares	(30,077)	(7)	–
At 31 December 2020	753,258	188	2,620
Issue of ordinary shares – share option schemes	3,544	1	6
Purchase of own shares	–	–	–
At 31 December 2021	756,802	189	2,626

The ordinary shares have a par value of 25p per share (2020: 25p per share). All issued shares are fully paid. All shareholders are entitled to receive dividends and vote at general meetings of the company. All shares have the same rights.

On 24 February 2022, the Board approved a £350m share buyback programme in order to return capital to shareholders. The programme will commence in 2022. The shares bought back will be cancelled and the nominal value of the shares will be transferred to the capital redemption reserve. In 2020, approximately 30m shares were bought back and cancelled at a cost of £176m. The nominal value of these shares, £7m was transferred to the capital redemption reserve.

7. Treasury shares

	Number of shares £30s	£m
At 1 January 2020	3,258	(21)
Purchase of treasury shares	1,105	6
Release of treasury shares	(3,460)	(23)
Transfer of contributions from subsidiaries	–	45
At 31 December 2020	903	7
Purchase of treasury shares	2,158	16
Newly issued treasury shares	2,500	1
Release of treasury shares	(3,990)	(12)
At 31 December 2021	1,571	12

The company holds its own shares in trust to satisfy its obligations under its restricted share plans. These shares are treated as treasury shares for accounting purposes and have a par value of 25p per share.

The nominal value of the company's treasury shares amounts to £0.4m (2020: £0.2m). Dividends on treasury shares are waived.

At 31 December 2021, the market value of the company's treasury shares was £6m (2020: £6m). The gross book value of the shares at 31 December 2021 amounts to £12m (2020: £7m). In 2020, historical contributions of £45m received from operating companies have been transferred from the treasury shares reserve to retained earnings.

8. Contingencies

There are contingent liabilities that arise in the normal course of business in respect of indemnities, warranties and guarantees in relation to former subsidiaries and in respect of guarantees in relation to subsidiaries. In addition, there are contingent liabilities in respect of legal claims. None of these claims are expected to result in a material gain or loss to the company.

9. Audit fees

Statutory audit fees relating to the company were £35,500 (2020: £35,000).

10. Related party transactions

Subsidiaries

The company transacts and has outstanding balances with its subsidiaries. Amounts due from subsidiaries and amounts due to subsidiaries are disclosed on the face of the company balance sheet.

These loans are generally unsecured and interest is calculated based on market rates. The company has interest payable to subsidiaries for the year of £91m (2020: £97m) and interest and guarantee fees receivable from subsidiaries for the year of £32m (2020: £46m). Management fees payable to subsidiaries in respect of centrally provided services amounted to £11m (2020: £21m). Management fees receivable from subsidiaries in respect of centrally provided services amounted to £30m (2020: £31m). Dividends received from subsidiaries were £72m (2020: £nil).

Associates

There were no related party transactions with associates in 2021. In April 2020, the amounts outstanding with Penguin Random House, a previous associate of the Group, were repaid at the point of disposal of our investment.

Key management personnel

Key management personnel are deemed to be the members of the Pearson Executive Management team.

It is this committee which had responsibility for planning, directing and controlling the activities of the company in 2021. Key management personnel compensation is disclosed in note 36 to the consolidated financial statements.

Financial statements

Notes to the company financial statements *continued*

11. Group companies

In accordance with section 409 of the Companies Act 2006 a full list of subsidiaries, partnerships, associates, joint ventures and joint arrangements, the country of incorporation, the registered address and the effective percentage of equity owned, as at 31 December 2021, is disclosed below. Unless otherwise stated, the shares are all indirectly held by Pearson plc. Unless otherwise stated, all wholly-owned and partly-owned subsidiaries are included in the consolidation and all associated undertakings are included in the Group's financial statements using the equity method of accounting. Principal Group companies are identified in bold.

Wholly-owned subsidiaries

Registered company name	Country of incorporation	Top office	Registered company name	Country of incorporation	Top office	Registered company name	Country of incorporation	Top office
Adison Wesley Longman, Inc.	US	3	Feethim Ltd	UK	1	Pearson Australia Finance Unlimited	UK	1
Adison-Wesley Educational Publishers Inc.	US	4	Feethim Pty Limited	AU	48	Pearson Australia Group Pty Ltd	AU	48
AEL (Sy) F Ltd	SG	5	Feethim USA LLC	US	5	Pearson Australia Holdings Pty Ltd	AU	48
Albany Finance Limited	UK	1	Falstaff Holdings Inc.	US	4	Pearson (Sydney) BV	NL	79
ATI Professional Development LLC	US	4	Falstaff Inc.	US	45	Pearson Books Limited	UK	1
Atkes Finance Limited	IE	7	FBH, Inc.	US	4	Pearson Brazil Finance Limited	UK	1
Avi Finance Inc.	US	4	George (Shanghai) Commercial Information Consulting Co., Ltd.	CN	21	Pearson Business Services Inc.	US	4
Camsaw, Inc.	US	4	Global George II Limited	UK	33	Pearson Canada Assessment Inc.	CA	80
CAMSAFM Inc.	US	28	Globe Pearson Inc.	US	17	Pearson Canada Finance Unlimited	UK	1
Centro Cultural Americano Franquias e Comércio Ltda.	BR	15	Henemann Educational Resources (Publishers) (Proprietary) Limited	FW	8	Pearson Canada Holdings Inc.	CA	80
Centri Consultants Ltd	US	13	IndiaCan Education Private Limited	IN	2	Pearson Canada Inc.	CA	80
Coripoint China Holding LLC	US	4	Integral 7, Inc.	US	4	Pearson Central Europe Spółka z ograniczoną odpowiedzialnością	PL	39
Coripoint Inc.	US	4	INTELLIPRO, INC.	US	13	Pearson College Limited	UK	1
Cognex Systems AB	SE	14	Kagiso Education Pty Ltd	ZA	47	Pearson DBC Holdings Inc.	US	4
Connections Academy of Florida LLC	US	20	Knowledge Analysis Technologies LLC	US	18	Pearson Desarrollo y Capacitación Profesional Chile Limitada	CL	8
Connections Academy of Iowa LLC	US	24	LCIEB Training Consultancy Ltd	CN	34	Pearson Deutschland GmbH	DE	82
Connections Academy of Maine LLC	US	28	Lessor Lab Inc.	US	17	Pearson Digital Learning Puerto Rico Inc.	PR	78
Connections Academy of Maryland LLC	US	25	Lighthouse Capital Company	US	4	Pearson Dollar Finance plc	UK	1
Connections Academy of Nevada LLC	US	21	LION SIG PTE LTD	SG	5	Pearson Dollar Finance Two Limited	UK	1
Connections Academy of New Mexico LLC	US	34	Longman (Malawi) Limited	MW	65	Pearson Educación de Chile Limitada	CL	31
Connections Academy of Oregon LLC	US	37	Longman Group Services Holdings Limited	UK	1	Pearson Educación de Colombia S.A.S.	CO	84
Connections Academy of Pennsylvania LLC	US	38	Longman Indonesia Acquisition, LLC	US	4	Pearson Educación de México S.A. de CV	MX	85
Connections Academy of Tennessee LLC	US	40	Longman Tanzania Limited	TZ	58	Pearson Educación de Panamá SA	PA	83
Connections Academy of Texas LLC	US	41	Longman Zambia Educational Publishers Pty Ltd	ZM	59	Pearson Educación de Perú S.A.	PE	87
Connections Education LLC	US	4	Longman Zambia Limited	ZM	70	Pearson Educación SA	ES	88
Connections Education of Florida LLC	US	10	Longman Zimbabwe (Private) Ltd	ZW	70	Pearson Education (Singapore) Pte Ltd	SG	5
Connections Education, Inc.	US	4	Longmaned Ecuador S.A.	EC	71	Pearson Education Africa (Pty) Ltd	ZA	47
Dorland Press Inc.	US	17	Lumenc Education, LLC	US	41	Pearson Education Asia Limited	HK	53
Dorian Finance Limited	IE	7	Major 123 Limited	UK	1	Pearson Education Botswana (Proprietary) Limited	BW	8
Dorling Kindersley Australasia Pty Limited	AU	48	MeasureUp or Delaware, LLC	US	4	Pearson Educação do Brasil Ltda	BR	60
EBNT Canada Holdings Ltd.	CA	58	Modern Curriculum Inc.	US	14	Pearson Educación de Chile SA	CL	26
EBNT Holdings Limited	CA	57	Mult. Treinamento e Editora Ltda	BR	40	Pearson Educación Holdings Limited	UK	1
EBNT USA Holdings Inc.	US	4	MAZ Development Inc.	US	31	Pearson Education Indochina Limited	TH	89
eCollege.com	US	4	National Computer Systems Japan Co Ltd	JP	74	Pearson Education Investments Limited	UK	1
Ecoxed Limited	UK	44	NCS Information Services Technology (Beijing) Co Ltd	CN	75	Pearson Education Korea Limited	KR	90
Editions Du Renouveau Pédagogique Inc.	CA	50	NCS Pearson Pty Ltd	AU	48	Pearson Education Limited	UK	1
Education Development International Plc	UK	1	NCS Pearson Publishing Co. Inc.	PR	76	Pearson Education Namibia (Pty) Limited	NA	91
Educational Resources (Cyprus) Limited	CY	51	NCS Pearson, Inc.	US	30	Pearson Education Publishing Limited	NG	92
Educational Management Group Inc.	US	52	Opinion Interactive LLC	US	16	Pearson Education SA	LY	93
Empirenet LLC	CA	44	Originate Corporation	US	17	Pearson Education SA	AR	94
Empirenet Compass Knowledge Group Inc.	US	20	P2C Participações Ltda	BR	9	Pearson Education South Africa (Pty) Ltd	ZA	47
English Language Learning and Instruction System, Inc.	US	54	Pearson (Beijing) Management Consulting Co., Ltd	CN	77	Pearson Education South Asia Pte. Ltd	SG	5
Feethim Holdings Pty Limited	AU	48	Pearson (Guizhou) Education Technology Co., Ltd	CN	78	Pearson Education Taiwan Ltd	TW	16
Feethim IP Pty Limited	AU	48	Pearson Swaziland (Proprietary) Limited	SZ	67	Pearson Education, Inc.	US	4
			Pearson America LLC	US	4	Pearson Educational Measurement Canada Inc.	CA	35
			Pearson Amsterdam BV	NL	72	Pearson Educational Publishers, LLC	US	4
						Pearson Eğitim Geliştirme Ticareti Limited Şirketi	TR	100
						Pearson Falstaff (Holdings) Inc.	US	4

Registered company name	Country of incorporation	Reg. office	Registered company name	Country of incorporation	Reg. office
Pearson Falstaff Holdings LLC	US	4	P/NT Limited	UK	
Pearson France	FR	97	Reading Property Holdings LLC	US	73
Pearson Funding Four Limited	UK	1	Reynolds Planning Associates Inc.	US	19
Pearson Funding plc	UK	1	Repton Publishing Company, Inc.	US	4
Pearson Holdings Inc.	US	4	Rycadeo Capital Corporation	US	4
Pearson Holdings Southern Africa (Pty) Limited	ZA	47	Shanghai AWE Education Software Ltd.	CN	72
Pearson Hungary LLC	HU	25	Silver Bright Ltd Inc.	US	4
Pearson India Education Services Private Limited	IN	10	Syllight Training and Publishing Inc.	US	50
Pearson International Finance Limited	UK	1	Smart Thinking Ltd	UK	4
Pearson Investment Holdings Inc.	US	4	Solard Holdings Inc.	US	4
Pearson IQKI Slovakia / Ingridiziona oodov edizhioscia	SK	88	Sturrow Phoenix Pty Ltd	AU	23
Pearson Israel (P) Ltd	IL	56	Sugar Insurance Company Limited	BN	45
Pearson Italia SpA	IT	99	Stark Verlag GmbH	DE	87
Pearson Japan KK	JP	101	The Financial Times (P) Ltd	UK	42
Pearson Lanka (Private) Limited	LK	62	The Mace Group Inc.	US	1
Pearson Lanka Support Services (Private) Ltd. Ltd.	LK	12	TQ Capital Limited	UK	1
Pearson Lesotho (Pty) Ltd	LS	62	TQ Clapham Limited	UK	1
Pearson Loan Finance No. 5 Limited	UK	1	TQ Education and Training Limited	UK	56
Pearson Loan Finance No. 4 Limited	UK	1	TQ Education and Training Limited	SA	56
Pearson Loan Finance No. 3 Limited	UK	1	TQ Global Limited	UK	1
Pearson Loan Finance No. 2 Limited	UK	1	TQ Group Limited	UK	1
Pearson Loan Finance Unlimited	UK	1	TQ Holdings Limited	UK	1
Pearson Longman Uganda Limited	UG	45	The Parent Holdings LLC	US	1
Pearson Malaysia Sdn Bhd	MY	59	The Teming Services Israel Ltd	IL	46
Pearson Management Services Limited	UK	1	Yon Yon Ltd Services Korea Limited	KR	35
Pearson Management Services Philippines Inc.	PH	33	Williams Education Group	DE	82
Pearson Maryland Inc.	US	11			
Pearson Mozambique Limitada	MZ	42			
Pearson Netherlands BV	NL	75			
Pearson Netherlands Holdings BV	NL	75			
Pearson Nominees Limited	UK	1			
Pearson Online Tutoring LLC	US	4			
Pearson Overseas Holdings Limited	UK	1			
Pearson PEMPRI Ltd	PR	14			
Pearson Pension Nominees Limited	UK	1			
Pearson Pension Property Fund Limited	UK	1			
Pearson Pension Trustee Services Limited	UK	1			
Pearson Phoenix Pty Ltd	AI	43			
Pearson Professional Assessments Limited	UK	1			
Pearson Real Estate Holdings Inc.	US	4			
Pearson Real Estate Holdings Limited	UK	1			
Pearson Schweiz AG	CH	34			
Pearson Services Limited	UK	1			
Pearson Shared Services Limited	UK	1			
Pearson Shared Finance Limited	UK	1			
Pearson Shared Limited	UK	1			
Pearson Sweden AB	SE	14			
Pearson /JEE Europe BV	NL	75			
Pearson /JEE Philippines Inc.	PH	27			
Penguin Capital LLC	US	4			
Penguinela Publishers (Pty) Ltd	ZA	47			
PN Holdings Inc.	US	4			
PriorCam Inc.	US	4			
Prior Efficient English Services	IT	83			

* in liquidation

† Directly owned by Pearson plc

Financial statements

Notes to the company financial statements *continued*

11. Group companies continued

Subsidiary addresses

The following list includes all Pearson registered offices worldwide.

Registered office address	Registered office address	Registered office address
1 80 Strand, London, WC2R 0R, England	32 CT Corporation System, 200 E Coronado Ave, Cupertino, CA 95014, United States	69 Plot 128, Lungwelu Road, Rindeni Park, Harare, Zimbabwe
2 The Hive, 3rd Floor, No 44, Hill Jay Road Street, Jawaharlal Nehru Road, Anna Nagar, Chennai, TN 600040, India	33 715 North Tower, Rockwell Business Center CDF, American Express Street, Brgy. Highway Hills, Mandaluyong, Philippines	70 Stand 1118, Enn Lourd Rosa Harare Drive, Ardmore, Harare, Zimbabwe
3 CT Corporation System, 155 Federal St., Suite 700, Boston, MA 02110, United States	34 10, Gewerbestrasse, Cham, 8380, Switzerland	71 Andakuya y Jordero E1235, Edificio CYDIPiso 3, Oficina 1, Sector "La Floresta", Quito, Pichincha, Ecuador
4 The Corporation Trust Company, Corporation Trust Center, 1205 Orange Street, Wilmington, New Castle, DE 19801, United States	35 21, Mugicho Jungga, Seoul, Republic of Korea	72 Suite 302, Block 9, No. 332 Weining Road, Changning District, Shanghai, China
5 9, #140507, North Buona Vista Drive, The Metropolis Tower One, 136568, Singapore	36 109 Bay Street, Commerce Court West, Suite 2800, Toronto, ON, M5S 1A5, Canada	73 C/O Pearson Education, 501 Boylston St, Boston, MA 02116, United States
6 340 Halsa Dr, Chastanoodale Hills, GA 30116, United States	37 CT Corporation System, 780 Commercial Street, SE STE 100, Salem, OR 97301, United States	74 Tenso Hotel Tower 18F, 1-1-1 Uchi-Sawa-Cho, Chiyoda-ku, Tokyo, Japan
7 3rd Floor, The Liffey Trust Centre, 117-126 Sheriff Street Upper, Dublin 1, Ireland	38 CT Corporation System, 600 N. 2nd Street, Suite 401, Harrisburg, PA 17101-1071, United States	75 Suite 1201, Tower 2, No. 36 North Third Ring East Road, Dongcheng District, Beijing, China
8 Ops Consulting Services Proprietary Limited, Plo 34513, Unit G1, Courtyard Village, Gaborone, Botswana	39 Ulica Szamocka 31-116, Warszawa, Poland	76 268 Munoz Rivera Avenue, Suite 1400, San Juan, 00918, Puerto Rico
9 Avenida Francisco Matarazzo nº 1400 - Andara, Torre Milano São Paulo - Agua Branca, São Paulo, SP 05611-905, Brazil	40 CT Corporation System, 300 Montvale Rd, Knoxville, TN 37919-5546, United States	77 Suite 1206, 2/F, Tower 2, No. 36 North Third Ring East Road, Dongcheng District, Beijing, China
10 The Corporation Company, 40650 Ann Arbor Rd E, Suite 2L, Plymouth, MI 48173, United States	41 CT Corporation System, 1905 Bryan Street, Suite 900, Dallas, TX 75201, United States	78 Suites 4-5 (2-3) Shuang'an Yuan, No. 891 Lujiao Road, Gaoxin Sun Technology Industrial Park, High-Tech Industrial Development District, Guiyang City, Guizhou Province, China
11 The Corporation Trust Company, 2405 York Road, Suite 201, Lutter, Ile Maurice, MD, 21093-2794, United States	42 Numero 775, Avenida 24 de Julho, Maputo, Mozambique	79 Kubekweg 27, Amsterdam, 1014 PA, Netherlands
12 #14, 5th Floor, East Tower, World Trade Centre, Orchard Square, Colombo 01, Sri Lanka	43 Plot 6, Berkeley Road, Old Kampala, Uganda	80 26 Prince Andrew Place, Don Mills, Toronto, ON, M3C 2T8, Canada
13 820, Scott Taylor Road, West Trenton, Mercer, NJ 08626, United States	44 3360, 855 2nd Street, S.W., Calgary, AB, T2P 1K7, Canada	81 Oficina 1117, Edificio Casa Colorado, Calle Merced N°838 A Santiago Centro, Santiago, Chile
14 Gustavslundsvägen 137, 167 51, Birmma, Stockholm, Sweden	45 Power House, 7 Par la ville Road, PO Box 626, Hamilton, HM 11, Bermuda	82 C/O Pearson Deutschland GmbH, St. Marien-Str. 22, München 80541, Germany
15 Avenida Francisco Matarazzo nº 1400 Edificio Milano - Andara, Conjunto 22 - Sala 25 de Varço - Agua Branca, São Paulo, C5001-903, Brazil	46 Dereen Ben Gurem 2, BSR Building 9th Floor, Ramat Gan, 52575, Israel	83 30th Floor, Ratu Plaza Office Tower, J. Jono Subdarma, Kar 9, Jakarta 10270, Indonesia
16 105 E Street #2A, Davis, CA 95614, United States	47 Auto Atlantic, 4th Floor, Corner Heitzog Boulevard and Heerenracht, Cape Town 8001, South Africa	84 Carrera 7 No. 56 - 68, Piso 26, Bogotá, Colombia
17 CT Corporation System, 330 N. Brand Blvd, Glendale, CA 91203-2334	48 707 Collins Street, Docklands, Melbourne, VIC 3008, Australia	85 Calle Antonio Doval, Torre #70, Torre B, Piso 6, Col. Zedec, Ed. Plaza Santa Fe del Alamo, Otegrin, Ciudad de Mexico, CP 01210, Mexico
18 The Corporation Company, 1705 E Arapahoe Rd, Suite 270, Centennial, CO 80112-1268, United States	49 140 High Holborn, London, WC1V 7BH, England	86 Punta Pacifica, Torres de las Americas, Torre A, Piso 15, C/O 1517, Panama 0824-0588, Panama
19 500, 401, Calle de la Tenua Edificio Uchou, Santiago, 00901-1950, Puerto Rico	50 1611, Boul. Crémazier Est, 10th Floor, Montreal, PQ H2V 2P2, Canada	87 Cal Los Halcones, no. 475, Urb. Llamacampo, Lima, Peru
20 CT Corporation System, 200, South Pine Island Road, Plantation, FL 33324, United States	51 195 Archibishop Makarios III Avenue, Neoclass House, Limassol, 3030, Cyprus	88 16, Ribera del Llob, Madrid 28042, Spain
21 Suite 470, 3/F, No. 538 Longchang Road, Yangpu District, Shanghai, China	52 Illinois Corporation Service Company, 710 S 2nd Street, Springfield, IL 62763, United States	89 8771 Capital Tower Building, All Seasons Place Unit 1604 - 16th floor, Witold's Road, Lumpini, Pathumwan, Bangkok, Thailand
22 N-94, 5-2 Outer Ring Road Park, Panchsheel Club, New Delhi, South Delhi, DL 110067, India	53 26/F, 11th Kings Road, Quarry Bay, Hong Kong	90 6F Kwangjeong Building, 35 Cheonggyecheon Ro, Jongno-gu, Seoul, 03188, Republic of Korea
23 Suite 201, 25 Copper Street, Surry Hills, NSW 2010, Australia	54 201, Little Falls Drive, Wilmington, DE 19808, United States	91 Unit 7, Kingland Park, 98 N. 1st Street, Proshyeta, Vindhoek, Namibia
24 CT Corporation System, 400 E Court Ave, Fico Morris, IA 50309, United States	55 28 Liberty Street, New York, NY 10005, United States	92 8, Secretariat Road, Quafemi Awolowo Way, Alausa, Ikeja, Lagos State, Nigeria
25 22 B, 13 em, Népléjdo utca, Budapest 1138, Hungary	56 King Fahad Road, Dlaya, Riyadh 56144, 11515, Saudi Arabia	93 Juan Benito Blanco 780, Plaza Business Center, Montevideo 1, Uruguay
26 4 Zalogou Str., 15343 Agia Paraskevi, Athens, Greece	57 44 Chipman Hill, Suite 1000, Saint John, NB, E1L 4S6, Canada	94 458, Linenador Ave, City of Buenos Aires, 3rd floor, Buenos Aires, Argentina
27 21st Trident Tower, 312 Sen. Gil Puyat Avenue, Makati City, Metro Manila, Philippines	58 Suite 2600, Three Bentall Centre, P.O. Box 49214, 595 Burrard Street, Vancouver, BC V7X 1T3, Canada	95 No 215, Room D, 11F, Sec. 3, Shilin Road, New Taipei City, Xindian District, 23143, Taiwan
28 CT Corporation System, 28 State St #3, Augusta, ME 04330, United States	59 Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 9, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia	96 11F, No 205, Sec. 1, Civic Blvd., Daan District, Taipei City, 10351, Taiwan (Province of China)
29 757 Paul Street, Suite 1650, Baltimore, MD 21202, United States	60 Avenida Jose Luiz Mazzali, nº 450, Sala H Setor Modulo 03B, C.P. Louveira, Estrada Antônio Louveira, SP CEP 13.290-030, Brazil	97 1st Floor, 2nd Jean-Jacques, Paris, 75001, France
30 CT Corporation System Inc., 1010 Dale Street North, St. Paul, MN 55117-5603, United States	61 United States Corporation Agents Inc., 221 North Broad Street, Suite 3A, Middletown, New Castle, DE 19709, United States	98 Ulica Jana Hennika Dąbrowskiego 77A 60-526, Poznań, Poland
31 The Corporation Trust Company of Nevada, 701 S Carson St, Suite 200, Carson City, NV 89701, United States	62 1st Floor, Christie House, Orpen Road, Maseno, Lesotho	99 16, Corso Trapani, Turin, 10100, Italy
	63 MAGA ONE, Level 22, No. 200, Nawala Road, Narakompra, Colombo 05, 1122, Sri Lanka	100 Kida Kule Kocayazag, Kocayazag Mahallesi, Degirmen Sokak No 18, no: 6 D: 5, Kadikoy, Istanbul 34142, Turkey
	64 Room 305, Building 2, 6555 Shangchuan Road, Pudong District, Shanghai, China	101 11F Kanda Square, 2-2-1 Kanda-Nishikicho, Chiyoda-ku, Tokyo, 100-0054, Japan
	65 Turkay House, Hamover Avenue, Blantyre, Malawi	102 7th Floor, 5CB2, ODC 7, 8 & 9, Surjey No 91, ELCOOT, HYDRES - 552, Sholingarallur, Chennai - 600119, India
	66 Metatlaw Offices, 16 Abba Hillel Rd., Ramat Gan, 5250608, Israel	103 Andakuya y Jordero E1235, Edificio CYDIPiso 3, Oficina 1, Sector "La Floresta", Quito, Pichincha, Ecuador
	67 Robinson Bertram, 3rd Floor, Sokhmti Bldg, Mbabane, Eswatini	
	68 P.O. Box 45, IPS Building, Maktaba Street, Dar es Salaam, Tanzania	

Partly-owned subsidiaries

Registered company name	Country of incorp	% Owned	Reg office
Centiprint China Co. Ltd	CN	50.00*	
Educational Publishers Ltd	UK	85	2
GED Domains LLC	US	70	1
GED Testing Services LLC	US	70	4
Hennemann Publishers (Pty) Ltd	ZA	75	5
Maskew Miller Longman (Pty) Limited	ZA	75	5
Pearson Education Achievement Solutions (Pty) Limited	ZA	99.9	5
Pearson Pension Trustees Limited	UK	50	2
Pearson South Africa (Pty) Ltd	ZA	75	5

Associated undertakings

Registered company name	Country of incorp	% Owned	Reg office
Academy of Pops LLC	US	40	6
Kerati Path Learning Company Private Limited	IN	24.96	7
Learn Capital Special Opportunities Fund I, L.P.	US	99.55	8
Learn Capital Venture Partners II, L.P.	US	72.93	8
Learn Capital Venture Partners IIIA, L.P.	KY	99.1	9
Learn Capital Venture Partners III, L.P.	US	99.15	8
Peking University Pearson (Beijing) Cultural Development Co., Ltd	CN	45	10
Pu Man Publishing Limited	CN	49	11
Smashout Inc	US	24.94	12
The Egyptian International Publishing Company-Longman	EG	49	3

* In liquidation

‡ Accounted for as an 'Other financial asset' within non-current assets

Partly-owned subsidiaries and associated undertakings company addresses

Registered office address
1 Suite 1801, No 95 Huichuan Road, Changning District, Shanghai City, China
2 80 Strand, London, WC2R 0RL, England
3 CTE Corporation System, 4701 Cox Road, Suite 265, Glen Allen, Henrico, VA 23060-1000, United States
4 The Corporation Trust Company, Corporation Trust Center, 1205 Orange Street, Wilmington, New Castle, DE 19801, United States
5 Auto Atlantic, 4th Floor, Corner Herengot Boulevard and Heeregracht, Cape Town 8001, South Africa
6 251 Little Falls Drive, Corporation Service Company, Wilmington, DE 19808, United States
7 3A, Dev. Regency II, First Main Road, Gandhinagar, Adyar, Chennai, TN, India
8 Incorporating Services, Ltd, 3500 S Dupont Way, Dover, Kent, DE, United States
9 Camphells Corporate Services Limited, 11004 Willow House, Cricket Square, Grand Cayman, KY 1-9010, Cayman Islands
10 Suite 216, No 127-1 Zhongguancun North Street, Haidian District, Beijing, China
11 Rua de Pedrim No. 230, 240-171, L. Macau Finance Centre, Macau
12 CTE Corporation Service Company, 2711 Centerline Road, Suite 400, Wilmington, Delaware 19808, United States
13 106 Hussein, Wassef St, Midet El Hassaba, Dokki (Giza), 12511, Egypt

Other information

Five-year summary

All figures in £ millions	2017	2018	2019	2020	2021
Sales: By operating segment					
Assessment & Qualifications		1,190	1,280	1,082	1,204
Virtual Learning		521	584	692	713
English Language Learning		310	320	218	238
Workforce Skills		174	185	163	172
Higher Education		1,195	1,102	956	849
Strategic Review*		739	398	286	252
Total sales	4,513	4,129	3,869	3,397	3,428
Adjusted operating profit: By operating segment					
Assessment & Qualifications				147	216
Virtual Learning				29	32
English Language Learning				1	15
Workforce Skills				26	27
Higher Education				93	73
Strategic Review*				16	22
Penguin Random House				1	-
Total adjusted operating profit	576	546	581	313	385
All figures in £ millions	2017	2018	2019	2020	2021
Operating margin – continuing	12.8%	13.2%	15.0%	9.2%	11.2%
Adjusted earnings					
Total adjusted operating profit	576	546	581	313	385
Net finance costs	(79)	(24)	(41)	(61)	(57)
Income tax	(55)	27	(89)	(35)	(64)
Non-controlling interest	(2)	(2)	(2)	-	(1)
Adjusted earnings	440	547	449	217	263
Weighted average number of shares (millions)	813.4	778.1	777.0	755.4	754.1
Adjusted earnings per share	54.1p	70.3p	57.8p	28.7p	34.9p

Prior periods have not been restated to reflect the adoption of IFRS 15 and IFRS 9 in 2018 and IFRS 16 in 2019.

Sales for periods prior to 2018 and adjusted operating profit for periods prior to 2020 have not been restated to reflect the new organisation structure given the passage of time.

* Includes US K-12 courseware in 2018 and 2019 up until date of disposal

All figures in £ millions	2017	2018	2019	2020	2021
Cash flow					
Operating cash flow	669	513	418	315	388
Operating cash conversion	116%	94%	72%	101%	101%
Operating free cash flow	525	448	345	255	274
Operating free cash flow per share	64.5p	57.6p	44.4p	33.8p	36.3p
Free cash flow	227	473	213	229	133
Free cash flow per share	27.9p	60.8p	27.4p	30.3p	17.6p
 Net assets	 4,021	 4,525	 4,323	 4,134	 4,280
 Net debt	 432	 143	 1,016	 463	 350
 Return on invested capital					
Total adjusted operating profit	576	546	581	313	385
Operating tax paid	(75)	(43)	(9)	(10)	(60)
Return	501	503	572	303	325
Gross basis:					
Average invested capital	11,568	10,672	11,096	10,625	9,857
Return on invested capital	4.3%	4.7%	5.2%	2.9%	3.3%
Net basis:					
Average invested capital	8,126	7,544	8,097	7,708	7,161
Return on invested capital	6.2%	6.7%	7.1%	3.9%	4.5%
 Dividend per share	 17.0p	 18.5p	 19.5p	 19.5p	 20.5p

Other information

Financial key performance indicators

The following tables and narrative provide further analysis of the financial key performance indicators which are described in the financial review of the annual report on pages 55-59, shown within the key performance indicators on page 27 of the annual report and shown in notes 2 and 8 of the notes to the consolidated financial statements.

Adjusted performance measures

The annual report and accounts reports results and performance on a headline basis which compares the reported results both on a statutory and on a non-GAAP (non-statutory) basis. The Group's adjusted performance measures are non-GAAP (non-statutory) financial measures and are also included in the annual report as they are key financial measures used by management to evaluate performance. The measures also enable investors to more easily, and consistently, track the underlying operational performance of the Group and its business segments by separating out those items of income and expenditure relating to acquisition and disposal transactions, major restructuring programmes and certain other items that are also not representative of underlying performance.

The Group's definition of adjusted performance measures may not be comparable to other similarly titled measures reported by other companies. A reconciliation of the adjusted measures to their corresponding statutory measures is shown below.

Sales

Underlying sales movements exclude the effect of exchange, the impact of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Portfolio changes are calculated by taking account of the additional sales (at constant exchange rates) from acquisitions made in both the current year and the prior year. For acquisitions made in the prior year, the additional sales excluded is calculated as the sales made in the period of the current year that corresponds to the pre-acquisition period in the prior year. Sales made by businesses disposed in either the current year or the prior year are also excluded. Constant exchange rates are calculated by assuming the average exchange rates in the prior year prevailed throughout the current year. These non-GAAP measures enable management and investors to track more easily, and consistently, the underlying sales performance of the Group.

All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Total
Statutory sales 2021	1,204	713	238	172	849	252	3,428
Statutory sales 2020	1,082	692	218	163	956	286	3,397
Statutory sales increase/(decrease)	122	21	20	9	(107)	(34)	31
Comprising:							
Underlying increase/(decrease)	192	74	36	10	(50)	2	264
Portfolio changes	1	–	–	1	–	(29)	(27)
Exchange differences	(71)	(53)	(16)	(2)	(57)	(7)	(206)
Statutory sales increase/(decrease)	122	21	20	9	(107)	(34)	31
Statutory increase/(decrease)	11%	3%	9%	6%	(11)%	(12)%	1%
Constant exchange rate increase/(decrease)	18%	11%	17%	7%	(5)%	(9)%	7%
Underlying increase/(decrease)	18%	11%	17%	6%	(5)%	1%	8%

Adjusted operating profit

Adjusted operating profit excludes the cost of major restructuring, other net gains and losses on the sale or closure of subsidiaries, joint ventures, associates and other financial assets; and intangible charges, including impairment, relating only to goodwill and intangible assets acquired through business combinations or relating to associates. Other net gains and losses also includes costs related to business closures and acquisitions. Further details are given below under 'Adjusted earnings per share'. Underlying adjusted operating profit movements exclude the effect of exchange, the impact of portfolio changes arising from acquisitions and disposals and the impact of adopting new accounting standards that are not retrospectively applied. Portfolio changes are calculated by taking account of the additional contribution (at constant exchange rates) from acquisitions made in both the current year and the prior year.

For acquisitions made in the prior year the additional contribution excluded is calculated as the operating profit made in the period of the current year that corresponds to the pre-acquisition period in the prior year. Operating profit made by businesses disposed in either the current year or the prior year is also excluded. Constant exchange rates are calculated by assuming the average exchange rates in the prior year prevailed throughout the current year. This non-GAAP measure enables management and investors to track more easily, and consistently, the underlying operating profit performance of the Group

All figures in £ millions	2021	2020
Operating profit	183	411
Cost of major restructuring	214	-
Other net gains and losses	(63)	(178)
Intangible charges	51	80
Adjusted operating profit	385	313

All figures in £ millions	Assessment & Qualifications	Virtual Learning	English Language Learning	Workforce Skills	Higher Education	Strategic Review	Penguin Random House	Total
Adjusted operating profit increase/(decrease)	69	3	14	1	(20)	6	(1)	72
Comprising:								
Underlying increase/(decrease)	87	8	16	2	(14)	4	-	103
Portfolio changes	(1)	-	-	(1)	-	2	(1)	(1)
Exchange differences	(17)	(5)	(2)	-	(6)	-	-	(30)
Adjusted operating profit increase/(decrease)	69	3	14	1	(20)	6	(1)	72
Constant exchange rate increase/(decrease)	59%	28%	1,600%	4%	(15)%	38%	(100)%	33%
Underlying increase/(decrease)	59%	28%	1,600%	8%	(15)%	27%	-	33%

Adjusted earnings per share

Adjusted earnings includes adjusted operating profit and adjusted finance and tax charges. Adjusted earnings is included as a non-GAAP measure as it is used by management to evaluate performance and by investors to more easily, and consistently, track the underlying operational performance of the Group over time. Adjusted earnings per share is calculated as adjusted earnings divided by the weighted average number of shares in issue on an undiluted basis.

The following items are excluded from adjusted earnings:

Cost of major restructuring – In March 2021, the Group announced a restructuring programme to run primarily in 2021. The programme includes the reorganisation of the Group into five global business divisions and the simplification of the Group's property portfolio to drive significant cost savings. The costs of this restructuring programme are significant enough to exclude from the adjusted operating profit measure so as to better highlight the underlying performance (see note 4).

Other net gains and losses – These represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets and are excluded from adjusted earnings as they distort the performance of the Group as reported on a statutory basis.

Intangible charges – These represent charges in respect of intangible assets acquired through business combinations or relating to associates. These charges are excluded as they reflect past acquisition activity and do not necessarily reflect the current year performance of the Group.

Other information

Financial key performance indicators *continued*

Other net finance income/costs – These include finance costs in respect of retirement benefits, finance costs of deferred consideration and foreign exchange and other gains and losses. Finance income relating to retirement benefits is excluded as management does not believe that the consolidated income statement presentation under IAS 19 reflects the economic substance of the underlying assets and liabilities. Finance costs relating to acquisition transactions are excluded as these relate to future earn-outs or acquisition expenses and are not part of the underlying financing. Foreign exchange and other gains and losses are excluded as they represent short-term fluctuations in market value and are subject to significant volatility. Other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity.

Tax – Tax on the above items is excluded from adjusted earnings. Where relevant the Group also excludes the benefit from recognising previously unrecognised pre-acquisition and capital losses. The tax benefit from tax deductible goodwill and intangibles is added to the adjusted income tax charge as this benefit more accurately aligns the adjusted tax charge with the expected rate of cash tax payments.

In addition, one off items such as the impact of the UK tax rate change and changes in local tax law have been excluded.

All figures in £ millions	2021	2020
Profit for the year	160	310
Non-controlling interest	(1)	–
Cost of major restructuring	214	–
Other net gains and losses	(63)	(178)
Intangible charges	51	80
Other net finance income	(31)	(4)
Tax	(67)	9
Adjusted earnings	263	217
Weighted average number of shares (millions)	754.1	755.4
Adjusted earnings per share	34.9p	28.7p

Return on invested capital

Return on invested capital (ROIC) is included as a non-GAAP measure as it is used by management to help inform capital allocation decisions within the business. ROIC is calculated as adjusted operating profit less operating cash tax paid expressed as a percentage of average invested capital. Invested capital includes the original unamortised goodwill and intangibles. Average values for total invested capital are calculated as the average monthly balance for the year. ROIC is also presented on a net basis after removing impaired goodwill from the invested capital balance. The net approach assumes that goodwill which has been impaired is treated consistently to goodwill disposed as it is no longer being used to generate returns.

All figures in £ millions	2021 Gross	2020 Gross	2021 Net	2020 Net
Adjusted operating profit	385	313	385	313
Operating tax paid	(60)	(10)	(60)	(10)
Return	325	303	325	303
Average goodwill	5,758	6,199	3,063	3,282
Average other non-current intangibles	1,970	2,186	1,970	2,186
Average intangible assets – product development	892	906	892	906
Average tangible fixed assets and working capital	1,237	1,334	1,237	1,334
Average invested capital	9,857	10,625	7,162	7,708
Return on invested capital	3.3%	2.9%	4.5%	3.9%

Return on capital

Return on capital (ROC) is included as a non-GAAP measure of how efficiently we are generating returns from our asset base. ROC is calculated as adjusted operating profit less adjusted income tax as a proportion of capital, where capital adjusts net statutory assets for net debt, retirement benefit assets, other post-retirement medical obligations and other non-operating items. These adjustments to net statutory assets have been made to better reflect the asset base that generates returns.

All figures in £ millions	2021	2020
Adjusted operating profit	385	313
Adjusted income tax charge	(64)	(35)
Return	321	278
Net statutory assets	4,280	4,134
Adjustments for:		
Net debt	350	463
Retirement benefit assets	(537)	(410)
Other post-retirement medical benefit obligation	34	39
Other non-operating assets	(41)	(30)
Capital	4,086	4,196
Return on capital	7.9%	6.6%

Operating cash flow

Operating cash flow is calculated as net cash generated from operations before the impact of items excluded from the adjusted income statement plus dividends from joint ventures and associates (less the re-capitalisation dividends from Penguin Random House), less capital expenditure on property, plant and equipment (including additions to right-of-use assets) and intangible software assets, plus proceeds from the sale of property, plant and equipment (including the impacts of transfers to/from investment in finance lease receivable) and intangible software assets; plus special pension contributions paid; and plus costs of major restructuring paid. Operating cash flow is included as a non-GAAP measure in order to align the cash flows with the corresponding adjusted operating profit measures.

All figures in £ millions	2021	2020
Net cash generated from operations	570	450
Dividends from joint ventures and associates	-	4
Purchase of property, plant and equipment	(64)	(53)
Addition of new right-of-use lease assets	(30)	(61)
Purchase of intangible software assets	(112)	(81)
Net disposal of right-of-use lease assets including transfers to/from investment in finance lease receivable	-	18
Net costs paid for major restructuring	24	38
Operating cash flow	388	315

Cash conversion, calculated as operating cash flow as a percentage of adjusted operating profit, is also shown as a non-GAAP measure as this is used by management and investors to measure cash generation by the Group.

All figures in £ millions	2021	2020
Adjusted operating profit	385	313
Operating cash flow	388	315
Cash conversion	101%	101%

Operating cash flow, operating free cash flow and total free cash flow, which are non-GAAP measures, are disclosed and reconciled in note 33 of the notes to the consolidated financial statements as they are commonly used by investors to measure the cash performance of the Group.

Other information

Financial key performance indicators *continued*

Net debt and adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)

For information, the net debt/adjusted EBITDA ratio is shown as a non-GAAP measure as it is commonly used by investors to measure balance sheet strength. Adjusted EBITDA is calculated as adjusted operating profit less depreciation on property, plant and equipment, and amortisation on intangible software assets

All figures in £ millions	2021	2020
Adjusted operating profit	385	313
Depreciation (excluding items included in 'cost of major restructuring')	100	125
Amortisation on intangible software assets (excluding items included in 'cost of major restructuring')	113	112
Adjusted EBITDA	598	550
Cash and cash equivalents	937	1,116
Investment in finance lease receivable	115	130
Derivative financial instruments	(2)	11
Bank loans and overdrafts	–	(3)
Bonds	(767)	(965)
Lease liabilities	(633)	(752)
Net debt	(350)	(463)
Net debt/adjusted EBITDA ratio	0.6x	0.8x

Shareholder Information

Pearson ordinary shares are listed on the London Stock Exchange and on the New York Stock Exchange in the form of American Depositary Receipts.

Corporate website

The investors' section of our corporate website plc.pearson.com/investors provides a wealth of information for shareholders. It is also possible to sign up to receive email alerts for reports and press releases relating to Pearson at pearsonplc.com.

Shareholder information online

Shareholder information can be found on our website at plc.pearson.com/investors.

Our registrar, Equiniti, also provides a range of shareholder information online. You can check your holding and find practical help on transferring shares or updating your details at www.shareview.co.uk. For more information, please contact our registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. Telephone 0371 384 2043* or, for those shareholders with hearing difficulties, textphone number 0371 3842255*.

Information about the Pearson share price

The company's share price can be found on our website at plc.pearson.com/investors/performance/share-price-dividend. It also appears in the financial columns of the national press.

2021 dividends

	Payment Date	Amount per share
Interim	20 September 2021	6.3 pence
Final	6 May 2022	14.2 pence

1. Subject to approval by shareholders at the 2022 Annual General Meeting.

2022 financial calendar

Ex-dividend date	24 March 2022
Record date	25 March 2022
Last date for dividend reinvestment election	14 April 2022
Annual General Meeting	29 April 2022
Payment date for dividend and share purchase date for dividend reinvestment	6 May 2022

Payment of dividends to mandated accounts

Should you elect to have your dividends paid through BACS, this can be done directly into a bank or building society account, with the tax voucher sent to the shareholder's registered address. Equiniti can be contacted for information on 0371 384 2043*.

Dividend reinvestment plan (DRIP)

The DRIP gives shareholders the right to buy the company's shares on the London stock market with their cash dividend. For further information, please contact Equiniti on 0371 384 2268*.

Individual Savings Accounts (ISAs)

Equiniti offers ISAs in Pearson shares. For more information, please go to www.shareview.co.uk/dealing or call customer services on 0345 300 0430*.

Share dealing facilities

Equiniti offers telephone and internet services for dealing in Pearson shares. For further information, please contact their telephone dealing helpline on 03456 037 037* or, for online dealing, log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate.

A postal dealing service is also available through Equiniti. Please telephone 0371 384 2248* for details or log on to www.shareview.co.uk to download a form.

ShareGift

Shareholders with small holdings of shares, whose value makes them uneconomic to sell, may wish to donate them to ShareGift, the share donation charity (registered charity number 1052686).

Further information about ShareGift and the charities it has supported may be obtained from their website, www.ShareGift.org, or by contacting them at ShareGift, PO Box 72253, London, SW1P 9LQ.

American Depositary Receipts (ADRs)

Pearson's ADRs are listed on the New York Stock Exchange and traded under the symbol PSO. Each ADR represents one ordinary share. For enquiries regarding registered ADR holder accounts and dividends, please contact Bank of New York Mellon, Shareholder Correspondence (ADR), PO Box 505000, Louisville, KY 40233-5000, telephone 1 (866) 259 2289 (toll free within the US) or 001 201 680 6825 (outside the US). Alternatively, you may email shrelations@cpushareownerservices.com.

Voting rights for registered ADR holders can be exercised through Bank of New York Mellon, and for beneficial ADR holders (and/or nominee accounts) through your US brokerage institution. Pearson will file with the Securities and Exchange Commission a Form 20-F.

Share register fraud: protecting your investment

Pearson does not contact its shareholders directly to provide recommendations or investment advice and neither does it appoint third parties to do so. As required by law, our shareholder register is available for public inspection, but we cannot control the use of information obtained by persons inspecting the register. Please treat any approaches purporting to originate from Pearson with caution.

For more information, please log on to our website at plc.pearson.com/en-GB/investors/shareholders/shares-shareholding.

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and shred any unwanted documentation.
- Inform our registrar, Equiniti, promptly when you change address.
- Be aware of dividend payment dates and contact the registrar if you do not receive your dividend cheque or, better still, make arrangements to have the dividend paid directly into your bank account.
- Consider holding your shares electronically in a CREST account via a nominee.

* Lines open 8.30am to 5.30pm Monday to Friday (excluding public holidays).

ESG Performance Data

Environment

Progress measures towards targets:

Net Carbon Zero

- By 2030, we will reduce scope 1, 2 & 3 emissions by 50% against a 2018 baseline as approved by the Science-Based Targets Initiative
- We will be net zero across scope 1, 2 & 3 by 2030

Re-baselining: Following Greenhouse Gas Protocol guidance, we are now retrospectively excluded emissions from relevant disposals in our base year and historical years. This enables meaningful comparison of emissions on a like-for-like basis over a long period. Both recalculated and reported emissions are disclosed on the table below.

Methodology: We have reported on all of the emission sources required under the Companies Act 2006. The method we have used to calculate GHG emissions is the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), using the Scope 2 dual reporting methodology, together with the latest emission factors from recognised public sources, including, but not limited to, the UK Department for Business, Energy & Industrial Strategy, the International Energy Agency, the US Energy Information Administration, the US Environmental Protection Agency and the Intergovernmental Panel on Climate Change. Energy use includes gas and electricity consumption in MWh and vehicle fuel use converted from mileage into MWh using B1E5 conversion factor.

The data in the table below has been independently verified by Corporate Citizenship, an independent third party. The scope of the assurance covers our energy consumption, Scope 1, 2 and 3 GHG emissions and renewable electricity claims. See our assurance statement here: <https://plc.pearson.com/purpose/esg-reporting/>

Category	Sub-category	2018 previously reported	2018 rebaselined figures	2019	2020	2021
Scope 1	Scope 1 – Natural Gas		3,675	7,522	3,601	5,116
Scope 1	Scope 1 – Fuel Oil		137	111	58	16
Scope 1	Scope 1 – Refrigerant Gas Loss	13,057	544	78	–	77
Scope 1	Scope 1 – Vehicles		7,854	4,789	2,875	3,187
Scope 2 – location based	Scope 2 – location based	49,920	41,586	38,298	28,385	23,333
Scope 2 – market based	Scope 2 – market based	4,583	4,583	418	529	440
1a: Purchased goods and services (product)	1a – Manufactured goods – Books	127,550	89,629	84,101	48,789	34,012
1a: Purchased goods and services (product)	1a – non print manufacturing	21,571	14,284	13,329	18,409	20,552
1b: Purchased goods and services (non-product)	1b – Non-product	212,403	183,665	193,980	157,739	175,913
2: Capital goods	2 – Capital goods	–	–	–	–	–
3: Fuel and energy related activities	3 – Fuel related	3,104	2,270	2,171	1,061	1,279
3: Fuel and energy related activities	3 – Electricity related	11,039	6,361	8,368	6,116	7,238
4: Upstream transportation and distribution	4: Upstream transportation and distribution	53,727	12,926	11,573	10,153	10,388
5: Waste generated in operations	5 – Waste generated in operations	525	390	258	0	378
6: Business travel	6 – Air	20,545	11,369	9,487	3,705	1,403
6: Business travel	6 – Hotels	2,864	2,717	2,503	426	138
6: Business travel	6 – Rail	890	885	568	96	10
6: Business travel	6 – Hired cars	1,486	1,400	1,811	1,000	1,000
6: Business travel	6 – Taxis	27	27	45	14	2
7: Employee commuting	7 – Employee commuting	28,948	25,509	27,362	6,584	–
7b: Employees working from home (WFH)	7b: Employee WFH	–	–	–	18,402	17,325
9: Downstream transportation and distribution	9: Downstream transportation and distribution	53,727	12,926	11,573	10,153	10,388
11: Use of sold products	11 – Third party test centres	6,415	6,415	6,415	6,415	6,461
11: Use of sold products	11 – Online testing	76	31	31	31	28
11: Use of sold products	11 – Online learning	5,393	2,225	2,192	2,167	3,531
12: End-of-life treatment of sold products	12 – End of life	27,581	18,265	16,999	10,182	7,961
13: Downstream leased assets	13 – Downstream leased assets	14,825	14,825	14,825	9,588	9,517
14: Franchises	14 – Franchises	4,044	4,044	2,730	2,707	1,343

Sub-category	2018 previously reported	2018 rebaselined figures	2019	2020	2021
Scope 1	13,057	12,209	12,500	6,534	8,396
Scope 2 (market based)	4,583	4,583	418	529	440
Scope 3	596,740	410,164	410,322	313,738	308,866
Total – Location based	659,717	463,959	461,120	348,657	340,595
Total – Market based	614,380	426,956	423,239	320,801	317,703

	2018	2019	2020	2021
Intensity ratios				
tCO ₂ e per employee (scope 1, 2 market & 3)	17.6	18.6	15.0	14.9
tCO ₂ e/sales revenue (scope 1, 2 market & 3)	13.5	111.6	95.0	92.7
Environmental reporting measures (Units)				
Net internal area of reporting offices (m ²)	684,712	572,478	444,468	457,519
Energy consumption measure				
% electricity from renewable sources	100%	96%	95%	99%
Total electricity consumption from renewable sources only (MWh)	88,492	81,056	65,574	57,120
Total electricity consumption from non-renewable sources only (MWh)		936	1103	794
On site generated electricity (MWh)	230	225	24*	150
Total gas consumption (MWh)	20,187	39,325	19,826	23,985
Total fuel oil consumption (MWh)	24	74	94	48
Vehicles (MWh)	31,115	19,119	13,822	10,437
Total energy consumption (MWh)	140,048	140,737	100,662	92,535

Resource Use

	2018	2019	2020	2021
Paper*				
Paper used (t)	103,758	96,811	37,969	29,056
% FSC		11	32	29
% PEFC				28
Waste				
Total Waste To landfill (t)	547	469	276	648**
Total Waste To landfill (t/FTE)	0.0225	0.0206	0.0129	0.0304
Water				
Total Water consumption (m ³)	520,682	374,008	238,271	152,702
Total Water consumption (m ³ /FTE)	21.41	16.45	11.17	7.15

UK Scope 1 and 2 (location based) 3,829 tCO₂e (12%) and Global Scope 1 and 2 (location-based) 3,1729 tCO₂e UK Scope 1 and 2 (market-based) 1,252 tCO₂e (10%) and Global Scope 1 and 2 (market-based) 8,837 tCO₂e UK (gas, electricity and transport) MWh = 17,491 (13%) Global (gas, electricity and transport) MWh = 92,535

* Not re-baselined as the target is not a % reduction

** Pearson reports estimated waste data. This year, our estimations methodology extended the scope of sites that are included in 2021 figures

ESG Performance Data *continued*

Social

Our Employees

	2018	2019	2020	2021
Total average number of employees	24,322	22,734	21,191	20,744
Employees by geography¹ as at 31 December				
US as of 31 December			11,242	11,670
UK as of 31 December			4,202	3,826
Rest of World as of 31 December			6,407	5,854
Total number of permanent, regular employees, as of 31 December	96%	95%	96%	97%
Male	38%	41%	41%	40%
Female	62%	58%	59%	59%
Non-binary ²				0%
Not disclosed			0.03%	1%
Total number of temporary, limited term, employees, as of 31 December	4%	5.0%	4%	3%
Male	30%	36%	36%	32%
Female	68%	64%	64%	65%
Non-binary				0%
Not disclosed			0.2%	3%
Total full-time, regular, employees	79%	79%	74%	75%
Male	41%	45%	44%	44%
Female	58%	55%	56%	55%
Non-binary			0%	0%
Not disclosed				1%
Total part-time, regular, employees	18%	21%	20%	21%
Male	24%	25%	25%	27%
Female	76%	75%	75%	73%
Non-binary	0%	0%	0%	0%
Not disclosed				1%
Employee gender diversity – All numbers as of 31 December				
Total male	38%	41%	40%	40%
Total female	62%	59%	60%	59%
Non-binary				0%
Not disclosed				1%
Female leadership				
Board positions held by women	30%	33%	45%	50%
Percentage of women on Pearson's executive ³	9%	18%	31%	38%
Senior leadership ⁴	31%	34%	36%	37%
VP& Director	-	-	48%	47%
Manager	48%	50%	50%	50%
Percentage of women in technology roles (IT/engineering)	34%	35%	33%	29%
Percentage of women employees in revenue-producing roles	65%	62%	63%	63%
Percentage of promotions received by women	59%	56%	59%	60%
UK median gender pay gap	14%	12%	12%	10%

1. Prior to 2019, our business was structured around 3 geographies: North America, Growth (China, India, Brazil, South Africa) and Core (UK and rest of world).

2. We opened this option for employee self-identification in 2020.

3. Typically, up to two reporting lines from the Chief Executive: the senior leadership are the employee body with responsibility for planning and directing the activities of the company.

4. Executive Directors are included in Board statistics not Pearson Executive Management.

	2018	2019	2020	2021
Employee racial and ethnic diversity				
Total workforce (US and UK)			30% (US) / 17% (UK)	31% (US) / 19% (UK)
Diverse leadership				
Board positions (diverse) (#/%)			1/10%	2/20%
Percentage of diversity on Pearson's executive team (#/%)			3/30%	2/25%
Senior leadership (US and UK)			18% (US) / 9% (UK)	20% (US) / 9% (UK)
VP and Director (US and UK)			15% (US) / 10% (UK)	17% (US) / 13% (UK)
Manager (US and UK)			21% (US) / 17% (UK)	23% (US) / 16% (UK)
US diverse group breakdown				
Asian				
Manager and above			11%	11%
All employees			9%	9%
Latinx				
Manager and above			4%	4%
All employees			8%	9%
Black				
Manager and above			3%	4%
All employees			11%	10%
Other diverse				
Manager and above			1%	1%
All employees			3%	3%
White				
Manager and above			81%	79%
All employees			70%	69%
UK diverse group breakdown				
Asian				
Manager and above			9%	8%
All employees			10%	10%
Black				
Manager and above			2%	2%
All employees			4%	4%
Other diverse				
Manager and above			4%	5%
All employees			4%	5%
White				
Manager and above			79%	77%
All employees			72%	70%
Not Specified				
Manager and above			7%	8%
All employees			10%	11%
Employee age representation, all as of 31 December				
Under 30 years old	4,165 / 15%	14%	14%	16%
30-50 years old	6,465 / 60%	58%	66%	55%
Over 50 years old	6,890 / 25%	28%	20%	28%
Not disclosed	105 / 0.4%	0.5%	0.4%	0.4%
Turnover				
Turnover rate, total average for the year	1,1024 / 37%	8,627 / 37%	5,692 / 26%	7,232 / 33%
Voluntary turnover	5,101 / 20%	4,695 / 20%	3,725 / 17%	5,062 / 23%
Involuntary turnover	5,923 / 17%	3,932 / 17%	1,967 / 9%	2,170 / 10%

ESG Performance Data *continued*

	2018	2019	2020	2021
Turnover by region				
UK		4%	3%	6%
US		25%	16%	16%
Rest of world		8%	7%	10%
Turnover by gender				
Female	7,201 / 24%	5,447 / 23%	3,605 / 16%	4,512 / 20%
Male	3,711 / 13%	3,168 / 14%	2,087 / 10%	2,709 / 12%
Not disclosed	112 / 0%	12 / 0%		
Female (involuntary)			1,195 / 5%	1,274 / 6%
Male (involuntary)			772 / 4%	891 / 4%
Turnover by age group				
Under 30 years old	2,943 / 10%	7%	1,386 / 6%	2,019 / 9%
30-50 years old	5,710 / 19%	19%	2,501 / 11%	3,428 / 15%
Over 50 years old	2,193 / 7%	1%	1,744 / 8%	1,764 / 8%
Not disclosed	178 / 1%	0%	61 / 0%	21 / 0%
New hires				
Total number and rate of new employee hires (number of hires/average headcount)	7,053 / 26%	4,326 / 21%	5,488 / 25%	5,934 / 27%
Total number of new hires – female	4,661 / 66%	2,725 / 63%	3,612 / 66%	3,528 / 60%
Total number of new hires – male	2,185 / 31%	1,601 / 37%	1,855 / 34%	2,261 / 38%
Total number of new hires – NA	207 / 3%	21 / 1%	11 / < 1%	145 / 2%
New hires by region				
UK (2019 & 2020)		754 / 12%	15%	17%
US (2019 & 2020)		3,453 / 56%	65%	56%
Rest of World (2019 & 2020)		1,907 / 31%	19%	27%
New hires by age group				
Under 30 years old	2,303 / 33%	33%	24%	40%
30-50 years old	3,239 / 46%	47%	31%	42%
Over 50 years old	1,353 / 19%	18%	15%	17%
Not disclosed	158 / 2%	2%	30%	1%
Length of service				
Average length of service for a Pearson employee	6.7	7.0	7.4	6.9
Average length of service – female	6.6	7.0	7.3	6.8
Average length of service – male	7.0	7.1	7.6	7.1
Median length of service – all employees	n/a	n/a	n/a	4.3
Median length of service – female	3.8	4.6	5.0	4.2
Median length of service – male	3.9	5.0	5.0	4.7
Employee Benefits				
Health and wellness benefits				
Percentage of employees participating in Pearson medical programs	82% (US) / 53% (UK)	82% (US) / 53% (UK)	83% (US) / 48% (UK)	73% (US) / 49% (UK)
Average percentage of health insurance costs for employees paid by Pearson	80% (US) / 82% (UK)	79% (US) / 82% (UK)	79% (US) / 100% (UK)	78% (US) / 85% (UK)
Average percentage of health insurance costs for employees, spouses, and dependents paid by Pearson	84% (UK)	79% (US) / 82% (UK)	79% (US) / 89% (UK)	78% (US) / 89% (UK)
Financial benefits				
Percentage of eligible employees participating in Pearson's 401(k) Plan	92% (US)	93% (US)	92% (US)	93% (US)
Percentage of employees participating in the Employee Stock Purchase Plan	21% (US)	22% (US)	25% (US)	24% (US)

	2018	2019	2020	2021
Percentage of employees participating in the Worldwide Save For Shares Plan – globally except the US	18%	17%	10%	21%
Percentage of workforce below senior leadership eligible for LTIPs	6%	6%	4%	4%

Work/Life balance and lifestyle programs

Number of employees using Pearson's Employee Assistance Plan	402 (US)	883 (US) / 217 (UK)	325 (US) / 125 (UK)	393 (US) / 271 (UK)
Number of interactions with Pearson's lifestyle programs	11,482 (US)	9,652 (US)	7% (US)	10,080 (US)

Health and safety

	Description	2018	2019	2020	2021
Percentage of H&S standards implemented across all locations	Primary metric for implementation of our H&S management system	92%	94%	94%	93%
Number of H&S audits & advisory reviews	Audits & advisory reviews conducted by Global Risk Management staff to provide assurance of local compliance with H&S law and policy	31	34	1*	2*
Percentage closure of open action audit findings as of 1 January	Percentage of Audit Actions closed from previous year's audits	91%	95%	98%	100%
Number of injuries	Total injuries requiring medical treatment or lost time due to injury. Does not include minor/first aid cases. Includes musculoskeletal disorders, work-related stress, and other illness cases related to work	107	88	45	41
Number of work-related illness cases	Internal metric defined as any work-related injury or illness resulting in more than 3 days away from work	110	121	71	37
Number of serious incidents		21	26	38	34
Number of work-related fatalities		0	1	0	0
Total incident rate per 100 employees	Rate of all incidents (including minor) per 100 employees	0.87	0.91	0.72	0.55
Injury & illness rate per 100 employees	Rate of injuries/illness related to work, not including minor/first aid incidents. Internal metric designed to measure prevention of serious incidents and active reporting of minor incidents	0.29	0.28	0.51	0.35
Serious incident ratio		7%	11%	24%	29%
Workplace inspections reported		849**	444	466	333

* Scheduled audit/assurance program suspended in 2020 & 2021 due to COVID-19 related office closures globally. Resources realigned to support COVID-19 management.

** As significant number of previous year inspections came from WSF sites in Asia, which are no longer part of Pearson.

ESG Performance Data *continued*

BTECs & SDG 4

	2018	2019	2020	2021
Number of BTEC registrations outside the UK	33,403	43,906	31,141	35,722

Governance

	Description	2018	2019	2020	2021
Raising concerns					
Total number of concerns raised & investigated		80	135	100	110
	Human Resources Matters	25 (31%)	43 (32%)	82(82%)	93 (85%)
	Financial irregularities or violations of our policies	55 (69%)	92 (68%)	18 (18%)	17 (15%)
Code of Conduct					
Percentage of employees completing code of conduct certification or training		100%	100%	100%	100%

Sustainability Accounting Standards Board (SASB) Index

Topic	Accounting Metric	SASB Code	Response
			Risk: pages 60-69 Governance: pages 73-111 Pearson risk assess all new vendors and existing ones at least annually. Our risk assessment framework uses the latest international standards such as ISO/IEC 27001:2013, NIST, SOC2 Type 2, Cyber Essentials; as well as Data Privacy standards such as GDPR and CCPA.
Data Security	Description of approach to identifying and addressing data security risks, including use of third-party cyber security standards	TC-IM-230a.2; SV-ED-230a.1	
Data Security	Description of policies and practices relating to collection, usage, and retention of student information	SV-ED-230a.2	Risk: pages 60-69 Governance: pages 73-111 Our Code of Conduct and Business Partner Code of Conduct clarify Pearson's responsibilities and expectations for ethical and responsible business practices including Data Protection and Privacy https://plc.pearson.com/en-GB/corporate-policies?tab=ordinary-shareholders . In addition, we have in-depth internal policies and processes regarding user privacy. As an education media company, we do not use practices relating to behavioural advertising on the internet. For a description of our content and editorial standards see https://plc.pearson.com/en-GB/corporate-policies .
Data Privacy, Advertising Standards & Freedom of Expression	Description of policies and practices relating to behavioral advertising and user privacy	TC-IM-220a.1	
Employee Recruitment, Inclusion & Performance	Employee engagement as a percentage	TC-IM-330a.2	Pearson's Non-financial KPIs, Investing in Talent: pages 24-26
Employee Recruitment, Inclusion & Performance	Percentage of gender and racial/ethnic group representation for (1) management, (2) technical staff, and (3) all other employees	TC-IM-330a.3	ESG Performance Data: pages 232-233
Environmental Footprint of Hardware Infrastructure	1) Total water withdrawn, (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress)	TC-IM-130a.2	ESG Performance Data, page 231

Global Reporting Initiative (GRI)

Indicator	Description	At 2020	At 2021	Additional notes
GRI 101 and 102: General disclosures				
Organisational profile				
GRI 102-1	Name of the organisation	Page 1	Page 1	
GRI 102-2	Activities, brands, products, and services	Pages 2-3, pages 16-20	Pages 2-3; pages 20-21	
GRI 102-3	Location of headquarters	Page 143	Page 152	
GRI 102-4	Location of operations	Page 2; pages 206-209	Pages 218-219	
GRI 102-5	Ownership and legal form	Page 188	Pages 132-135	
GRI 102-6	Markets served	Pages 150-152; pages 206-209	Page 3, page 14; pages 160-161	
GRI 102-7	Scale of the organisation	Page 1, pages 2-5; pages 16-20; page 137, pages 150-152	Page 3; pages 160-161; page 169	
GRI 102-8	Information on employees and other workers	Page 13, page 28, pages 49-51, page 159	Page 169	
GRI 102-9	Supply chain	Page 29; pages 51-53	Pages 16-18, pages 40-54, page 124	
GRI 102-10	Significant changes to the organisation and its supply chain	Page 3; pages 18-25	Page 2, pages 6-9, pages 10-12	
GRI 102-11	Precautionary Principle or approach	Pages 46-47	Pages 52-53	
GRI 102-12	External initiatives	Page 55	Page 43	
GRI 102-13	Membership of associations	Page 55	Page 43; pages 40-54	
Strategy				
GRI 102-14	Statement from senior decision-maker	Page 1	Pages 6-9, pages 10-12 Page 4; pages 20-21; pages 40-54; pages 70-72	
GRI 102-15	Key impacts, risks, and opportunities	Pages 56-64		
Ethics and integrity				
GRI 102-16	Values, principles, standards, and norms of behavior	Page 13, pages 74-75, page 77	Page 1, pages 4-5; pages 40-54	Company policies are posted on the sustainability section of our website (https://plc.pearson.com/en-GB/corporate-policies). Concerns can be raised on www.PearsonEthics.com
GRI 102-17	Mechanisms for advice and concerns about ethics	Page 53	Page 43	
Governance				
GRI 102-18	Governance structure	Pages 66-102	Pages 76-81	
GRI 102-22	Composition of the highest governance body and its committees	Page 69-71	Pages 76-81	
GRI 102-23	Chair of the highest governance body	Page 66-69	Page 76	
GRI 102-25	Conflicts of interest	Page 74	Page 77	
GRI 102-26	Role of highest governance body in setting purpose, values, and strategy	Page 67, pages 74-75; pages 88-89	Pages 74-75; pages 82-85	
GRI 102-29	Identifying and managing economic, environmental, and social impacts	Pages 88-89	Pages 98-100	
GRI 102-32	Highest governance body's role in sustainability reporting	Pages 88-89	Pages 98-100	The Board's Reputation & Responsibility committee reviews the sustainability content in the Annual Report.

ESG Performance Data *continued*

Indicator	Description	Ar 2020	Ar 2021	Additional notes
Stakeholder engagement				
GRI 102-40	List of stakeholder groups	Pages 27-29	Pages 16-19	Pearson supports freedom of association and collective bargaining. Please see our Code of Conduct, Business Partner, Code of Conduct and Human Rights Statement on our policies pages https://plc.pearson.com/en-GB/corporate-policies .
GRI 102-41	Collective bargaining agreements	Page 49		
GRI 102-42	Identifying and selecting stakeholders	Pages 27-29	Pages 16-19	
GRI 102-43	Approach to stakeholder engagement	Pages 27-29	Pages 16-19	
GRI 102-44	Key topics and concerns raised	Pages 27-29	Pages 16-19	
Reporting practices				
GRI 102-45	Entities included in the consolidated financial statements	Pages 128-136, pages 150-152	Pages 218-219	Rebaselining of Emissions data No changes 1 Jan 2021 – 31 Dec 2021 18 March 2021 Annual
GRI 102-46	Defining report content and topic boundaries		Pages 40-43	
GRI 102-47	List of material topics		Pages 40-43	
GRI 102-48	Restatements of information		Page 53	
GRI 102-49	Changes in reporting			
GRI 102-50	Reporting period			
GRI 102-51	Date of most recent report			
GRI 102-52	Reporting cycle			
GRI 102-53	Contact point for questions regarding the report			
GRI 102-54	Claims of reporting in accordance with the GRI Standards			
GRI 102-55	GRI content index		Pages 237-241	See our external assurance statement at: https://www.pearson.com/corporate/sustainability/reporting-policies/reports-benchmarks.html
GRI 102-56	External assurance			
GRI 200: Economic disclosures				
GRI 201: Economic performance				
GRI 103-1	Explanation of the material topic and its Boundaries		Pages 14-27	
GRI 103-2	The management approach and its components	Pages 14-25	Pages 14-27	
GRI 103-3	Evaluation of the management approach	Pages 14-25	Pages 14-27	
GRI 201-1	Direct economic value generated and distributed	Pages 14-25 Pages 31-39	Pages 14-27	
GRI 201-2	Financial implications and other risks and opportunities due to climate change	Pages 46-47	Pages 70-72	
GRI 203: Indirect economic impacts				
GRI 103-1	Explanation of the material topic and its Boundaries	Pages 40-45	Pages 40-54	
GRI 103-2	The management approach and its components	Pages 40-45	Pages 40-54	
GRI 103-3	Evaluation of the management approach	Pages 40-45	Pages 40-54	

Indicator	Description	At 2020	At 2021	Additional notes
GRI 300: Environmental disclosures				
GRI 302: Energy				
GRI 103-1	Explanation of the material topic and its Boundaries	Pages 46-47	Pages 40-45, pages 52-54	
GRI 103-2	The management approach and its components	Pages 46-47	Pages 40-45; pages 52-54	
GRI 103-3	Evaluation of the management approach	Pages 46-47	Pages 40-45; pages 52-54	
GRI 302-1	Energy consumption within the organisation	Pages 46-47	Page 231	
GRI 302-3	Energy intensity	Pages 46-47	Page 231	
GRI 302-4	Reduction of energy consumption	Pages 46-47	Page 231	
GRI 305: Emissions				
GRI 103-1	Explanation of the material topic and its Boundaries	Pages 46-47	Pages 40-45, pages 52-54	
GRI 103-2	The management approach and its components	Pages 46-47	Pages 40-45; pages 52-54	
GRI 103-3	Evaluation of the management approach	Pages 46-47	Pages 40-45; pages 52-54	
GRI 305-1	Direct (Scope 1) GHG emissions	Pages 46-47	Pages 53; pages 231-232	
GRI 305-2	Energy indirect (Scope 2) GHG emissions	Pages 46-47	Pages 53; pages 231-232	
GRI 305-3	Other indirect (Scope 3) GHG emissions	Pages 46-47	Pages 53; pages 231-232	
GRI 305-4	GHG emission intensity	Pages 46-47	Pages 53; pages 231-232	
GRI 305-5	Reduction of GHG emissions	Pages 46-47	Pages 24-26, page 53, pages 231-232	
GRI 400: Social disclosures				
GRI 401: Employment				
GRI 103-1	Explanation of the material topic and its Boundaries	Page 27; pages 49-50; page 60	Pages 4-5; pages 40-43; pages 48-51	
GRI 103-2	The management approach and its components	Page 27; pages 49-50; page 60	Pages 4-5; pages 40-43; pages 48-51	
GRI 103-3	Evaluation of the management approach	Page 27; pages 49-50; page 60	Pages 40-45; pages 52-54	
GRI 401-1	New employee hires and employee turnover		Pages 233-234	
GRI 401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 49	Pages 234-235	
GRI 403: Occupational health and safety				
GRI 103-1	Explanation of the material topic and its Boundaries	Page 61	Pages 4-5; pages 40-43; pages 48-51	
GRI 103-2	The management approach and its components	Page 61	Pages 4-5; pages 40-43; pages 48-51	
GRI 103-3	Evaluation of the management approach	Page 61	Pages 4-5; pages 40-43; pages 48-51	
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities		Page 235	

ESG Performance Data *continued*

Indicator	Descriptor	Ar 2020	Ar 2021	Additional notes
GRI 404: Training and education				
GRI 103-1	Explanation of the material topic and its Boundaries	Page 46; page 49; page 60	Pages 4-5; pages 40-43; pages 48-51	We do not currently report the average hours of training per year per employee. We introduced non-financial KPIs for the business including indicators for investing in talent. Our non-financial KPIs in this area include: percentage of employees reskilling or upskilling and Employee NPS.
GRI 103-2	The management approach and its components	Page 46; page 49; page 60	Pages 4-5; pages 40-43; pages 48-51	
GRI 103-3	Evaluation of the management approach	Page 46; page 49; page 60	Pages 4-5; pages 40-43; pages 48-51	
GRI 404-1	Average hours of training per year per employee		Pages 24-26	
GRI 404-2	Programs for upgrading employee skills and transition assistance programs		Pages 4-5; pages 40-43; pages 48-51	
GRI 405: Diversity and equal opportunity				
GRI 103-1	Explanation of the material topic and its Boundaries	Page 50	Pages 4-5; pages 40-43; pages 48-51	We report on significant locations of operations in the UK, for information see https://plc.pearson.com/sites/pearson-corp/files/pearson-pearson-gpg-2020-aw-260321.pdf
GRI 103-2	The management approach and its components	Page 50	Pages 4-5; pages 40-43; pages 48-51	
GRI 103-3	Evaluation of the management approach	Page 50	Pages 4-5; pages 40-43; pages 48-51	
GRI 405-1	Diversity of governance bodies and employees	Page 5, page 50	Pages 232-233	
GRI 405-2	Ratio of basic salary and remuneration of women to men	Page 5	Page 119; page 232	
GRI 418: Customer privacy				
GRI 103-1	Explanation of the material topic and its Boundaries	Page 62	Pages 60-69; pages 73-111	
GRI 103-2	The management approach and its components	Page 62	Pages 60-69; pages 73-111	
GRI 103-3	Evaluation of the management approach	Page 62	Pages 60-69; pages 73-111	

UN Global Compact and UN Sustainable Development Goals (SDGs)

We have applied relevant international reporting standards and frameworks, including the UN Global Compact (UNGC) Ten Principles, and the UN Sustainable Development Goals (SDGs). This year, we are participating in the Early Adopter Programme of the UNGC Communication on Progress (CoP). Our enhanced CoP will be available in the UNGC digital platform in 2022.



This is our **Communication on Progress** implementing the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback via [our comments](#)

Reliance on this document

The intention of this document is to provide information to shareholders and is not designed to be relied upon by any other party or for any other purpose.

Forward-looking statements

This document includes forward-looking statements concerning Pearson's financial condition, business and operations and its strategy, plans and objectives. In particular, all statements that express forecasts, expectations and projections, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated cost savings and synergies and the execution of Pearson's strategy, are forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may occur in the future. They are based on numerous expectations, assumptions and beliefs regarding Pearson's present and future business strategies and the environment in which it will operate in the future. There are various factors which could cause Pearson's actual financial condition, results and development to differ materially from the plans, goals, objectives and expectations expressed or implied by these forward-looking statements, many of which are outside Pearson's control. These include international, national and local conditions, as well as the impact of competition. They also include other risks detailed from time to time in Pearson's publicly-filed documents and, in particular, the risk factors set out in this document, which you are advised to read. Any forward-looking statements speak only as of the date they are made and, except as required by law, Pearson gives no undertaking to update any forward-looking statements in this document whether as a result of new information, future developments, changes in its expectations or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.



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