



Education Bond Reporting

Proposed Allocation of Costs for the period 1st Jan 23 - 31st Dec 23



Educational bond summary

At Pearson, our purpose is simple; to help people realise the life they imagine through learning. We believe that every learning opportunity is a chance for a personal breakthrough.

The world needs more learning, and Pearson is the world's lifelong learning company. Learning impacts all aspects of an individual's life, creating a ripple effect with expansive outcomes. For instance, we know that with every extra year of education, there is a 2% reduction in mortality risks. Our c. 18,000 Pearson employees are committed to creating vibrant and enriching learning experiences designed for real-life impact. We serve customers in nearly 200 countries with digital content, assessments, qualifications, and data.

We are proposing to issue a £350m Education Bond in September 2024. Proceeds from the bond are to be used in full, to finance or refinance projects and expenditures that meet the Eligible Categories set out in [Pearson's Social Bond Framework](#) (published September 2024). The framework is in alignment with the 2023 International Capital Market Association (ICMA) Social Bond Principles. Moody's have rated the Social Bond Framework as SQS1 (Highest sustainability rating available) with the [report](#) available on the Pearson website.

Pearson is proposing to allocate £175m of the bond proceeds to projects in Connections Academy and Clinical Assessment businesses, relating to cash costs incurred during 2023.

Connections Academy, our full-time virtual schools programme provides high quality education to all, free to the user. The expenditure's primary objective is to advance the UN's Sustainable Development Goals (SDG) #4 -Quality Education. We have not allocated proceeds to projects and expenditure related to Pearson Online Academy, the K-12 online international private school.

Pearson's Clinical Assessment business is particularly noted for their gold-standard assessment contributions in cognitive/ability, memory, neuropsychology, behaviour, personality/psychopathology, achievement and speech/language. The expenditure's primary objective is to advance the UN's Sustainable Development Goals (SDG) #4 -Quality Education and (SDG) #10 - Socioeconomic Advancement and Empowerment. Our large-scale assessments help state, district and school leaders make informed decisions and help learners reach their potential. At Pearson, we partner with schools and educational professionals at every level to help enhance instruction and improve learning outcomes.

The shortlisting process for eligible projects to be approved by the Social Bond Governance Group (SBGG) will be undertaken by Pearson's Treasury Team in collaboration with the Pearson Sustainability Team. On an ongoing basis, potential eligible projects or expenditures will be submitted by the Pearson Treasury Team to the SBGG for review, who will screen them to ensure their alignment with Pearson's sustainability policy and any ESG risks. This includes screening under Pearson's existing policies on Anti-Bribery and Corruption, Safeguarding, Data Privacy/ Information Security, and Health & Safety. The SBGG is responsible for verifying that the expenditures comply with the eligibility criteria outlined in the Use of Proceeds and alignment with advancement of the UN SDG targets, in order to approve the allocation of proceeds.

Pearson Allocation and Reporting

We are committed to reporting annually to investors on the use of proceeds until the bond is fully allocated. Thereafter we will continue to report to investors until the maturity of the bond. Pearson will utilise the reporting template set out to investors at the launch of the Social Bond Framework. The allocations and impacts detailed below are an indicative view of the costs incurred during 2023 that we propose to allocate against the bond.

Allocation Period	Project Overview			SDG Alignment	Target Population	Output Indicator		Impact Indicators	
	SBP Category	Eligible Project	Location			Eligible Expenditures Incurred	Proposed Refinancing Amount	Number of Learners in the target population	% of learners who have completed the course
Year-ended 31 December 2023	Access to Essential Services - Education	Connections Academy	US	SDG 4.1 SDG 4.3 SDG 4.4	Undereducated, underserved learners* and people with disabilities	£127m	£125m	44,000	94%
Year-ended 31 December 2023	Socioeconomic Advancement and Empowerment	Clinical Assessments	US	SDG 4.1 SDG 4.4 SDG 10.2	Those requiring testing for Special needs and Underserved learners with special needs	£50m	£50m	9,500,000	100%
Total						£177m	£175m		

Use of Proceeds

Within the Social Bond Framework, we defined Eligible Expenditure in the following ways:

- Expenditure may be for either direct operating expenses or capital expenditure, and
- Includes but is not limited to employment costs for teachers, curriculum development costs, expenditure required by law to provide education, and the cost of developing and maintaining digital content and technology platforms.
- Certain expenditure is excluded from Eligible Expenditure:
 - Marketing costs, administrative and student acquisition costs (these do not have a direct impact on students learning outcomes).
 - Amortisation and depreciation of capital expenditure and product development costs incurred before the measurement period.

Impact

We provide data on the number of learners taking each type of course (e.g. the number of learners in Connections Academy) as a measure of the output.

As a measure of the impact of the spend we will show the percentage of learners who have completed the course (Connections Academy) or undertook a Clinical test (Clinical Assessments).

For Connections Academy learners, given that each state may have a different set of criteria for defining completion, for the purposes of the social bond, we are defining completion as students who have demonstrated sufficient presence to generate funding by the state.

Reporting Period

We focused on expenditures in the Financial Year 2023 (1st of January 2023 – 31st of December 2023). This aligns with Pearson annual public reporting cycle.

Monitoring

Pearson has tracked the proceeds of the bonds in Pearson's primary ERP system, with costs allocated and reviewed as part of our ongoing control environment. All costs to be incurred are subject to review and approval by relevant authorised reviewer and approver. Once costs are incurred, then a subsequent review and approval takes place by financial control. A full breakdown of cost was provided to the SBBG who are responsible for the alignment of spend to expenditure as defined within the Social Bond Framework.

Ineligible Spend

The SBBG ensure that only eligible projects are funded from the proceeds of the Education Bond.

Under the Social Bond Framework, if an approved project or expenditure ceases to meet the eligibility criteria or is involved in a material controversy, Pearson will remove the expenditure from the allocation (on a look forward basis) whilst a review is undertaken. Further details can be found within the Social Bond Framework.

Assurance

Ernst & Young LLP (EY) have been engaged to provide independent limited assurance over the eligible expenditure. EY's assurance report for 2023 expenditure can be accessed [here](#).

EY has also been engaged to provide independent limited assurance over use of proceeds from the Education Bond. EY will report on allocation of proceeds against 2023 eligible expenditure separately at a later date.