

Pearson Education Limited

Registered Number:

00872828

Annual Report and Financial Statements

For the Year Ended:

31 December 2020

Registered address:

80 Strand, London WC2R 0RL

WEDNESDAY



AAE1RGOR

A29

29/09/2021

#72

COMPANIES HOUSE

Pearson Education Limited

STRATEGIC REPORT

The directors present their Strategic Report of Pearson Education Limited (the 'company') for the year ended 31 December 2020.

Business review

The results for the company show a pre-tax loss of £15,159,000 (2019: pre-tax profit of £6,588,000) for the year.

Revenue has decreased from £457.7m to £374.4m (18.2%) from the prior year, mainly in Assessments and Courseware across all geographical markets. Like so many other businesses in the sector, the year was dominated by the effects on delivery of Covid related restrictions in particular with the cancellation of examinations and school closures.

The company has net assets as at 31 December 2020 of £225,890,000 (2019: £242,181,000).

Key performance indicators

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

Future developments

School exams have been cancelled in 2021 and exams have been replaced with teacher assessed grades. As a result, we avoided more exam related costs and this has been passed back to customers through a higher rebate than in 2020. Pearson has not utilised any Government related Furlough schemes over the period.

We have continued to monitor COVID-19 developments closely on a day-by-day basis. Our primary focus is on ensuring the safety and well-being of our learners and employees. We invoked business continuity plans to help support our learners and ensure delivery of qualification results.

The global outbreak of COVID-19 continues to rapidly evolve and the extent to which COVID-19 may impact our business and operations will depend on future developments, including the success of the government vaccination programme and the emergence of new variants. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence. We recognize that there will be a short term decline on income recognized in 2021 to 2023.

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

Principal risks and uncertainties

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

Brexit

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

STRATEGIC REPORT (continued)

Section 172 (1) Statement

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

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

In discharging our section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of our stakeholders and the financial markets. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the company's purpose together with its strategic priorities and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and predictable. The Board received reports throughout the year which, in addition to covering our business and financial performance, included papers relating to our regulatory obligations and how we comply with them, as well as updates on how COVID-19 impacted the business and our people. The Board also received reports and verbal updates that highlighted emerging themes.

The Board and Senior Management have an active and ongoing programme of stakeholder engagement specific to UK qualifications. This is made up of both regular formal and informal engagement with certain stakeholder groups (such as the UK Teaching Association, and various Government and Regulatory stakeholders). However, the size and spread of both our stakeholders and the Pearson Group means that some of our stakeholder engagement takes place at an operational or Group level as this helps us to achieve a greater positive impact on environmental, social and other issues than by working as an individual company. For details on some of the engagement that takes place with the group's stakeholders so as to encourage the directors to understand the issues to which they must have regard please see pages 27 to 29 of the Pearson plc 2020 Annual Report.

The Board conducts regular strategic deep-dives into key business areas which, in 2020, included presentations from the relevant senior executives, focusing on the current performance of each area, consideration of the marketplaces in which the Company operates, as well as any opportunities identified or areas for development that each business area may be facing.

We delegate authority for day-to-day management of the company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Board meetings are held periodically where the directors consider the company's activities and make decisions. As a part of those meetings the directors receive information in a range of different formats on section 172 matters when making relevant decisions. For example, each year we make an assessment of the strength of the company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends. There were no dividend payments in 2020.

In considering the strategic direction of the Company, the Board also considers feedback from engagement with key stakeholders, including our employees, learners, educational institutions, the UK Government and regulators. As a result of this ongoing feedback changes are introduced as and when appropriate which we believe will result in improvements for learners, as well as promoting the long-term success of the Company and enhancing its reputation.

The Board also considers how to embed principles that help deliver long-term success to the Company, including adapting to local market needs and cultures (specifically in relation to our international businesses and product lines). Reports on the skills gap, automation and future skills were considered by the board during 2020 to assist with the implementation of this strategy, acknowledging the changing landscape around education internationally.

On behalf of the board



A Hope
Director
21 September 2021

Pearson Education Limited

DIRECTORS' REPORT

The directors present their report and the financial statements of Pearson Education Limited ('the company') for the year ended 31 December 2020.

Going concern

COVID-19 caused a degree of uncertainty within the Education sector within the UK and added pressure to all companies' financial sustainability through what remains to be an uncertain period. Despite that added financial pressure throughout 2020, the company mitigated those risks to protect net assets.

Despite the impact of COVID-19 reducing through 2021, a fully worked contingency plan is in place to act upon should lead indicators suggest a potential reduction in forecast income. None of those contingent measures will diminish the quality of products and services provided.

The company has considered the impact of the COVID-19 pandemic on its businesses and on trading in future periods. We recognize that there will be a short term decline on income recognized in 2021 to 2023. However the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate.

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

Directors

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

K R Bristow (resigned 30 June 2021)
S E Hague
S M Brennan (resigned 7 July 2020)
A Hope (appointed 7 July 2020)
D J Richardson
C P Rampersaud (resigned 31 August 2021)
G A Gates (resigned 30 June 2021)
J Baker (appointed 6 July 2021)
D Melville (Non executive) (resigned 31 December 2020)
R R Price (Non executive)
V M M Todd (Non executive)
S A S Dicketts (Non executive)
J Laramy (Non executive)
B J Francis (Non executive) (resigned 20 October 2020)
C Rogers (appointed 1 September 2021)

Qualifying third party indemnity provisions and liability insurance

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. Pearson Management Services Limited, a related party, also purchased and maintained throughout the financial year directors' and officers' liability insurance in respect of the company and its directors and officers.

Financial risk management

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

DIRECTORS' REPORT (continued)

Employee and other Stakeholder engagement

The Company's key stakeholders are its employees, learners, educational institutions, the Government and regulators, as well as its parent company and fellow subsidiaries within the Pearson Group. The views of, and the impact of the Company's activities on, those stakeholders are an important consideration for the board when making relevant decisions. The Board and Senior Management have an active and ongoing programme of stakeholder engagement specific to UK qualifications. This is made up of both regular formal and informal engagement with certain stakeholder groups (such as the UK Teaching Association, and various Government and Regulatory stakeholders). However, the size and spread of both our stakeholders and the Pearson Group means that some of our stakeholder engagement takes place at an operational or Group level as this helps us to achieve a greater positive impact on environmental, social and other issues than by working as an individual company. For details on some of the engagement that takes place with the Company's employees, educational institutions and educators so as to encourage the directors to understand the issues to which they must have regard, please see pages 27-29 and 80-81 of the Pearson plc 2020 Annual Report.

During 2020 the board received information to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was provided in a range of different formats including in reports and presentations on non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement. As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our s.172 duty to promote success of the company. Learners and educational institutions help to shape our strategy and, as such, we take their opinions and views into account, for example in the development of our products and resources, pricing structure, and design and delivery of examinations and assessments. For additional information into how engagement has influenced our decisions please see p3 of our strategic report.

In addition, as the COVID-19 pandemic took hold in early 2020, it became clear that its impacts would be felt throughout society. The Board came to the view that the Company should offer support to as broad a range of stakeholders as possible during this challenging period, and were conscious of the need to balance internal and external demands, and to prioritise use of resources. An example of supporting stakeholders was the decision to provide free services to help learners cope with the crisis and help keep them learning, for example The Maths Factor, UK Learns and Active Learn.

Furthermore, education is constantly evolving to meet the changing demands of today's learners. We have taken into account the emerging themes that have arisen as a result of research and frequent engagement with a variety of stakeholders. As a result, we strive to create long-term sustainable growth for our investors and all stakeholders of the company by being a driving force in an increasingly digital world.

Our employees are also integral to the sustainable success of Pearson. The Company is a strong advocate of driving employee engagement within the Group, with a well-established Employee Engagement Forum. Pearson also offers a variety of thriving Employee Resource Groups which have active UK chapters, including, amongst others, Able, Spectrum and Women in Learning and Leadership, which serve to cultivate and celebrate diversity and inclusion in the employee population. As a Group, Pearson has also created an Employee Engagement Network, providing an insight into the various employee perspectives across the Group. Furthermore, each of the Executive Directors represent an integral part of the company's business and can ensure that employees' feedback can be heard at Board level. Furthermore, in recognition of our commitment to high performance through good people management, as a result of investing in our people the Company was awarded Gold against the Investors in People accredited standard in the UK.

The Pearson Group also convened a task force on race and ethnicity to help us identify concrete actions to improve recruitment, retention and inclusion, and to ensure our products and services build a more inclusive society. A sponsor of the task force was one of the company's Executive Directors, thus providing the Board with frequent updates and the ability to contribute and comment on the strategy and actions proposed by the task force. The task force is ultimately aiming to bring alive our vision for creating an inclusive, anti-racist culture at Pearson.

Pearson Education Limited

DIRECTORS' REPORT (continued)

Corporate Governance Arrangements

The company follows a combination of formal corporate governance codes of practice and arrangements appropriate to its status as an Ofqual-recognised awarding body, as well as being influenced by the UK Corporate Governance Code (by virtue of its UK premium-listed parent company, Pearson plc). Areas that are predominantly governed at group-level in line with the UK Corporate Governance Code include purpose and values, financial controls, risk management and employee engagement. Additionally, the company has its own distinct governance arrangements, notably the Board of Directors which is responsible, directly or indirectly, for all corporate approvals and decisions by the entity and for overseeing the regulatory requirements of the company as an awarding body.

The pages that follow describe the company's robust hybrid governance arrangements which, for simplicity, we have aligned with the six core themes of the Wates Principles.

Purpose and Leadership

- The company has a clearly defined purpose, which is agreed on an annual basis and referenced in the schedule of matters reserved for the Board. At its heart, the Board of Pearson Education Limited is responsible for the governance of Pearson's UK education businesses, including the development and administration of qualifications for schools, colleges, higher education and work-based learning settings, plus educational publishing and technologies to support teaching and learning.

- To ensure engagement with a wide variety of stakeholders, the board consists of Executive Directors (to represent internal functions and business areas), and independent Non-Executive Directors. The independent Non-Executive Directors bring experience from a wide range of backgrounds, including educational institutions and employers, and provide scrutiny and challenge to the executive management.

- Representatives from Pearson's HR, Corporate Affairs and Legal functions are also regular attendees at board meetings, and bring a range of internal and external stakeholder perspectives to the board's discussions. There is also an open dialogue between the Board and regulators, typically overseen by the company's Responsible Officer, Derek Richardson (who is also an Executive Director) allowing decisions to be made proactively and in a timely manner when required.

- The company understands that a healthy culture is critical to the company's performance, and is vital to the creation and protection of long-term value. Culture can be defined as a combination of the values, attitudes and behaviours manifested by a company in its operations and relationships with its stakeholders and is a key point of discussion for Directors. Culture is monitored at Group level but is also discussed in detail at Board meetings, where it is also informed by updates from the HR function.

- Whilst the company's overall strategy is driven by the parent company, the details (i.e. the how, when and where) are developed and refined at board level. The board ensures that balance is struck between short-term targets or needs, and the longer-term aspirations which may form part of the Group strategy. As such, strategy is discussed frequently, and at least on an annual basis. The board is responsible for ensuring that its strategy is clearly articulated and implemented throughout the organisation, and that it, along with the company values, supports appropriate behaviours and practices.

DIRECTORS' REPORT (continued)

Board Composition

- The board is led by the chair, who is responsible for its overall effectiveness, promoting open debate and facilitating constructive discussion. The chair, supported by the company secretary, ensures that all directors have appropriate information in a timely manner, and that sufficient time is made available for meaningful discussion. There is a separation between the role of the chair and the Executive Directors, ensuring a balance of power and enabling effective decision-making.
- The company is aware that a balanced board promotes effective decision-making and supports the delivery of a company's strategy. As such, the company ensures that the board is made up of directors with a balance of skills, background and experience. New appointments are always made in line with gaps in this matrix, and with regard to diversity and independence.
- Appointments of Non-Executive Directors are made following a rigorous selection process led by the Chair in conjunction with other members of the Board, supported by HR and the Company Secretary. Upon appointment, Non-Executive Directors participate in a detailed induction programme in which they meet with leaders from all main business areas, as well as the Company Secretary and corporate functions such as Finance.

Director Responsibilities

- As the company follows a combination of the UK Corporate Governance Code and the governance arrangements that relate to its status as an awarding body, the directors have a number of policies that work in tangent to promote effective stewardship, delivering long-term value. The key documents relevant to corporate governance and decision-making by the company include:
 - the Schedule of Matters Reserved to the Board, which sets out those matters that require board approval, and
 - the Standing Committee Terms of Reference, which authorises a sub-committee of Executive Directors and other approved senior managers to take certain decisions on behalf of the company, which are primarily routine in nature, for example operational matters or intra-group matters relevant to the company's status as a subsidiary of the Pearson Group.
- The chair and the company secretary periodically review the governance processes (often in line with the Group) to confirm that they remain fit for purpose and consider any initiatives which could strengthen the governance of the company.
- The board has established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable, enabling directors to monitor and challenge the performance of the company, thus allowing the directors to make informed decisions. To do this, the board receives presentations and reports from a broad range of individuals, both internal and, where appropriate, external to the company. These reports contain both qualitative and quantitative information, and the directors are able to request additional information to be provided in order to make an informed decision. Reports could contain information that includes, but is not limited to: financial information; KPIs; workforce data; environmental data; and stakeholder feedback.
- Furthermore, the chair and the company secretary ensure that board papers and supporting information are clear, comprehensive and relevant. Each board paper should have an introduction, to enable the directors to quickly determine the discussion point of each matter, and also to summarise what is expected of the directors on each issue. The board papers are collated and issued to the board in a timely manner, to provide efficient time for the papers to be read and matters to be digested.

Pearson Education Limited

DIRECTORS' REPORT (continued)

Opportunity and Risk

- The board considers and assesses how the company creates and preserves value over the long-term for all areas of the business. The board also considers, including through feedback from stakeholders, areas of innovation and future opportunities. Future opportunities and decisions of a certain size or risk profile are always considered and approved at board or executive level and in line with financial and legal protocols governed by the Group's schedule of authority.

- The board has a responsibility for effective risk management, although risk is predominantly monitored and reported through the risk management framework adopted at Group level. As such, Executive Directors of the company participate in an internal reporting process within the Group, which involves internal communication on the identification of risk factors, both internally and externally. Please refer to pages 56-64 in Pearson plc's 2020 Annual Report for further information on the Group's organisational risk management process.

Remuneration

- The Executive Directors are employees of entities within the Pearson Group and, as such, their remuneration is governed by a group-wide set of remuneration principles that govern how people are rewarded, which has been adopted at Group level. For further details as to the Group reward principles and remuneration framework, please see page 106 of the Pearson plc 2020 Annual Report. The remuneration of the Non-Executive Directors and the Chair is reviewed on a periodic basis with benchmarking support as required from the HR function.

Stakeholder Relationships and Engagement

- Dialogue with stakeholders helps the board to understand the effects of company policies and practices, predict future developments and trends, and to refine strategy. As such, the Board receives an update on each of the business areas (including Schools, Higher Education, BTEC & Apprenticeships) that focuses on different products and services with particular groups of stakeholders. In addition, the Board receives standing reports on areas such as Finance, HR, and standards and regulation. Executive Directors and other members of senior management provide regular updates to the board on engagement with and feedback from these stakeholder groups. Engagement takes place through a wide variety of means such as school and college user groups, dialogue with governmental bodies and regulators, participation in trade associations, and through specially-commissioned research programmes. For additional details on engagement with stakeholders, please see the section on Stakeholder Engagement on page 80 of the Pearson plc 2020 Annual Report.

- Engagement with employees takes place at a Group level through a variety of methods, including but not limited to the Employee Engagement Network and various task forces. For further details, please see page 5 of this report and page 81 of the Pearson plc 2020 Annual Report.

Pearson Education Limited

DIRECTORS' REPORT (continued)

Statement of directors' responsibilities

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

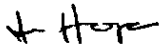
Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework', and applicable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

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

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

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

On behalf of the board



A Hope
Director
21 September 2021

Company registered number:
00872828

Pearson Education Limited

PROFIT AND LOSS ACCOUNT

For the year ended:

31 December 2020

		2020	2019
Continuing operations	Note	£'000	£'000
Turnover	3	374,441	457,681
Cost of sales		(159,471)	(190,138)
Gross profit		214,970	267,543
Administrative expenses		(230,622)	(258,636)
Other operating income		60	99
Operating (loss)/profit	4	(15,592)	9,006
Income from shares in associated undertakings		2,945	670
(Loss)/profit before interest and taxation		(12,647)	9,676
Interest receivable and similar income	7	-	25
Interest payable and similar expenses	7	(2,512)	(3,113)
(Loss)/profit before taxation		(15,159)	6,588
Tax on (loss)/profit	8	(3,000)	(2,152)
(Loss)/profit for the financial year		(18,159)	4,436

Pearson Education Limited

STATEMENT OF COMPREHENSIVE INCOME

For the year ended:

31 December 2020

	2020	2019
	£'000	£'000
(Loss)/profit for the financial year	(18,159)	4,436
Total comprehensive (expenditure)/income for the year	(18,159)	4,436

Pearson Education Limited

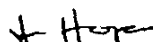
BALANCE SHEET
For the year ended:
31 December 2020

		2020	2019
	Note	£'000	£'000
Fixed assets			
Intangible assets	9	127,557	125,175
Tangible assets	10	22,111	27,020
Investments	11	2,361	2,361
		152,029	154,556
Current assets			
Stocks	12	143,258	132,755
Debtors (including £nil (2019: £7,963,000) due after one year)	13	208,106	378,592
Cash at bank and in hand		15,156	12,116
		366,520	523,463
Creditors - amounts falling due within one year	14	(258,757)	(396,675)
Net current assets		107,763	126,788
Total assets less current liabilities		259,792	281,344
Creditors - amounts falling due after more than one year	14	(29,337)	(31,937)
Provisions for liabilities	15	(4,565)	(7,226)
Net assets		225,890	242,181
Capital and reserves			
Called up share capital	17	90,000	90,000
Share premium account		45,000	45,000
Profit and loss account		87,462	103,705
Other reserves		3,428	3,476
Total shareholders' funds		225,890	242,181

For the year ended 31 December 2020:

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

The financial statements were approved by the board of directors and authorised for issue on 21 September 2021. They were signed on its behalf by:



A Hope
Director

Pearson Education Limited

STATEMENT OF CHANGES IN EQUITY

For the year ended:

31 December 2020

	Other reserves	Called up share capital	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2019	4,959	90,000	45,000	97,670	237,629
Adjustment on initial application of IFRS 15 net of tax	-	-	-	(1,896)	(1,896)
At 31 December 2018 and 1 January 2019 (restated)	4,959	90,000	45,000	95,774	235,733
Profit for the financial year	-	-	-	4,436	4,436
Other comprehensive expense	-	-	-	-	-
Total comprehensive income for the year	-	-	-	4,436	4,436
Share-based payment transactions	2,426	-	-	-	2,426
Deferred tax on share-based payment transactions	-	-	-	(414)	(414)
Shares exercised / lapsed during year	(3,909)	-	-	3,909	-
At 31 December 2019	3,476	90,000	45,000	103,705	242,181
Loss for the financial year	-	-	-	(18,159)	(18,159)
Other comprehensive expense	-	-	-	-	-
Total comprehensive expenditure for the year	-	-	-	(18,159)	(18,159)
Share-based payment transactions	1,812	-	-	-	1,812
Deferred tax on share-based payment transactions	-	-	-	56	56
Shares exercised / lapsed during year	(1,860)	-	-	1,860	-
At 31 December 2020	3,428	90,000	45,000	87,462	225,890

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

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

Share premium includes any premium received on the issue of share capital.

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

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended:

31 December 2020

1

Accounting policies

The principal accounting policies are set out below. These policies and measurement bases have been consistently applied to all the years presented.

Basis of preparation

Pearson Education Limited (the 'company'), is a private limited company, limited by shares, incorporated in the United Kingdom. The address of its registered office is 80 Strand, London WC2R 0RL. The nature of the company's principal activities are the supply of educational services and resources.

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

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

Prior year comparatives have been reclassified, where necessary, on a basis consistent with the current year.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101. Where required, equivalent disclosures are given in the group financial statements of Pearson plc.:

- a) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment
- b) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - (iii) paragraph 118(e) of IAS 38 Intangible Assets;
- c) the requirements of paragraphs 10(d), 16, 38(A) and 111 of IAS 1 Presentation of Financial Statements;
- d) paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- e) the requirements of IAS 7 Statement of Cash Flows;
- f) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- i) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- j) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers; and
- k) IFRS 7 Financial Instruments: Disclosures.
- l) the requirements of paragraphs 52, 58, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

Interpretations and amendments to published standards effective 2020

No new standards were adopted in 2020.

Change of accounting policy: Amendments to IFRS 16

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

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

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

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

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended:
31 December 2020

1

Accounting policies

Consolidation

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

These financial statements are separate financial statements.

Going concern

COVID-19 caused a degree of uncertainty within the sector within the UK and added pressure to all companies' financial sustainability through what remains to be an uncertain period.

Despite the impact of COVID-19 reducing through 2021 a fully worked contingency plan is in place to act upon should lead indicators suggest a potential reduction in forecast income. None of those contingent measures will diminish the quality of products and services provided.

The directors have considered the impact of the COVID-19 pandemic on the business and on trading in future periods. We recognize that there will be a short term decline on income recognized in 2021 to 2023. However the directors are of the opinion that through a combination of the mitigating actions that the company has put in place and the continued financial support provided by the ultimate parent company, Pearson plc, preparing the financial statements on the going concern basis is appropriate.

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

Foreign currency translation

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

Transactions in currencies other than the functional currency are recorded using the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction and are not re-translated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Revenue recognition

Turnover represents the invoiced value of services supplied, net of discounts, from the development and administration of qualifications in business as well as educational publishing technologies to support teaching and learning. Turnover 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. The transaction price determined is net of sales taxes, rebates and discounts. Variable consideration is measured using the expected value method. Historical experience, current trends, local circumstances and customer-specific funding formulae are considered in estimating and constraining variable consideration. To the extent that a higher degree of uncertainty exists regarding variable consideration, these amounts are excluded from the transaction price and recognised when the uncertainty is reasonably removed.

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 company has elected to use the practical expedient available in IFRS 15 and not identify a significant financing component on these transactions.

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 (i.e. over the period the qualification is delivered) judgement is used to determine the method which best depicts the transfer of control.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended:
31 December 2020

1

Accounting policies

Current and deferred income tax

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

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

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

Intangible assets

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the net assets acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The UK Companies Act requires goodwill to be reduced by provisions for depreciation on a systematic basis. However under IFRS goodwill is not amortised. Consequently the company does not amortise goodwill but reviews it for impairment on an annual basis or whenever there are indicators of impairment. The company has therefore invoked a 'true and fair' override in respect of goodwill.

Software - internally developed - internal and external costs incurred during the preliminary stage of developing computer software for internal use are expensed as incurred. Internal and external costs incurred to develop computer software for internal use during the application development stage are capitalised if the company expects economic benefits from the development. Capitalisation in the application development stage begins once the company can reliably measure the expenditure attributable to the software development, economic benefits are expected, 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 1 and 8 years.

Other intangibles - acquired - Acquired intangible assets include Intellectual property and trade names. These assets are capitalised on acquisition at cost and amortised over their estimated useful lives of between 5 and 20 years using an amortisation method that reflects the pattern of their consumption.

Tangible fixed assets

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

Plant and machinery 3-20 years

Fixtures and fittings 3-20 years

Leasehold property - over the period of the lease

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

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

Investment in subsidiaries

Investments in subsidiaries are held at cost less accumulated impairment losses.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined using 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.

Work in progress includes pre-publication assets that represent direct costs incurred in the development of educational programmes and titles prior to their publication. These costs are recognised as work in progress where the title will generate probable future economic benefits and costs can be measured reliably. Pre-publication assets are amortised upon publication of the title over estimated economic lives of five years or less, being an estimate of the expected operating lifecycle of the title, with amortisation taken on a straight line basis.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS

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

1

Accounting policies

Impairment of non-financial assets

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

Trade and other receivables

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

Trade receivables are subject to impairment using the expected credit loss model. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The company reviews its bad debt provision quarterly following a detailed review of receivable balances and historical payment profiles, and assessment of forward looking risk factors. In 2020, this assessment included factors specifically related to the COVID-19 pandemic.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held on call with banks and other short-term investments with maturities of three months or less.

Creditors

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

Provisions

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

Pensions

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

The company is unable to identify its share of the underlying assets and liabilities of The Pearson Pension Plan owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 Employee Benefits (2011), the company recognises a cost equal to its contribution payable for the period. The sponsoring entity to this scheme is Pearson Services Limited and further details are disclosed in the financial statements of that company which are available from the Company Secretary, 80 Strand, London WC2R 0RL.

The Superannuation Arrangements of the University of London (SAUL) Scheme is a centralised defined benefit scheme for all qualified employees with the assets held in separate trustee-administered funds. SAUL is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The company therefore accounts for its pension costs on a defined contribution basis.

Share-based payments

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

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended:

31 December 2020

1

Accounting policies

Leases

As a lessee

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

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

Share capital

Ordinary shares are classified as equity.

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

2

Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the company's accounting policies

The critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies that have a significant effect on the amounts recognised in the financial statements are:

Incremental borrowing rate

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

Key sources of estimation uncertainty

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

Intangible assets

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

Stock

The assessment of the recoverability of pre-publication assets within stock involves a significant degree of judgement based on historical trends and management estimation of future potential sales. Management have also taken into consideration any impact of COVID-19.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

3

Turnover

	2020	2019
	£'000	£'000
Courseware	132,169	169,331
Assessments	223,383	278,050
Services	18,889	10,300
Turnover	374,441	457,681

Turnover by class of business is as follows:	2020	2019
	£'000	£'000
Educational services	374,441	457,681

Turnover by geographical market is as follows:	2020	2019
	£'000	£'000
United Kingdom	258,516	314,637
Europe, Australia and North America	47,278	60,348
Africa, Asia and Rest of America	68,647	82,696
	374,441	457,681

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

4

Operating profit

Operating profit is stated after charging/(crediting):

		2020	2019
	Note	£'000	£'000
Staff costs	5	123,385	129,752
Depreciation of tangible fixed assets included in administrative expenses:			
- owned		1,760	1,629
Depreciation of right of use assets		3,562	3,402
Amortisation of intangible assets included in administrative expenses:		2,810	3,383
Loss on disposal of tangible fixed assets included in other administrative expenses		-	218
Net foreign exchange losses/(gains)		1,461	(1,950)

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

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

5

Staff costs

	2020	2019
	£'000	£'000
Staff costs		
Wages and salaries	102,404	106,215
Social security costs	10,878	11,512
Other pension costs	8,291	9,599
Share-based payment costs	1,812	2,426
	123,385	129,752

	2020	2020
	Number	Number
Average number of persons employed by the company during the year		
Sales and marketing	971	1,005
Administration	307	336
Operations	1,133	1,118
	2,411	2,459

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

6

Directors' remuneration

	2020	2019
	£'000	£'000
Aggregate emoluments	1,339	1,954
Company contributions to defined contribution pension schemes	90	91
	1,429	2,045

Additional share based remuneration to the directors in 2020 was £322,000 (2019: £101,000).

	2020	2019
	Number of directors	Number of directors
Directors accruing benefits under defined benefit scheme	4	4
Directors entitled to shares under long-term incentive schemes	6	6

	2020	2019
	£'000	£'000
Highest paid director		
Aggregate emoluments	383	819
Defined benefit pension scheme - accrued pension at end of year	-	-
	No.	No.
Share options exercised under long-term incentive scheme (number)	-	71,550
Shares received under long-term incentive scheme (number)	208,293	172,194

Some of the company's directors are paid directly by other group companies, and the cost attributable to the company is recharged appropriately. The figures above represent the total emoluments received by the company's directors from the group.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

7

Interest

	2020	2019
	£'000	£'000
Interest receivable		
Bank interest receivable	-	25
Interest receivable and similar income	-	25

	2020	2019
	£'000	£'000
Interest payable		
Interest payable on overdrafts and bank loans	-	(70)
Interest payable on taxation	(52)	-
Interest payable to group companies	(1,709)	(2,211)
Interest on lease liabilities	(751)	(832)
Interest payable and similar expenses	(2,512)	(3,113)

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

8

Taxation

	2020	2019
	£'000	£'000
Current tax		
UK corporation tax on (loss)/profit for the year	(8,305)	(4,545)
Adjustments in respect of prior years	2,484	(18)
	(5,821)	(4,563)
Foreign tax	-	1,715
Total current tax	(5,821)	(2,848)
Deferred tax		
Origination and reversal of temporary differences	4,776	4,863
Deferred tax on share-based payments	(73)	429
Adjustments in respect of prior years	4,118	(292)
Total deferred tax	8,821	5,000
Total tax on (loss)/profit	3,000	2,152
UK standard effective rate of corporation tax (%)	19	19

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

	2020	2019
	£'000	£'000
(Loss)/profit before tax	(15,159)	6,588
Tax on (loss)/profit at standard UK corporation tax rate of 19% (2019: 19%)	(2,880)	1,252
Effects of:		
Expenses not deductible for tax purposes	290	124
Income not taxable	(560)	(127)
Adjustments in respect of prior years	6,602	(310)
Change in tax laws and rates	(404)	(572)
Foreign tax	-	1,715
Share-based payments	49	158
Tax on partnership losses	(97)	(88)
Total tax charge for the year	3,000	2,152

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

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

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

8

Taxation

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

	2020	2019
	£'000	£'000
Deferred tax		
Deferred tax on share-based payment transactions	56	(414)
Total tax recognised directly in equity	56	(414)

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

9

Intangible fixed assets

	Acquired trade names	Software	Goodwill	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2020	3,433	53,555	118,658	175,646
Additions	-	4,326	-	4,326
Disposals	-	(1,622)	-	(1,622)
Transfer	-	938	-	938
At 31 December 2020	3,433	57,197	118,658	179,288
Amortisation				
At 1 January 2020	3,433	47,038	-	50,471
Charge for the year	-	2,810	-	2,810
Disposals	-	(1,550)	-	(1,550)
At 31 December 2020	3,433	48,298	-	51,731
Net book value				
At 31 December 2019	-	6,517	118,658	125,175
At 31 December 2020	-	8,899	118,658	127,557

Software includes a customer support platform used within the qualifications business. Its carrying amount as at 31 December 2020 is £nil (2019: £1,852,000) and has no remaining useful life.

Goodwill is tested annually for impairment. The recoverable amount is based on fair value less costs of disposal. There are no other intangible assets with indefinite lives.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

10

Tangible fixed assets

	Right-of-use assets		Owned assets			Total
	Land and buildings	Motor vehicles	Land and buildings	Plant and machinery	Fixtures and fittings	
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 January 2020	18,704	1,476	10,495	4,923	3,100	38,698
Additions	2,240	26	-	423	-	2,689
Disposals	-	(372)	-	(650)	(2)	(1,024)
Transfers	-	-	835	(3,535)	1,762	(938)
Impairment	(532)	-	-	-	-	(532)
At 31 December 2020	20,412	1,130	11,330	1,161	4,860	38,893
Depreciation						
At 1 January 2020	2,832	485	6,055	386	1,920	11,678
Charge for the year	3,143	419	968	152	640	5,322
Disposals	-	(218)	-	-	-	(218)
At 31 December 2020	5,975	686	7,023	538	2,560	16,782
Net book value						
At 31 December 2019	15,872	991	4,440	4,537	1,180	27,020
At 31 December 2020	14,437	444	4,307	623	2,300	22,111

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

11

Investments

	2020	2019
	£'000	£'000
Subsidiary undertakings	1,981	1,981
Associated undertakings and joint ventures	380	380
	2,361	2,361

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

11a

Investments - subsidiary undertakings

	2020
	£'000
Cost	
At 1 January 2020	6,976
At 31 December 2020	6,976
Provision	
At 1 January 2020	4,995
At 31 December 2020	4,995
Net book value	
At 31 December 2019	1,981
At 31 December 2020	1,981

Details of subsidiary undertakings:

				2020	2019
Subsidiary	Principal activity	Class of shares held	Registered address	% held	% held
Education Resources (Cyprus) Limited	Services	Ordinary	1	100%	100%
Educational Publishers LLP	Services	Ordinary	2	85%	85%

Investments in subsidiaries are stated at cost less provision for impairment.

Registered Address

1 - 195, Archbishop Makarios III Avenue, Neocleous House, Limassol, 3030, Cyprus

2 - 80 Strand, London, WC2R 0RL, England

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

11b

Investments - associated undertakings and joint ventures

2020

£'000

Cost

At 1 January 2020

380

At 31 December 2020

380

Net book value

At 31 December 2019

380

At 31 December 2020

380

Details of associated undertakings and joint ventures:

2020

2019

Associated undertaking	Class of shares held	Place of incorp	% held	% held
The Egyptian International Publishing Company - Longman	Ordinary	Egypt	49%	49%

Registered Address

10a Hussein Wassef St, Midan Missaha, Dokki Giza, 12311, Egypt

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

12

Stocks

	2020	2019
	£'000	£'000
Work in progress	124,659	110,030
Finished goods and goods for resale	18,599	22,725
	143,258	132,755

Included within the inventory balance is the estimation of the right to receive goods from contracts with customers via returns (see note 1).

The value of the returns asset is measured at the carrying amount of the assets at the time of sale aligned to the company'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 2020 (2019: £nil). The returns asset all relates to finished goods.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

13

Debtors

	2020	2019
	£'000	£'000
Amounts falling due within one year		
Trade debtors	90,381	112,577
Amounts owed by group undertakings	95,602	236,136
Corporation tax	8,339	4,795
Other debtors	9,644	12,828
Prepayments and accrued income	4,140	4,293
	208,106	370,629
Amounts falling due in more than one year		
Deferred taxation	16	7,963
	-	7,963
Total debtors	208,106	378,592

Prepayments and accrued income includes contract assets which are unbilled amounts where sales to be recognised over time has been recognised in excess of customer billings to date.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

14

Creditors

	2020	2019
	£'000	£'000
Amounts falling due within one year		
Lease liabilities	(3,192)	(4,346)
Trade creditors	(38,173)	(26,237)
Amounts owed to group undertakings	(106,314)	(247,218)
Other taxation and social security	(494)	(223)
Other creditors	(5,348)	(6,496)
Accruals and deferred income	(105,236)	(112,155)
	(258,757)	(396,675)
Amounts falling due after more than one year		
Lease liabilities	(15,574)	(18,831)
Accruals and deferred income	(12,961)	(13,106)
Deferred taxation	16 (802)	-
	(29,337)	(31,937)

Within the IFRS 16 right of use lease liabilities are £3,263,000 paid in installments due after five years (2019: £3,791,000).

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

15

Provisions

	Property	Reorganisation	Other	Total
	£'000	£'000	£'000	£'000
At 1 January 2020	(1,411)	(4,468)	(1,347)	(7,226)
Charged to profit and loss account	(88)	(808)	(1,122)	(2,018)
Unused amounts reversed to profit and loss account	-	1,628	293	1,921
Utilisation of provision	-	2,758	-	2,758
At 31 December 2020	(1,499)	(890)	(2,176)	(4,565)

2020

Analysis of total provisions:	£'000
Non-current	(1,499)
Current	(3,066)
	(4,565)

The property provision relates to a) provisions for dilapidations and b) provisions for rentals on properties which are either vacant or let at less than the rentals paid by the company. Provisions are utilised over the length of the lease. On the initial application of IFRS 16 (see note 24) onerous lease provisions have been offset against the relevant right-of-use asset.

The reorganisation provision relates to costs in association with the planned restructuring of the UK business. Provided costs include staff costs in relation to redundancies due to be utilised within 12 months.

Other provisions relates to profit share and costs associated with cloud migration, and are due to be utilised within 12 months.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

16

Deferred taxation

	Pension	Other temporary differences	Share- based payments plan	Total
Asset	£'000	£'000	£'000	£'000
At 1 January 2020	4,481	3,068	414	7,963
Charged to profit and loss	(4,481)	(4,413)	73	(8,821)
Charged to equity	-	-	56	56
At 31 December 2020	-	(1,345)	543	(802)
			2020	2019
			£'000	£'000
Total provision			(802)	7,963

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

17

Called up share capital

	2020		2019	
	£'000		£'000	
Total share capital	90,000		90,000	
	2020	2019	2020	2019
Ordinary shares £1 each	No '000s	No '000s	£'000	£'000
Allotted, called up and fully paid	90,000	90,000	90,000	90,000

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

18

Share-based payments

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

Worldwide Save for Shares 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 equivalent to 80% of the market price prevailing at the time of the commencement of the employee's participation in the plan. Options that are not exercised within six months of the savings period lapse unconditionally.

Long-Term Incentive Plan

The plan was first introduced in 2001, and renewed in 2006, 2011 and 2020. The plan consists of restricted shares. The vesting of restricted shares is normally dependent on continuing service over a three to five-year period, and in the case of executive directors and senior management upon the satisfaction of corporate performance targets over a three-year period. These targets may be based on market and/or non-market performance criteria. Restricted shares awarded to executive directors in May 2020 and May 2019 vest dependent on relative total shareholder return, return on invested capital and earnings per share growth. Other restricted shares awarded in 2020 and 2019 vest depending on continuing service over periods of up to three years.

Management Incentive Plan

The plan was introduced in 2017 combining the Group's Annual Incentive Plan and Long-Term Incentive Plan for senior management. The number of shares to be granted to participants is dependent on Group performance in the calendar year preceding the date of grant (on the same basis as the Annual Incentive Plan). Subsequently, the shares vest dependent on continuing service over a three year period, and additionally in the case of Pearson Executive Management upon satisfaction of non-market based performance criteria as determined by the Remuneration Committee. Restricted shares awarded as part of the 2019 Management Incentive Plan were granted in April 2020. Restricted shares awarded as part of the 2020 Management Incentive Plan were granted in April 2021.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

19

Retirement benefit schemes

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

The company is unable to identify its share of the underlying assets and liabilities of The Pearson Pension Plan owing to information regarding non-active members and changes to the group structure including acquisitions and disposals. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2020 was £8,082,000 (2019: £9,295,000). The sponsoring entity to this scheme is Pearson Services Limited and further details are disclosed in the accounts of that company which are available from the Company Secretary, 80 Strand, London WC2R 0RL.

SAUL

The company participates in the Superannuation Arrangements of the University of London ('SAUL'), which is a centralised defined benefit scheme. In the event of the insolvency of any of the participating employers in SAUL, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations. The last available valuation was carried out as at 31 March 2020. This valuation showed the market value of SAUL's assets was £3,612 million (2017: £3,205 million) representing 94% (2017: 102%) of the liability for benefits after allowing for expected future increases in salaries.

It is not possible to identify the company's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid in accordance with the multi-employer rules of IAS 19 (Revised 2011).

The total pension cost for the company was £209,000 (2019: £304,000) representing the cash contributions to the fund.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

20

Contingent liabilities

Bank guarantees

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 17 of its subsidiaries, 'the guarantors', are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. Under this arrangement, the net cash position at 31 December 2020 was £85,199,369 (2019: net cash position £47,364,372).

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

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

21

Related party transactions

The company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned subsidiaries.

Pearson Education Limited

NOTES TO THE FINANCIAL STATEMENTS continued

For the year ended:

31 December 2020

22

Ultimate parent undertaking

The immediate parent undertaking is Pearson Education Holdings Limited.

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