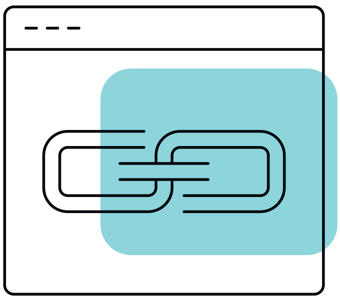
Pearson

Our approach to tax 2021

We are the world's leading learning company

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.



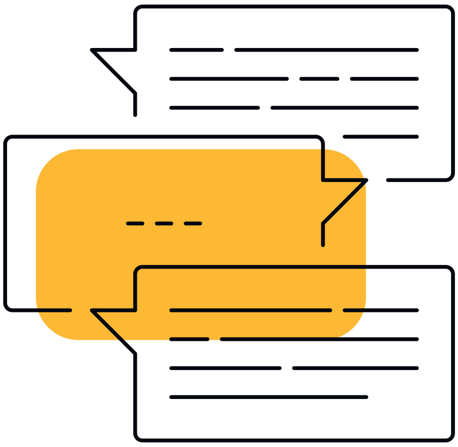
Visit us online
to find out more
pearsonplc.com

Our purpose:

We add life to a lifetime of learning

Our Vision:
Everyone can realise the life they imagine through learning.

Our Mission:
Create vibrant and enriching experiences designed for real-life impact.



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.

Introduction

This is the sixth annual tax report published by Pearson and continues our commitment to transparency and clarity in our reporting as it pertains to the tax we pay on business profits, and the contributions we make to the public finances in the countries we operate in.

Tax is a core metric of Environmental, Social and Governance (ESG) reporting[1]. Embedded in the social element, it is a measure of what contributions a company makes to the communities it operates in directly, beyond those it makes to employment and other investment. As a business we continually endeavour to find ways to improve our tax transparency and elaborate on our tax contributions in a way that is clear, practical, and relevant.

This is important as tax contributions – from individuals as well as businesses – are fundamental to a healthy society. These contributions are the lifeblood which fund vital public services, including education, as well as investment in infrastructure to fuel economic growth and promote a more equal society.

We continue to believe that, in line with our company values, we have an ongoing responsibility to enhance awareness and provide transparency on our position on tax. This core belief leads us to publish our sixth annual guide to the tax we pay on business profits around the world in an easily understandable and accessible format.

Since joining the B Team (an organisation that works with multinational companies committed to good tax practices) in 2018, we have supported their tax principles, and are part of the B Team's Responsible Tax Working Group, which includes engagement with civil society organisations. We have also endorsed the Global Reporting Initiative's (GRI) sustainability reporting framework for tax, GRI 207 Tax 2019, which provides a clear methodology to report our social and environmental undertakings in respect of tax in a way that creates comparable data for wider society across companies.

Tax contributions

Businesses act as vehicles for both collecting/ remitting and directly paying taxes in the jurisdictions they operate in. Taxes collected are those which the business collects on behalf of the government in the relevant region, such as employees social security taxes and sales taxes, which are then passed on to the tax authorities on behalf of the payer. Taxes paid are those the company directly incurs, such as employers social security contributions and taxes on business profits. This report specifically focusses on tax paid on business profits.

Tax risk

We foster a risk-aware culture in decision-making and are committed to managing risk, including tax risk, in a proactive and effective manner.

As indicated in previous years, the Group has a tax risk arising from an on ongoing State Aid investigation. There was limited progress on the litigation during 2021, however, on 8 June 2022 the EU General Court dismissed various applications, including the UK Government's, to annul the European Commission decision that certain aspects of the UK tax code constituted State Aid. Following this decision, it has been concluded that a provision is required in relation to this issue. The maximum exposure is calculated to be £105m (excluding interest) with a provision of £63m included in the 2022 half year results, representing our estimate of the exposure.

The Group also continues to be under assessment from the Brazilian tax authorities challenging the deduction for tax purposes of goodwill amortisation for the years 2012 to 2017. Similar assessments may be raised for other years. The potential total exposure (including possible interest and penalties) could be up to BRL 1,126m (£178m) up to 30 June 2022, with additional potential exposure of BRL 88m (£14m) 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.

The Brazilian issue continues to be classified as a contingent liability in our annual report, meaning we have not made any provision for it.

Our intention is for our tax reporting to help stakeholders better understand how Pearson operates. We are committed to continuing to strengthen our reporting and, as always, welcome comments and feedback on how we might improve.

1. See The World Economic Forum White Paper, "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", Sept 2020.

Our global tax strategy

Our global tax strategy applies to all our businesses, including the UK, and this document therefore covers our obligation to publish our UK tax strategy, including governance, risk management, attitude to tax planning and being transparent with the UK and other 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.

Taxation principles

We joined the B Team, a global non-profit coalition of leaders from business, civil society and government together to achieve better ways of doing business sustainably, in 2018.

As part of their work, the B Team have identified a framework of principles to consider in order to follow best practice in relation to responsible tax practice. The principles are set out in three key categories and subsets:

Approach to Tax management

- Accountability & Governance
- Compliance
- Business Structure

Relationships with others

- Relationships with tax authorities
- Seeking and accepting tax incentives
- Supporting effective tax systems

Reporting to Stakeholders

- Tax Transparency

As part of our commitment to the B Team and their practices, we strive to follow these principles where they are practical from a business perspective, and where they will enhance stakeholders' understanding of our tax affairs

Whilst this report concentrates on tax on business profits; our tax principles apply to all taxes collected and borne by Pearson, including indirect taxes such as sales taxes and payroll taxes.

The principles that guide us at Pearson are,

To comply with all relevant tax laws, regulations, and tax reporting requirements in all jurisdictions in which we operate, including claiming tax incentives and exemptions that are available to all market participants and in accordance with generally recognised interpretation of the law.

To run our tax affairs in accordance with Pearson's values, Code of Conduct, risk management and governance procedures, which include regular reporting to the Board, the Chief Financial Officer and to the Audit Committee on tax strategy and risks. In addition, any material changes in tax legislation, business environment, or operations will be assessed, and any resultant changes to strategy or risk will be reported as appropriate.

To pay tax on profits according to where value is created within the normal course of commercial activity, with intra-group transactions priced within an appropriate arm's length range i.e., cross border transactions take place as if the parties were unconnected. Any exceptions to this are compliant with local laws and fully disclosed to the tax authorities concerned.

To align tax planning with business activities, for example acquisitions, disposals, and changes in business objectives. We do not seek to avoid tax by the use of 'tax havens' or by establishing arrangements that we consider to be artificial in nature or transactions that we would not fully disclose to a tax authority.

To achieve a more favourable tax outcome where a clear and legitimate choice exists between different options that each comply with our principles. In considering and deciding between different options, the factors we consider include commercial and reputational impact.

To have an open, proactive, and constructive working relationship with tax authorities. Where possible and in line with local country practice, to discuss and consult on our interpretation of the law with tax authorities as issues arise. To engage directly or indirectly with governments on proposed changes to tax legislation where appropriate.

To ensure our tax professionals are appropriately qualified and trained, and to use external advice where appropriate.

Tax incentives and arrangements

We do not seek to avoid tax by establishing arrangements that we consider to be artificial in nature. We do claim available tax incentives, for example, research and development tax incentives in multiple jurisdictions, together with exemptions that are available, and widely accepted as mainstream tax practice among the tax community (taxpayers, tax advisers, policy makers and tax authorities). Tax law and regulation is complex and, in each country where we operate, a common view on practice evolves over time within the relevant tax community on the interpretation and application of these rules. An important factor for us is the prevailing practice and attitude of the relevant tax authority.

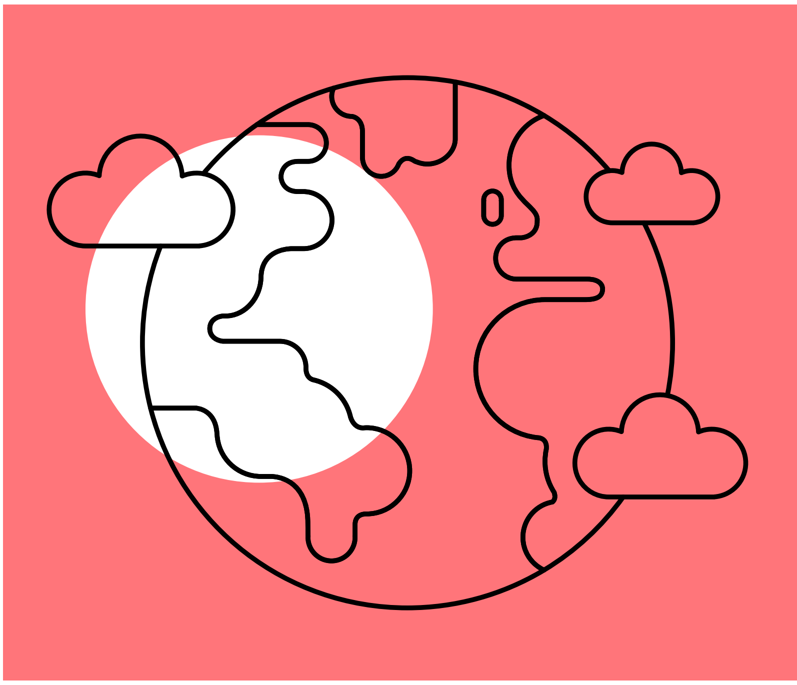
As indicated in previous reports, a structure was in place where cross border transactions were not priced at 'arm's length'. This structure was compliant with local laws, subject to UK tax, and in line with our tax principles. During 2021 this structure was unwound.

Tax havens

There are many different definitions of what constitutes a 'tax haven'. For this purpose, we define a tax haven as a country with a corporation tax rate of 10% or less. Pearson does not seek to avoid tax by the use of tax havens. We assess Group entities as being in a tax haven if they are tax resident in a country that meets this definition based on its corporation tax rate. In some instances, we have acquired businesses with operations in tax havens that we unwind when we can do so at a reasonable cost. As at the date of publication, the Group has three corporate entities based in tax haven countries:

— A small entity in Hungary which pays tax at the local rate of 9%. This entity is inactive and the elimination of this entity is in progress.
— We hold an investment in Learn Capital IIIA, incorporated in the Cayman Islands. Learn Capital is a third-party impact venture capital fund that invests in innovative start-up companies around the world. Pearson is a minority investor and does not oversee the operations or administration of the fund. The fund is also registered in the United States and all income is reported and taxed in the United States; therefore, no tax benefit is obtained.
— We operate a captive insurance company domiciled in Bermuda. This company fulfils a commercial purpose for us, covering third party risks often required by our customers. We do not gain any tax benefit from being based in Bermuda as all profits are subject to UK tax. We are domiciled there for regulatory reasons and because Bermuda is a recognised global insurance centre.

We do not derive any benefit from any of the three corporate entities based in so called tax benefit countries.



Governance and risk management

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.

Tax is part of the Pearson Finance function, reporting to our Deputy Chief Financial Officer and Chief Financial Officer, who receive regular updates throughout the year from the tax team.

Risk management

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. Deep-dive sessions are also held with enterprise wide functions such as tax, treasury and cyber-security. Risk reports are shared with key stakeholders, including the Enterprise Risk Management team, and are discussed at Pearson Executive Management team meetings.

Significant risks are defined by Pearson as those 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. Executive responsibility for tax sits with the Chief Financial Officer.

Tax is currently assessed as a significant near term risk.

Management of our tax affairs

As set out in our global tax principles, in managing our tax affairs we seek to protect value for our shareholders, comply fully with legal and regulatory requirements and to align with business activities.

Pearson's tax function

Pearson has teams of tax professionals in the United States and the United Kingdom, our largest markets by revenue, along with accountable individuals drawn from the finance function responsible for tax in other markets, with the Group Tax team providing oversight.

Our tax team leads on engagement with governments, tax authorities and stakeholders on tax related issues.

Public policy

Pearson is committed to adding its voice to the global debate on tax transparency. We operate in a global, competitive environment, and support the belief that tax policy makers should implement international tax reform in a coherent, coordinated way so that there is a level playing field and the risk of paying tax twice on the same income is minimised.

In 2021, we continued to endorse the B Team tax principles, having joined their Responsible Tax Working Group in 2019, which enables us to engage with civil society bodies in an open and constructive manner. In addition, Pearson is represented on the CBI Taxation committee and 100 Group in the UK, and the Global Business Alliance in the US.

Recent areas of international or national policy change affecting Pearson are as follows:

Policy development	Pearson response
State Aid	On 8 June 2022 the EU General Court dismissed various applications, including the UK Government's, to annul the European Commission decision that certain aspects of the UK tax code constituted State Aid. Please see Contingencies section for further details.
Taxation of the Digital economy – DST	Various governments have introduced a digital services tax. Whilst Pearson is driving a digital transformation strategy we continue to expect not to be materially impacted by these new taxes, as the nature of Pearson's digital revenues does not tend to be within their scope. The introduction and use of digital services taxes is closely linked to the Base Erosion Profit Shifting (BEPS) 2.0 agenda. A number of these may be amended depending on the success of BEPS 2.0.
BEPS 2.0 – Pillar 1	At present, we do expect to fall within the scope of the proposed Pillar 1 rules (minimum revenue threshold above EUR 20bn). Pillar 1 intends to ensure a fairer distribution of profits, and therefore taxing capability across large groups of companies, particularly where sales of digital services may be seen to skew this. As of the latest consultation document, released on 11 July 2022, the OECD has not yet solidified the administration of the new rules. Additional details are anticipated once the OECD has met in October 2022.
BEPS 2.0 – Pillar 2	Pillar 2 is expected to come into force in the UK for accounting periods beginning on or after 31 December 2023. The aim is to establish a global minimum tax base of 15%. Where the effective tax rate is below this level in a given jurisdiction, the difference is broadly made up for by the parent entity. As the group does not have trading operations in low tax jurisdictions, we do not expect this to have a material impact.

Financial and tax data

We are a global business and operate internationally, providing a range of products and services that help people make progress in their lives through learning.

Our business pays and collects a wide range of taxes, including employee taxes and sales taxes in addition to tax on business profits. As previously noted, this report focuses on tax on business profits.

Our statutory profit before tax in 2021 was £157m compared to £354m 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 2021offset by improved trading results, reduced intangible charges and gains on the 2021 business disposals. Pearson paid more cash tax in 2021 than in 2020 mainly due to the absence of refunds received in the US and UK in relation to historical periods (in 2020), and the one off payment in relation to State Aid (in 2021).

As taxes are paid to local economies based on where taxable profits arise, it is more useful to consider country of operation for the purposes of this report, rather than the more business strategic segmental analysis as reflected in the annual report.

Detailed on page 10 is data for 2021 for our largest countries drawn using 2021 sales revenues.

The majority of revenues for the group arise in North America and the UK, with some larger operations in South America, Europe, Australia and Africa. We have therefore chosen to focus on these larger regions for this year's report. Below we add a brief explanation of, why tax paid may appear unusual compared to profit levels.

In compliance with the GRI Tax standard we have included a full breakdown of our revenues, profits and tax liabilities on a country by country basis in the appendix.

Country	Total revenue £'m	Profit/(loss) before tax £'m	Tax (paid)/received £'m	Cash tax rate %	Employees
United States	2,406	266	(37)	14	9,951
United Kingdom	454	(375)	(99)	(26)	3,964
Canada	137	24	(5)	21	342
Brazil	50	74	(15)	20	469
South Africa	47	8	(5)	53	225
Italy	95	23	(4)	17	194
Australia	40	(6)	(4)	(67)	367
Hong Kong	55	14	(1)	7	213
Other countries	250	21	(7)	33	3,431
Group adjustments	(52)	41	–	–	–
Total	**3,482**	**157**	**(177)**	**113**	**19,156**

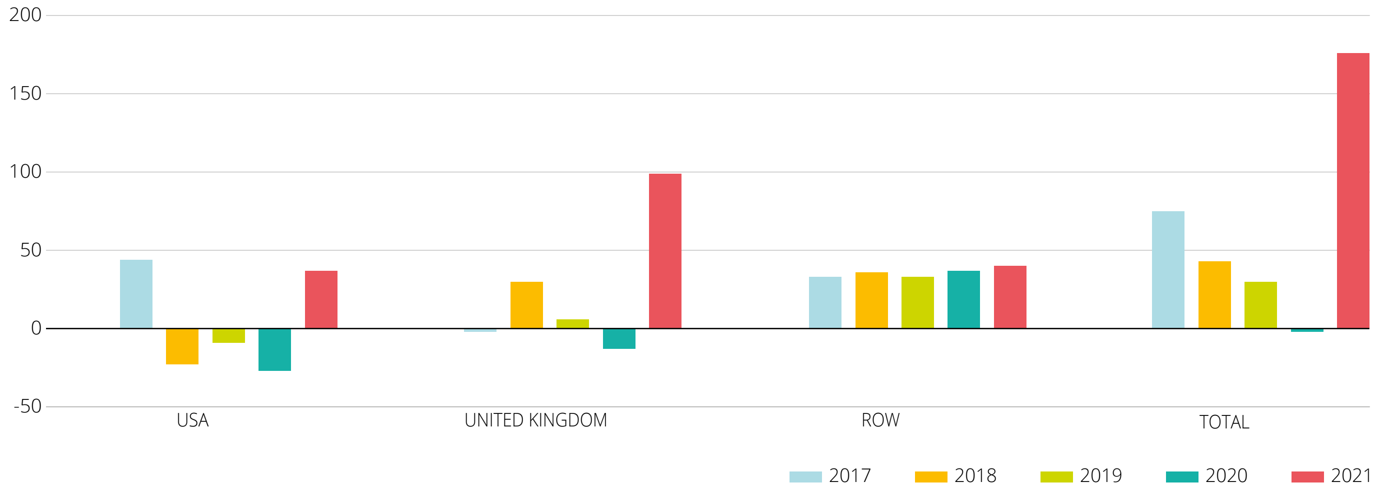
Taxes paid per country

Country	Tax paid £'m		Cash tax rate %		Factors impacting cash tax in 2021
	FY21	FY20	FY21	FY20	
United States	(37)	16	14%	(7)%	Refunds relating to overpaid taxes in prior years have now been utilised, leading to the year-on-year increase in both cash tax payments and cash tax rate. The US cash tax rate continues to be less than the US statutory rate due to the impact of timing differences.
United Kingdom	(99)	13	(26)%	9%	The tax payment in 2021 relates to the State Aid case, noted above. The 2020 amount relates to a refund in respect of overpaid payments on account offset against payments in respect of enquiry closures.
Canada	(5)	(1)	21%	4%	The cash tax rate is marginally below the combined provincial and federal tax rate due to refunds in respect of overpaid taxes from earlier periods.
Brazil	(15)	(0)	20%	(2)%	Pearson operations in Brazil include our Sistema business and English Language Learning. Under Brazilian tax legislation we can claim an annual tax deduction for amortisation of goodwill, which reduce our tax payments. The current year includes a one-off payment in relation to the disposal of local K-12 businesses.
South Africa	(5)	(5)	53%	(19)%	Our local courseware business is profitable and paid tax in 2021.
Italy	(4)	(1)	17%	4%	Tax payments in 2021 are calculated from 2020 profits, and the cash tax rate on that basis is 30%.
Australia	(4)	(3)	(67)%	45%	Payments in Australia are based on prior year results and therefore do not take account of the 2021 loss.
Hong Kong	(1)	(9)	(7)%	50%	The 2021payment is reduced following an overpayment in the prior year.

Historical cash tax

Cash tax payments over the last five years

US	UK	Rest of world	Total
£22m	£121m	£180m	£322m



GRI 207: Tax 2019

The Global Reporting Initiative, GRI, is an international ESG standard setting organisation, founded in 1997. These standards enable businesses to report on their sustainability issues in a clear, concise, and comparable manner. Their standard for tax reporting is GRI 207 Tax 2019, and encompasses four main requirements:

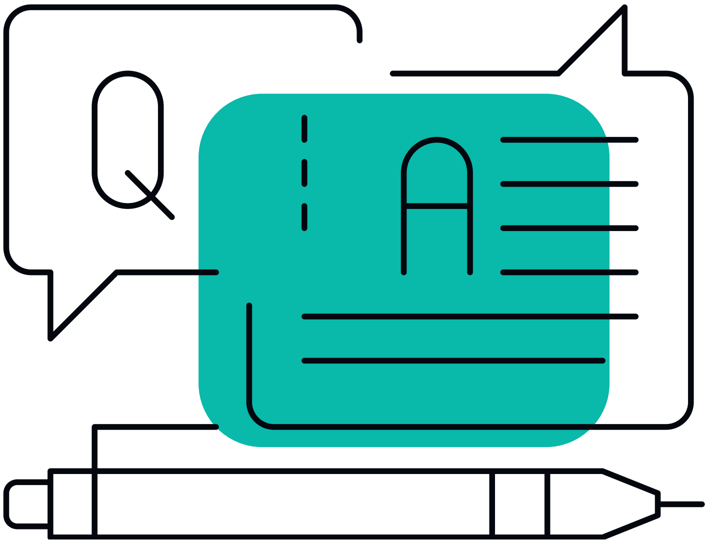
- Approach to tax
- A description of the business's tax governance and control framework
- A description of the approach to stakeholder engagement and management of their concerns in relation to tax
- Country-by-country reporting

We set out below the specific requirements of the standard and how we meet those requirements.

Requirement of Standard	Our Response and Approach
Disclosure 207 – 1 Approach to tax	
The reporting organization shall report the following information: a. A description of the approach to tax, including: i. whether the organization has a tax strategy and, if so, a link to this strategy if publicly available; ii. the governance body or executive-level position within the organization that formally reviews and approves the tax strategy, and the frequency of this review; iii. the approach to regulatory compliance; iv. how the approach to tax is linked to the business and sustainable development strategies of the organization	Our approach to tax and tax strategy is stated in the "Our Principles" section above. It aligns with our approach to overall sustainability and is also reflected in our 2021 annual report (pp 40-52), as well as our Code of Conduct. The Group's Tax Strategy is formally reviewed by the Audit Committee on an annual basis. Our approach to regulatory compliance, as noted above, is to comply with all relevant tax laws, regulations, and reporting requirements in all jurisdictions in which we operate, in accordance with generally recognised interpretation of the law. Our approach to tax is fundamentally aligned with the Group's Sustainable Business Plan 2030 , as set out in our annual report.
Disclosure 207 – 2 Tax governance, control, and risk management	
The reporting organization shall report the following information: a. A description of the tax governance and control framework, including: i. the governance body or executive-level position within the organization accountable for compliance with the tax strategy; ii. how the approach to tax is embedded within the organization; iii. the approach to tax risks, including how risks are identified, managed, and monitored; iv. how compliance with the tax governance and control framework is evaluated. b. A description of the mechanisms for reporting concerns about unethical or unlawful behaviour and the organization's integrity in relation to tax. c. A description of the assurance process for disclosures on tax and, if applicable, a reference to the assurance report, statement, or opinion.	Further details are included within the Annual report, and ESG reports available online (https://plc.pearson.com/en-GB/purpose). a. 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. We carry out risk assessments on the tax impacts of significant transactions. Compliance with our policies is monitored by Group Tax. We report on significant tax risks to the Audit Committee. b. All employees are required to read and certify that they understand our Code of Conduct, outlining how we work together ethically, responsibly and with integrity. There are various mechanisms to support the reporting of any concerns to an individual's manager, through HR or direct to the CEO. In addition, concerns can be reported on PearsonEthics.com, a website run by an independent third party. Allegations can be raised anonymously, and all are kept confidential. Matters presented for investigation are assessed with Group Compliance oversight and investigated and reported to the Audit Committee where appropriate. c. The assurance processes for all tax disclosures revolves around the involvement of the relevant internal stakeholders. The tax disclosures in the Group financial statements are audited by PwC, the Group's previous external auditor. The Group has transitioned the audit to EY for the 2022 financial year.

Requirement of Standard	Our Response and Approach
Disclosure 207 – 3 Stakeholder engagement and management of concerns related to tax	
The reporting organization shall report the following information: a. A description of the approach to stakeholder engagement and management of stakeholder concerns related to tax, including: i. the approach to engagement with tax authorities; ii. the approach to public policy advocacy on tax; iii. the processes for collecting and considering the views and concerns of stakeholders, including external stakeholders.	As detailed in our taxation principles above, we work to develop and maintain open, proactive and constructive relationships with relevant key stakeholders, including tax authorities and governments in relation to tax matters. We maintain a dialogue with a range of stakeholders both directly and through other internal functions, and industry associations to understand all their concerns – this includes peers, other businesses, NGOs, investors and policymakers.
Disclosure 207 – 4 Country-by-country reporting	
The reporting organization shall report the following information: a. All tax jurisdictions where the entities included in the organization's audited consolidated financial statements, or in the financial information filed on public record, are resident for tax purposes. b. For each tax jurisdiction reported in Disclosure 207-4-a: i. Names of the resident entities; ii. Primary activities of the organization; iii. Number of employees, and the basis of calculation of this number; iv. Revenues from third-party sales; v. Revenues from intra-group transactions with other tax jurisdictions; vi. Profit/loss before tax; vii. Tangible assets other than cash and cash equivalents; viii. Corporate income tax paid on a cash basis; ix. Corporate income tax accrued on profit/loss; x. Reasons for the difference between corporate income tax accrued on profit/loss and the tax due if the statutory tax rate is applied to profit/loss before tax. c. The time period covered by the information reported in Disclosure 207-4.	Our 2021 Country-by-country report is published at the Appendix, in a format consistent with the requirements of GRI 207-4. A list of entities and their relevant jurisdictions comprising the Group's audited Financial Statements are included within note 11 of the 2021 Annual Report (pages 218-221).

Q&A



What types of tax does Pearson pay?

We pay and collect a wide range of taxes. These include employee, property and sales taxes. This report focuses on tax on business profits.

How do we balance the interests of different stakeholders?

We recognise that different stakeholders potentially have conflicting interests. We consider what we do to be in the interests of all our stakeholders, but recognise that not everyone will agree with decisions or positions we take.

What is the B Team?

The B Team is a not-for-profit initiative formed by a global group of business leaders to catalyse a better way of doing business, for the wellbeing of people and the planet. (http://www.bteam.org/about/). It has a Responsible Tax Working Group, which brings together the private sector, investors, civil society organisations and international institutions to promote dialogue, understanding and collaboration. We hope that by engaging we can continue to improve our own approach.

How does Pearson deal with the dynamic tax landscape?

The group tax function has responsibility for ensuring that the business is aware of changes in legislation and seek to ensure that the Group complies with evolving local compliance obligations.

What are the B Team tax principles and how do they relate to yours?

The full B team tax principles can be found here http://www.bteam.org/plan-b/responsible-tax/. We endorse the principles that are broadly aligned to our own, however, in some cases, they go further than our current reporting.

Do you engage in transfer pricing?

Yes. Governments generally require companies to apply transfer pricing rules to intercompany activities to ensure profits are reported in the countries where the relevant economic activity takes place. As noted in our principles, intercompany transactions are priced as if the parties are unconnected.

Why do you still have operations in low-tax countries that are not trading businesses?

This is largely a result of Pearson's history of growing through the acquisition of smaller companies over many years. In some cases, those new parts of our business did have low-tax arrangements. We get no benefit from these now. In the past few years, we have been winding up such arrangements wherever possible. However, this can be costly, and we have an obligation to our shareholders to act prudently. Our section on tax havens gives details.

What is "generally recognised interpretation of the law"?

In each country where we operate, a common view on practice evolves over time within the relevant tax community on the interpretation and application of tax rules. The most important factor for us is the prevailing practice and attitude of the relevant tax authority with whom we openly consult.

Pearson has a company in Switzerland. Why is this not included in your disclosures?

The federal tax rate together with local canton and communal taxes bring the rate to above 10%. In 2021, this entity made a small profit and paid a small amount of tax, rounded to zero in the Country by Country report below.

Is the Pearson entity in Switzerland a vehicle to own intellectual property?

No. The entity is a trading business and does not own intellectual property.

Pearson has numerous companies registered in the state of Delaware. Do you obtain tax benefits from this practice?

No, Pearson derives no tax benefit from its presence in Delaware. We selected Delaware to incorporate due to the ease of corporate registration in the state.

Does Pearson comply with the new Global Reporting Initiative (GRI) Tax Standard – GRI 207?

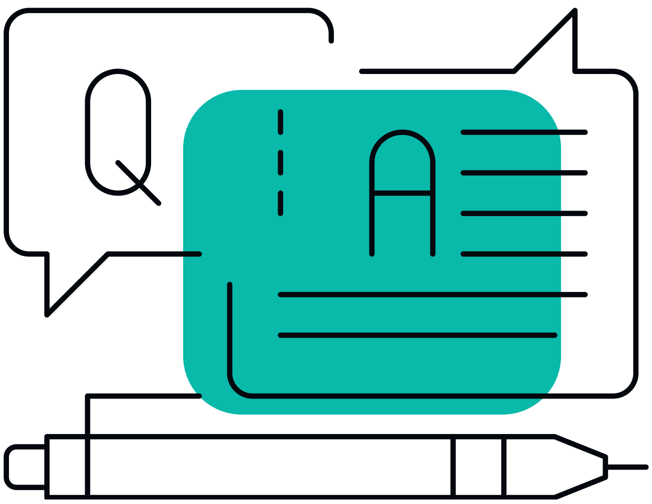
Yes – Please see above for details on how we comply with the standard.

Why does the total tax paid in the report not equal the tax charge? (cash to tax rec)

The tax charge reported in the annual report is a reflection of accounting practices, and is impacted by IFRS reporting standards, whereas cash tax payments / receipts are on an actual received or paid basis. The predominant difference relates to the timing of payments and receipts, which typically falls outside of the accounting period to which the amounts relate.

What determines how much tax on business profits Pearson pays each year?

Broadly speaking, tax paid is based on company profit. However, the calculation method and timing of payment varies depending on the tax rules in different countries. Countries typically ask companies to pay tax on business profits in the same year that profits are generated. The amount paid will either be based on the final amount paid in tax on business profits for the previous financial year, or on the best estimate by the company of what profit it expects to make. Based on tax returns submitted once the financial year is complete, companies can benefit from a tax credit or will be required to make an additional payment. Some countries levy tax in the following financial year based on a tax return. This would mean tax paid in 2021 is being levied on 2020 profits rather than 2021 results.



Country Report:

Overview of the distribution of income, tax and types of activities by jurisdictions.

Tax Jurisdiction	Revenues Unrelated Party	Revenues Related Party	Revenues Total	Profit (Loss) Before Income Tax	Income Tax Paid (on cash basis)	Income Tax Accrued-Current year	Charter Capital	Accumulated earnings	Number of Employees	Tangible Assets
ARGENTINA	4,485	10	4,495	405	(137)	(236)	175	2,329	42	338
AUSTRALIA	82,147	46,985	129,132	(6,361)	(3,610)	2,449	194,180	12,746	367	3,282
BELGIUM	0	0	0	0	0	0	0	0	0	0
BERMUDA	0	2,793	2,793	2,682	0	0	750	6,512	0	0
BOTSWANA	1,789	45	1,834	(503)	(1)	(54)	25	(25)	7	100
BRAZIL	53,696	94	53,790	74,219	(14,863)	(15,036)	314,154	(87,251)	469	3,385
CANADA	137,989	37,263	175,251	23,840	(6,917)	(10,576)	141,784	281,489	342	17,799
CHILE	215	2	217	(686)	0	0	0	(5,424)	1	0
CHINA	8,618	8,724	17,341	6,406	(1,302)	(1,261)	9,668	20,927	154	450
COLOMBIA	13,207	1	13,209	45	(1,473)	(1,245)	2,314	(2,698)	102	766
CYPRUS	0	0	0	(64)	(0)	0	4	(432)	4	0
ECUADOR	0	0	0	0	0	0	0	0	0	0
FRANCE	16,599	427	17,027	3,384	(296)	(1,054)	439	7,109	86	413
GERMANY	24,424	695	25,118	1,225	(384)	(233)	54,845	(16,761)	132	4,871
GREECE	0	432	432	21	1	(0)	50	534	4	4
HONG KONG	55,515	7,363	62,878	13,999	(798)	(2,336)	40,808	11,453	213	3,303
HUNGARY	0	0	0	(20)	0	6	19,148	(19,063)	0	0
INDIA	22,102	5,733	27,835	279	(204)	0	158,962	(128,618)	1,005	4,189
INDONESIA	0	0	0	0	0	0	0	0	0	0
IRELAND	0	0	0	(41)	0	(0)	46	(58)	0	0
ISRAEL	0	100	100	(305)	(43)	(37)	1,078	(373)	6	23
ITALY	94,842	293	95,135	23,461	(3,972)	(7,791)	9,328	47,682	194	14,654
JAPAN	7,471	245	7,716	371	(0)	(36)	3,189	(7,970)	57	563
KOREA, REPUBLIC OF	3	0	3	277	(1)	(5)	1,091	298	12	11
LESOTHO	61	0	61	(189)	(11)	0	0	(209)	1	0
MALAWI	0	0	0	(2)	0	0	0	(6)	0	0
MALAYSIA	2,377	450	2,827	114	(60)	(78)	355	4,356	18	119
MEXICO	18,906	1,133	20,039	1,185	87	(346)	12,779	17,448	269	3,414

Tax Jurisdiction	Revenues Unrelated Party	Revenues Related Party	Revenues Total	Profit (Loss) Before Income Tax	Income Tax Paid (on cash basis)	Income Tax Accrued- Current year	Charter Capital	Accumulated earnings	Number of Employees	Tangible Assets
MOZAMBIQUE	18	0	18	(959)	(300)	(0)	10	825	0	0
NAMIBIA	233	66	299	(79)	(6)	(7)	0	394	0	0
NETHERLANDS	22,577	1,169	23,746	7,344	(787)	(1,798)	2,029,038	(887,807)	79	1,088
NIGERIA	0	10	10	(125)	(1)	(0)	18	(1,224)	0	0
PANAMA	0	0	0	0	0	0	0	0	0	0
PERU	5,170	0	5,170	84	(15)	(32)	0	1,469	30	98
PHILIPPINES	16	6,173	6,189	415	(283)	(218)	2,213	932	342	219
POLAND	16,089	5,736	21,825	3,715	(1,162)	(1,078)	272	20,309	176	406
PUERTO RICO	5	7,850	7,855	(1,347)	0	(137)	0	(18,657)	26	16
SAUDI ARABIA	0	0	0	(10)	0	0	99	(37,464)	0	0
SINGAPORE	12,776	1,645	14,421	(11,054)	(0)	26	82,593	(46,305)	62	1,132
SOUTH AFRICA	47,803	665	48,468	8,411	(4,497)	(5,747)	117,905	(44,952)	225	2,699
SPAIN	10,901	1,250	12,151	1,331	(270)	32	211	3,093	73	1,289
SRI LANKA	17	15,075	15,092	2,424	(28)	(336)	175	9,087	655	2,033
SWAZILAND	10	0	10	8	0	(1)	0	183	0	0
SWEDEN	4,473	805	5,277	1,802	(123)	(96)	4	7,586	29	51
SWITZERLAND	1,970	0	1,970	60	0	(0)	3,575	(675)	5	258
TAIWAN	68	255	323	53	(2)	(9)	134	782	3	2
TANZANIA, UNITED REPUBLIC OF	0	0	0	0	0	0	0	0	0	0
THAILAND	1,091	12	1,103	350	(9)	(77)	89	1,346	4	0
TURKEY	6,973	71	7,045	(1,249)	(149)	0	256	352	46	1,306
UGANDA	0	0	0	10	0	0	10	(673)	0	0
UNITED KINGDOM	446,078	576,904	1,022,982	(374,775)	(99,503)	246	12,731,816	4,719,406	3,818	76,523
UNITED STATES	2,344,648	834,945	3,179,593	265,790	(36,322)	(54,904)	16,402,772	(3,891,032)	9,951	129,347
URUGUAY	322	0	322	84	(25)	(17)	218	959	2	0
ZAMBIA	32	16	47	51	(1)	(1)	1	(3,658)	0	0
ZIMBABWE	0	0	0	(22)	(0)	0	2	335	0	0

About the data

Country-by-country table

Total revenue: In line with the country-by-country reporting requirements, we have included sales, intercompany transactions, interest and other income within this figure. Total revenue is therefore higher than the external sales number reported in our Annual Report and Accounts.

Profit before tax: This is the profit before tax at a statutory level, which is the starting point to calculate tax on business profits. It differs from the adjusted operating profit measure which we publish in the annual report. Adjusted operating profit is a key financial measure used by management to evaluate performance and allocate resources to business segments.

We hope you have found this document of use and interest.

If you have questions, or thoughts on ways in which we can improve future versions, we would be pleased to hear from you. You can email us at sustainability@pearson.com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