

ASSESSMENT

2 September 2024



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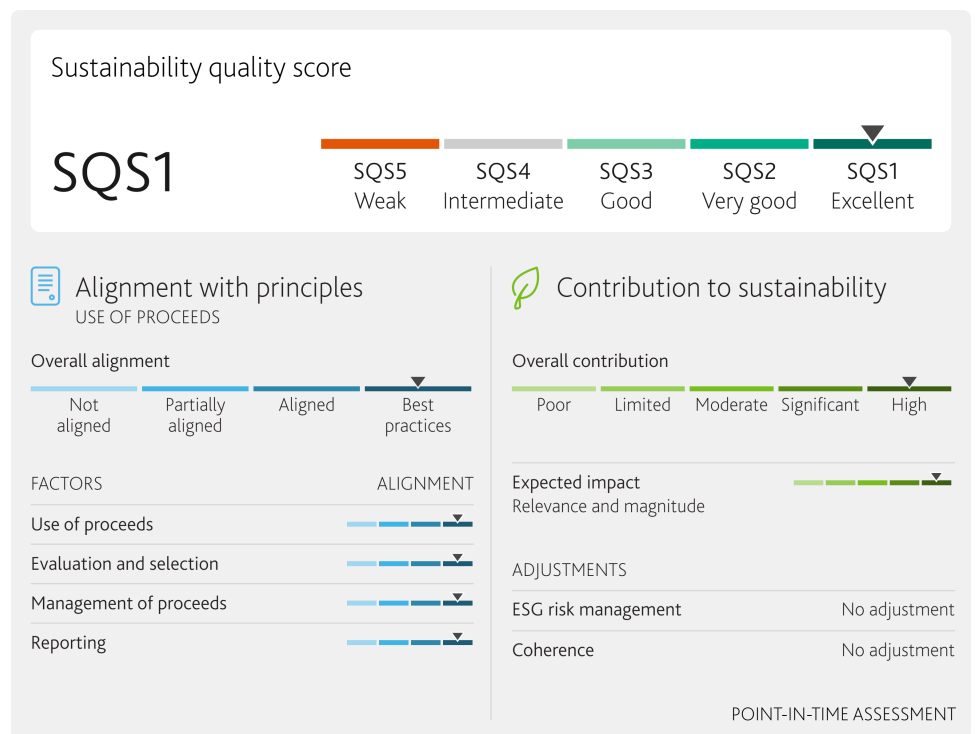
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Pearson plc

Second Party Opinion – Social Bond Framework Assigned SQS1 Sustainability Quality Score

Summary

We have assigned an SQS1 Sustainability Quality Score (excellent) to Pearson plc's social bond framework dated September 2024. The company has established its social bond framework with the aim of capitalizing projects across two eligible social categories: access to essential services - education; and socioeconomic advancement and empowerment. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Social Bond Principles 2023 and all Moody's Ratings identified best practices. The framework demonstrates a high contribution to sustainability.



Scope

We have provided a Second Party Opinion on the sustainability credentials of Pearson's social bond framework, including its alignment with the four core components of the ICMA's Social Bond Principles 2023. Under the framework, Pearson plans to finance projects across two social categories: access to essential services - education; and socioeconomic advancement and empowerment, as outlined in Appendix 2 of this report.

Our assessment is based on the last updated version of the framework received on 28 August 2024, and our opinion reflects our point-in-time assessment¹ of the details contained in this version of the framework, as well as other public and non-public information provided by the company.

We produced this SPO based on our [Framework to Provide Second Party Opinions on Sustainable Debt](#), published in October 2022.

Issuer profile

Pearson plc is a UK-based global learning company. It produces digital and print learning materials for schools and higher education; qualification and assessment products for enterprises and students; and digital learning services for the professional workforce, universities and schools. Pearson's business portfolio comprises five global business divisions: Assessment and Qualifications, Virtual Learning, English Language Learning, Workforce Skills and Higher Education. In 2023, the company generated sales of £3.7 billion and a company-adjusted operating profit of £573 million. Pearson is listed on the London Stock Exchange. As of 4 April 2024, the company had a market capitalization of around £6.9 billion. Pearson's sustainability strategy focuses on helping people gain knowledge and skills as a way to improve our planet and society.

Strengths

- » The social objectives set are defined, relevant and coherent.
- » The projects are expected to generate high long-term benefits.
- » The company is committed to reallocating proceeds to projects that comply with the framework.
- » A comprehensive and transparent project evaluation and selection process is in place.

Challenges

- » The issuer did not provide a complete list of programs; however, it has provided examples of current programs with defined eligibility criteria, which will apply to any prospective program within these categories.

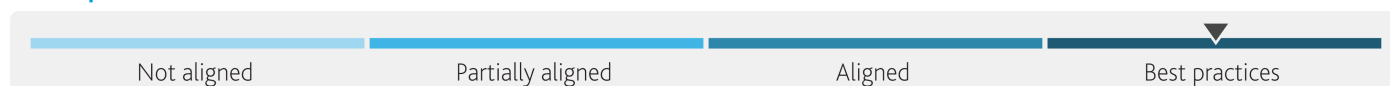
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Alignment with principles

Pearson's social bond framework is aligned with the four core components of the ICMA's Social Bond Principles 2023 and all Moody's Ratings identified best practices:

- Green Bond Principles (GBP)
- Social Bond Principles (SBP)
- Green Loan Principles (GLP)
- Social Loan Principles (SLP)
- Sustainability-Linked Bond Principles (SLBP)
- Sustainability Linked Loan Principles (SLLP)

Use of proceeds



Clarity of the eligible categories – BEST PRACTICES

The company has clearly and comprehensively communicated the nature of the expenditures, which will be capital spending and direct cash spending to finance the delivery of courses or assessment for individuals in the target groups. It has also defined the target population and the eligibility criteria for financed assets. The issuer has provided examples of current programs with defined eligibility criteria, which will apply to any prospective program within these categories. The company has defined the location of eligible assets at the country level as the UK and the US.

Clarity of the environmental or social objectives – BEST PRACTICES

The company has clearly described the social objectives associated with the eligible categories, which are coherent with international standards. The company has stated that the social objectives are aligned with the United Nations' (UN) Sustainable Development Goals (SDGs), namely, SDG 4: Quality Education and SDG 10: Reduced Inequalities.

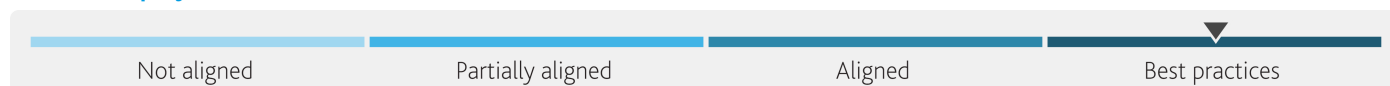
Clarity of expected benefits – BEST PRACTICES

The company has clearly defined the expected social benefits for its eligible categories. These benefits are measurable and will be quantified in the reporting, as well as through case studies. The company has committed to disclose its share of refinancing to relevant investors, as well as the lookback period, before any issuance.

Best practices identified - use of proceeds

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting
- » Commitment to transparently disclose the share of proceeds used for refinancing where feasible
- » Commitment to transparently communicate the associated lookback period(s) where feasible

Process for project evaluation and selection



Transparency and quality of the process for defining eligible projects – BEST PRACTICES

The company has established a clear process for determining the eligibility of projects, with a clear decision-making process disclosed in the framework. The project evaluation and selection process will be managed by the Social Bond Governance Group (SBGG), which has

relevant expertise including the CFO, the Deputy CFO, the CLO (also the CSO) and the relevant divisional business leads. The company has committed to continually monitor the portfolio of eligible expenditures with eligibility criteria throughout the lifetime of the instrument and has established a plan to allocate this expenditure toward eligible projects in the framework. Details of the selection and evaluation process will be documented in an internal database and noted down in the minutes of the SBGG on an annual basis.

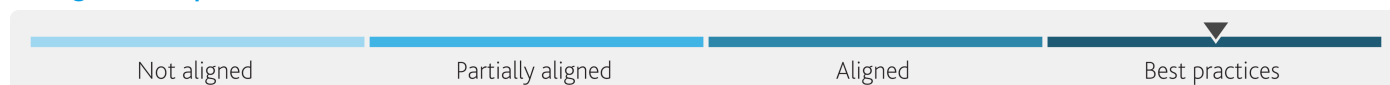
Environmental and social risk mitigation process – BEST PRACTICES

The company has established a comprehensive environmental and social risk mitigation process, including the monitoring of controversies and the identification and management of environmental and social risks, which is disclosed in the framework. In case any controversy is considered material, any expenditure incurred during that period will be considered non-eligible until the issue is resolved and the SBGG grants approval for re-eligibility of the project. Any controversies will be addressed in the company's allocation and impact reports. However, for more pressing matters, the company will ensure the communication of information as promptly as possible. The company will only work with training providers who are considered credible; in the case of the UK, this means Ofsted-accredited.

Best practices identified - process for project evaluation and selection

- » The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- » There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- » The process for project evaluation and selection is traceable
- » Material environmental and social risks for most project categories are identified
- » Presence of corrective measures to address environmental and social risks across projects
- » ESG controversies are monitored

Management of proceeds



Allocation and tracking of proceeds – BEST PRACTICES

Pearson has clearly defined a process for the management and allocation of proceeds in the framework. The net proceeds will be deposited in a dedicated account, in accordance with the guidelines set by the issuer in the framework. The balance of eligible proceeds will be adjusted annually and tracked to ensure that they are only used for eligible projects. The issuer commits to allocate net proceeds up to two calendar years after the date of issuance.

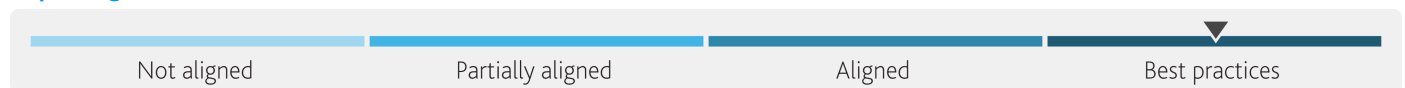
Management of unallocated proceeds – BEST PRACTICES

Unallocated proceeds will be lent in the short term to operating companies to fund working capital and investment in the issuer's education business until the funds are recalled for investment in eligible projects. Formal exclusion criteria for temporary permitted investments include green house gas (GHG)-intensive activities, high environmental impact activities and controversial activities. In the event of a project's cancellation, divestment or noncompliance with the eligibility criteria, the issuer will reallocate an equal amount of the funds to other eligible projects.

Best practices identified - management of proceeds

- » Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum
- » Short allocation period, for example typically less than 24 months
- » Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities
- » Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting



Transparency of reporting – BEST PRACTICES

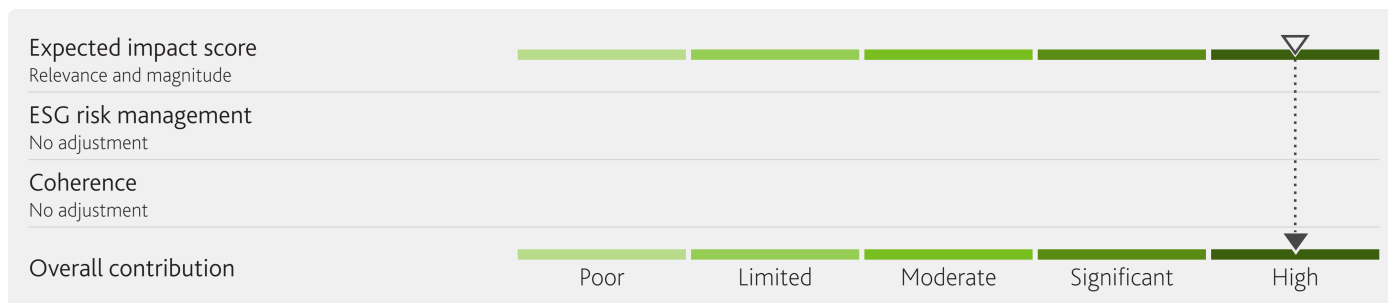
Pearson will report annually on the use of proceeds issued under the framework, and in the event of material developments until full allocation of the proceeds. Additionally, the company will provide an impact report until bond maturity through its sustainability reports. The selected reporting indicators are clear and relevant. The company stated that the report will include a list of projects financed, the outstanding amount of unallocated proceeds, and the share of financing and refinancing. The report will also include significant developments, issues or controversies related to the projects. In addition, both the allocation and the impact report will be made available to investors. The company has identified relevant social reporting indicators for each eligible category. The calculation methodologies and assumptions used to report on the social impact, and metrics will be made public. Each allocation report will be reviewed by an independent third-party verifier until full allocation of the proceeds. External verification is deemed not applicable for the social impact report and case studies.

Best practices identified - reporting

- » Reporting until full bond maturity or loan payback
- » Reporting covers material developments and issues related to the projects or assets
- » Reporting on allocation of proceeds and benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- » Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes

Contribution to sustainability

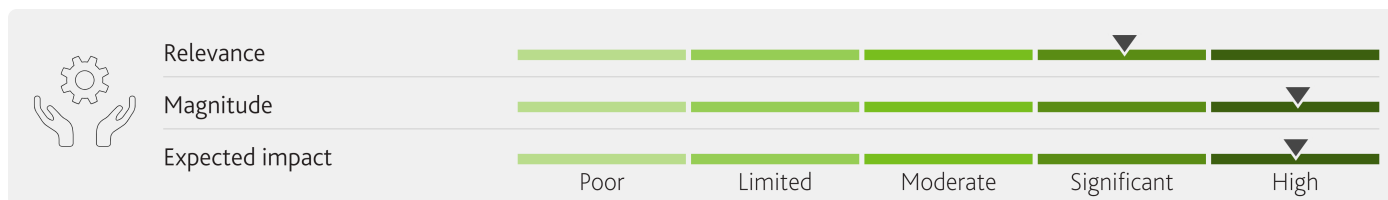
The framework demonstrates a high overall contribution to sustainability.



Expected impact

The expected impact of eligible projects on social objectives is high. The issuer has communicated that most of the proceeds will be allocated to the first category - Access to essential services - Education. Thus, we have weighted the eligible categories accordingly. A detailed assessment of the eligible categories in the framework is provided below.

Access to essential services – Education



Projects to finance online education programs and curriculum testing are significantly relevant for expanding access to quality education across the regions where Pearson is planning to allocate the proceeds. Nevertheless, the level of access to high-quality education in these regions aligns with that of other advanced economies; therefore, the need for those services is not of the highest relevance.

Continued investments are essential to ensure high-quality education across all K-12 education levels for the Connections Academy program, as an example of a type of spending that qualifies within this category, although the countries where these proceeds will be invested are among those with the highest scores for primary and secondary educational attainment worldwide. Online education, with its flexible timing and adaptable tools, enhances the learning process, especially for students with special needs. However, it also poses challenges such as forming remote connections for first-year students, unreliable internet, inadequate technology and audiovisual constraints, which highlight the need to improve the design and execution of online learning. In addition, high school equivalency tests such as the General Educational Development (GED) are important for improving educational outcomes and ensuring essential skills for future learning and employment opportunities, which will be critical for long-term economic growth. This holds true despite the fact that high school completion rates in the US are among the highest in the world. The GED's prominence over other high school equivalency exams, reflected in the higher number of test takers and its wide acceptance by universities, underscores the importance of continued investments in online testing for education. The convenience of taking the GED test online adds a layer of flexibility and is particularly useful for international students or those with unique needs.

Pearson may include programs beyond the Connections Academy and GED in future projects with criteria in line with those set out in the framework. This is unlikely to limit visibility into future finances given the company's commitment that any future offerings will have at least the same level of credibility and ambition as the current offerings. Moreover, enhancing access to quality education is relevant for Pearson, as the provision of educational products and services is its primary business, and accounts for most of its revenue and aligns with its mission of fostering equitable access to education globally.

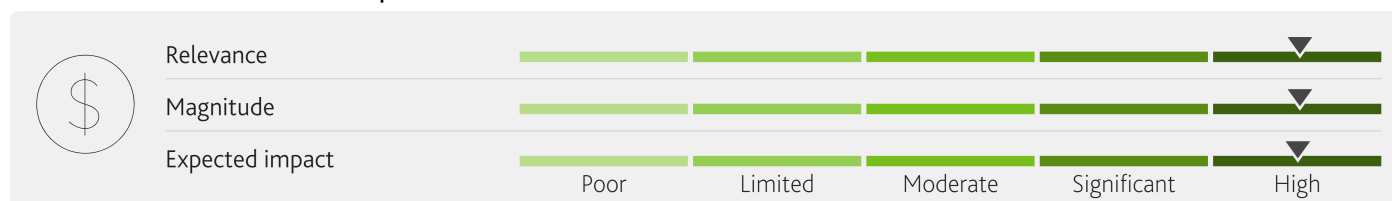
This category has a high magnitude because the programs and testing that support children's and adult education will likely yield considerable long-term benefits for learners and test takers. The target population for both projects is clearly defined, encompassing underserved learners eligible for free or reduced-cost meals, or those with special needs for Connections Academy, and underserved

learners with limited or no access to further education or job roles for the GED expenditures. We consider learners with special needs as the most vulnerable beneficiaries of the online education program.

The K-12 online education program is free of cost to learners, and the high school equivalency testing is either free or available for a negligible cost. Notably, the Connections Academy offers tuition and IT equipment free for all, and in certain cases, internet connection may be covered by the state. All required texts and instructional materials are included and provided to all students at no additional cost. The limited out-of-pocket expenditure for the target population to use Pearson's services ensures its economic accessibility to the targeted individuals.

Both projects have high-quality educational offerings through their thoughtful and thorough approaches. The K-12 online education program excels in providing individualized attention to students, with a range of interventions available to support learning. This is complemented by the Connections Academy's supportive parent forum, which offers specialized guidance for children with special needs, reflecting the project's commitment to inclusive learning. The GED, on the other hand, sets itself apart with diverse testing formats that surpass those of its peers. The GED test, which can be taken online or at test centers, uses a variety of question styles, facilitating a more comprehensive evaluation of candidates' knowledge and skills. The alignment with national standards and the thoughtful diversity in assessment methods further underscore these projects' high quality and commitment to robust education.

Socioeconomic advancement and empowerment



The relevance of this category is high, given the essential role of vocational qualifications in fostering social inclusion of young adults in disadvantaged groups, and the increasing need for clinical assessments in identifying individuals with special needs to enhance their quality of life.

The issuer has identified allocation of funds toward BTEC qualifications in the UK, which are in high demand and serve as an alternative pathway to traditional academic education, as an illustrative area of expenditure eligible under this category. These qualifications potentially align more closely with students' needs in aspects such as length of study and course content than other forms of study. As these vocational qualifications provide individuals with specific skills needed for certain jobs, they enhance their employability. This is particularly advantageous for young people looking to enter the workforce, especially considering that 85.5% of 19 year olds were qualified to level 2, but only 61.3% to level 3². Level 2 qualifications are equivalent to GCSE grades 4-9, and level 3 qualifications are equivalent to A levels.

Similarly, identifying special needs through clinical assessments is especially important to provide individuals with appropriate support. Pearson will focus its efforts from kindergarten through year 13, emphasizing early diagnosis, which is especially important in this context to improve early childhood experiences and foster social inclusivity. In the UK, more than 1.6 million pupils have special education needs, representing an increase of 101,000 from 2023³. In the US, the equivalent of 15% of all public school students receive special education or related services under the Individuals with Disabilities Education Act (IDEA), up from 13% a decade earlier⁴. The approach taken by Pearson addresses the evolving educational requirements and fills the knowledge gaps in this field.

The magnitude of the benefits is high due to the expectation that projects will generate a positive long-term impact. Furthermore, the target population is particularly relevant as it focuses on the most vulnerable people. The target population for vocational certification services includes underserved learners subject to free or reduced cost meals or those with special needs, while for the testing component it includes those requiring testing for special needs and underserved learners with special needs.

Pearson will only take into consideration BTEC qualifications that are free to learners through UK government funding and focus on levels 3 and 4. Students typically need to travel three to five days per week to attend classes, and although transport costs are not covered by Pearson, these can be funded for the student by training providers or the state under certain circumstances⁵. In terms of accessibility, Pearson offers a variety of adapted materials. These include Braille or audio texts for those with impaired vision,

adaptations for individuals who are hard of hearing, and modified reading materials for learners with dyslexia. In terms of quality, Pearson requires private training providers in the UK, to provide information on Joint Council for Qualifications (JCQ) inspection conducted within the past two years, and its selection criteria include working exclusively with Ofsted-accredited colleges and training providers that conduct regular performance monitoring, ensuring a level of quality.

In terms of affordability of the projects related to testing to identify learners' special needs, Pearson will only include in scope those tests that are offered free to the learners, typically funded by the state. The tests and materials are designed to be accessible, considering that those with special needs often face more than one challenge. Regarding the aspect of quality, only clinicians who have been specifically trained and hold credentials in the relevant assessment discipline can purchase and administer the tests. Pearson provides the assessment through advanced digital delivery platforms. Moreover, results data are carefully managed and are compliant with data privacy laws. Lastly, Pearson's commitment to continual improvement through research and development further underscores its dedication to maintaining and enhancing test quality.

ESG risk management

We have not applied a negative adjustment for ESG risk management to the expected impact score. The company has implemented different measures to monitor ESG issues including a Climate Action Plan with carbon targets to reduce scope 1, 2 and 3 emissions by 50% by 2030 against a 2018 baseline. The company also targets to become a net zero company by 2030. The company has risk management practices, which are overseen by the Pearson Executive Management Team (PEM). As an entity that engages with children and vulnerable adults, and manages sensitive information, the company places high importance on risk management. The board's Reputation and Responsibility committee is tasked with focusing efforts on mitigating such risks and formulating responses to them. Pearson also has a Code of Conduct, which provides guidance on standards of honesty, integrity and ethical conduct expected of its employees.

Coherence

We have not applied a negative adjustment to the expected impact score for coherence. Pearson's social bond framework reflects the issuer's policy objectives and supporting activities, which include providing education services and promoting socioeconomic advancement and empowerment. Pearson's business model is anchored on several key principles: a learner-focused approach and integration of sustainability factors to generate value for all stakeholders. The issuer is committed to providing robust educational tools and resources to cater to the needs of diverse learners, and create enduring benefits for the global learning community. Pearson seeks to actively shape the future of learning and invests in digital transformation to foster innovation in education.

Appendix 1 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The two eligible categories included in Pearson's framework are likely to contribute to two of the UN SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 4: Quality Education	<i>Access to essential services</i> – education; Socioeconomic Advancement and Empowerment	4.1: Ensure that all children complete quality primary and secondary education leading to relevant and effective outcomes
	<i>Access to essential services</i> – education	4.3: Ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education
	<i>Access to essential services</i> – education; Socioeconomic Advancement and Empowerment	4.4: Increase the number of youth and adults with technical and vocational skills for employment and entrepreneurship
GOAL 10: Reduced Inequality	Socioeconomic Advancement and Empowerment	10.2: Empower and promote the social, economic and political inclusion of all

The UN SDGs mapping in this SPO considers the eligible project categories (or key performance indicators) and associated sustainability objectives/benefits documented in the issuer/borrower/lender's financing framework, as well as resources and guidelines from public institutions, such as the ICMA SDG Mapping Guidance and the UN SDG targets and indicators.

Appendix 2 - Summary of eligible categories in Pearson's framework

Eligible Category	Description	Sustainability Objectives	Impact Reporting Metrics
Access to essential services – education	<ul style="list-style-type: none"> •Teaching, technology, student materials and curriculum development for the provision of free online education services through for example the Connections Academy oTarget Population: underserved learners subject to free or reduced cost meals or those with special needs •Curriculum and product development for alternative secondary education credential and foundational learning to enable progress in post-secondary education, for example the GED programme oTarget Population: underserved learners who have limited/no access to further education or job roles which allow them to progress 	Quality education	<ul style="list-style-type: none"> - Number of learners - Percentage of learners who completed the course
Socioeconomic Advancement and Empowerment	<ul style="list-style-type: none"> •Development of vocational certification services oTarget Population: underserved learners subject to free or reduced cost meals or those with special needs •Testing to identify learners' special needs and development of curriculum and product adaptation to ensure accessibility to educational materials including Pearson's products oTarget Population: those requiring testing for special needs and underserved learners with special needs 	<ul style="list-style-type: none"> Quality education Reduced Inequalities 	<ul style="list-style-type: none"> - Number of learners - Percentage of learners who completed the course - Number of learners diagnosed

Endnotes

- 1 Point-in-time assessment is applicable only on the date of assignment or update.
- 2 [Level 2 and 3 attainment age 16 to 25](#), GOV.UK, 25 April 2024.
- 3 [Special educational needs in England](#), GOV.UK, 20 June 2024.
- 4 [Students With Disabilities, National Center for Education Statistics \(NCES\)](#), May 2024.
- 5 [Subsidised transport for 16 to 19 year olds in education](#), GOV.UK, Accessed July 2024.

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